UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

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

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 Cir. 1996)). Indeed, as the Sixth Circuit has recognized, admissible expert 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 over-assessed 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 did not make the supposed "conce[ssions]," "admi[ssions]," and "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.

<u>**MISSTATEMENT 3: MS. SALLEE**</u>

"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.

<u>MISSTATEMENT 6: DR. CLINE</u>

"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.

<u>**MISSTATEMENT 9: DR. CLINE**</u>

"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**

	your work? A. **I feel like I did.** I mean there's still a couple of things that, as I said in to response to Mr. Stewart, questions that I intend to do going forward. **But for the most part, I am satisfied with our ability to evaluate what all the information that was available and meet with the people that were available and do what we needed to do**. Q. With respect to the forecasts? A. **With respect to the forecasts**. 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 five-year forecast sometime probably two-plus 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

<u>EXHIBIT 1</u>

Report of Robert Cline

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 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:

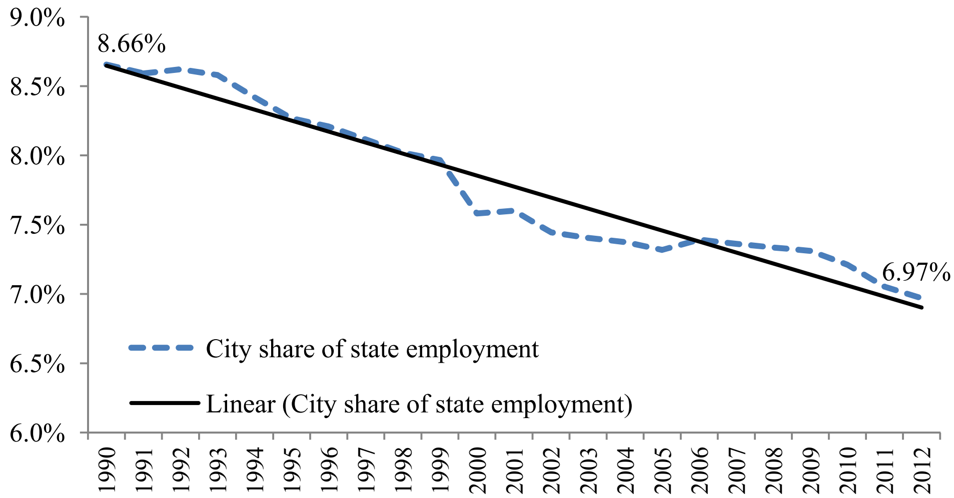
(1) *Forecast the employment growth rate for the State of Michigan from 2013 to 2023*: Mr. Cline began by relying upon the employment growth rate for FY2013 to FY2015 produced by the State's Consensus Revenue Estimating Conference on May 15, 2013. *See* Consensus Revenue Estimating Conference, *Economic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

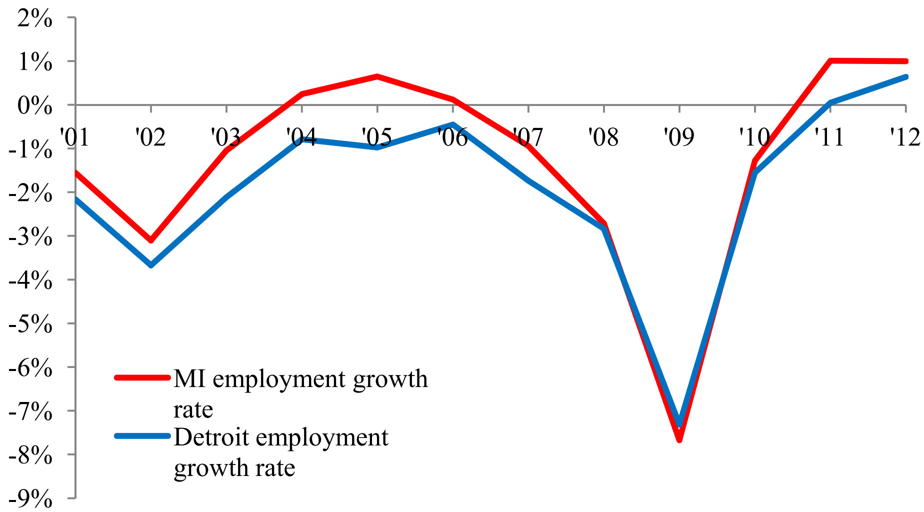
Figure 1. City of Detroit's share of total State of Michigan employment, 1990 – 2012

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).

(4) *Forecast Income Tax Base Growth*: Mr. Cline next developed 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 the10-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.

<u>**Wagering Tax Revenues**</u>

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%20through%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% hold-back 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

Net Utility Users' tax revenue - 40-Year forecast

Note: No change in Baseline Scenario and Restructuring Scenario

($ in millions)

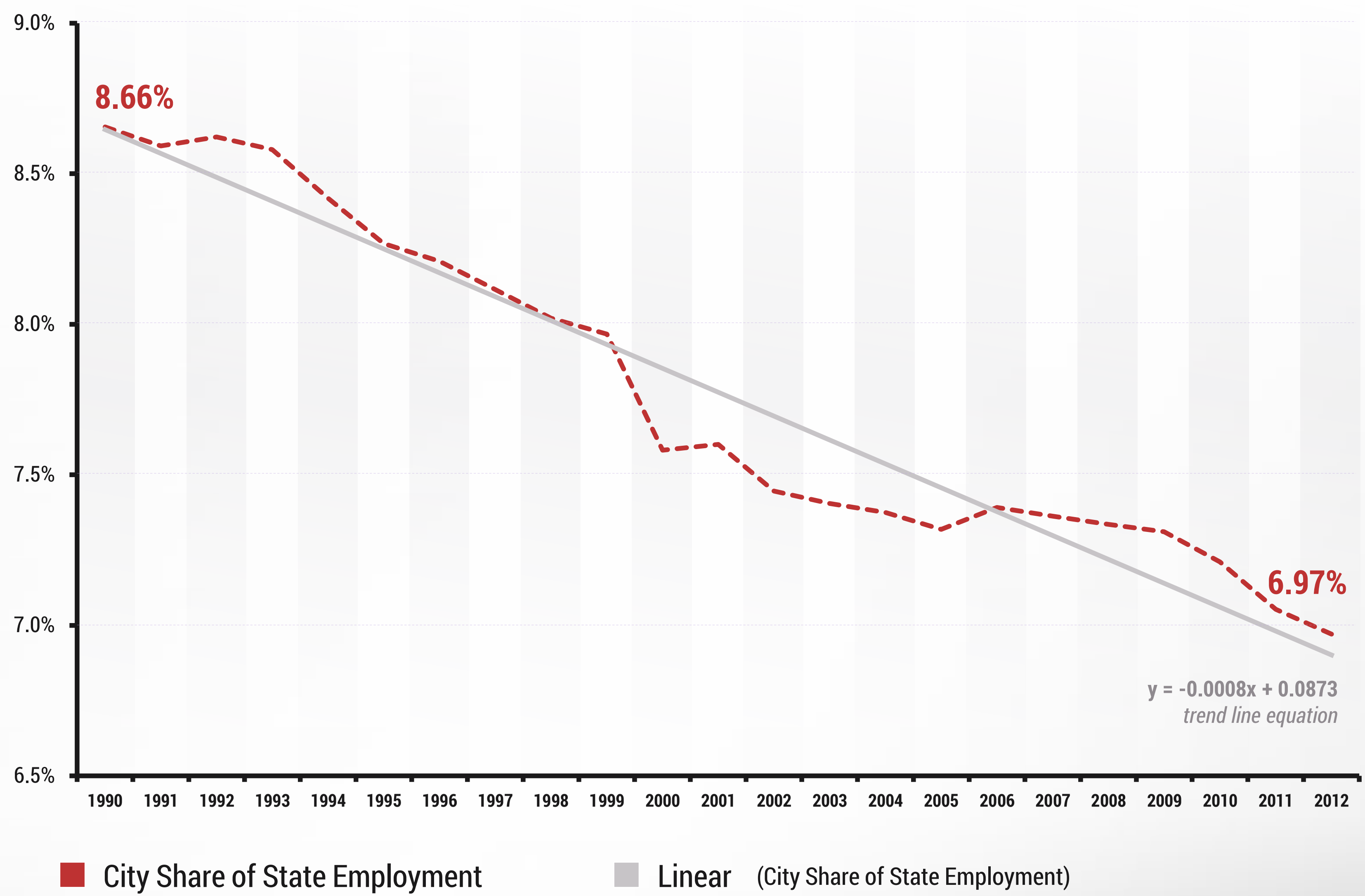
	Fiscal year ended actual						10-Year Forecast									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Growth rate in gross tax collections, driver							**0.0%**	**0.0%**	**1.0%**	**1.5%**	**1.5%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**
Gross utility users tax collections	51.7	49.9	44.2	44.6	39.8	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%*	*0.9%*	*-10.8%*	*-6.9%*	*0.0%*	*0.0%*	*1.0%*	*1.5%*	*1.5%*	*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						35.3	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%*

	40-Year forecast, additional years																													
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053
Growth rate in gross tax collections, driver																														
Gross utility users tax collections																														
% growth rate, result																														
Transfer to PLA																														
Net utility users tax collections	28.4	28.9	29.3	29.7	30.2	30.6	31.1	31.6	32.0	32.5	33.0	33.5	34.0	34.5	35.0	35.5	36.1	36.6	37.2	37.7	38.3	38.9	39.5	40.0	40.6	41.3	41.9	42.5	43.1	43.8
% growth rate, result	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**

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

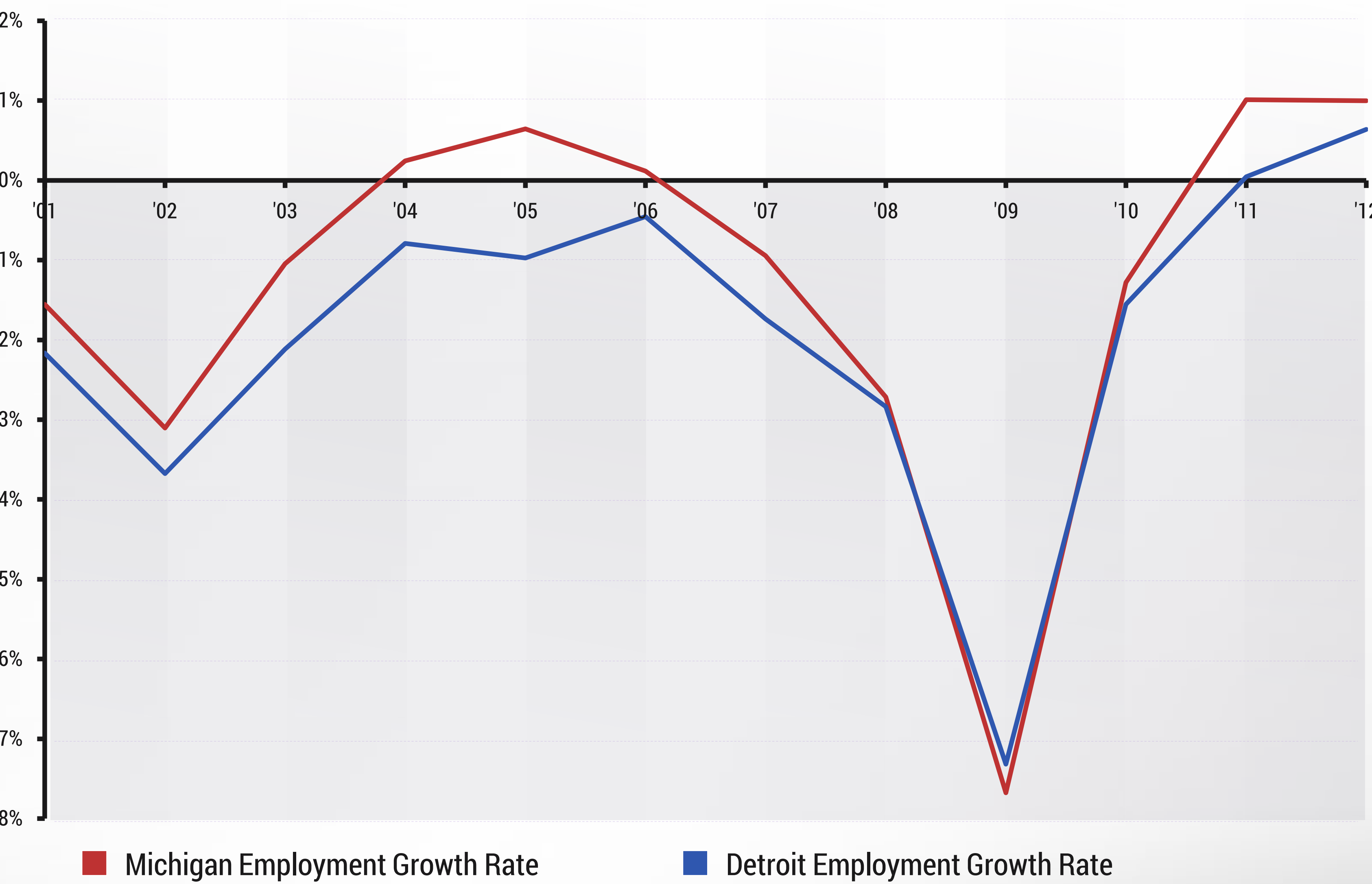
EXHIBIT B

City of Detroit's Share of Total State of Michigan Employment, 1990 – 2012



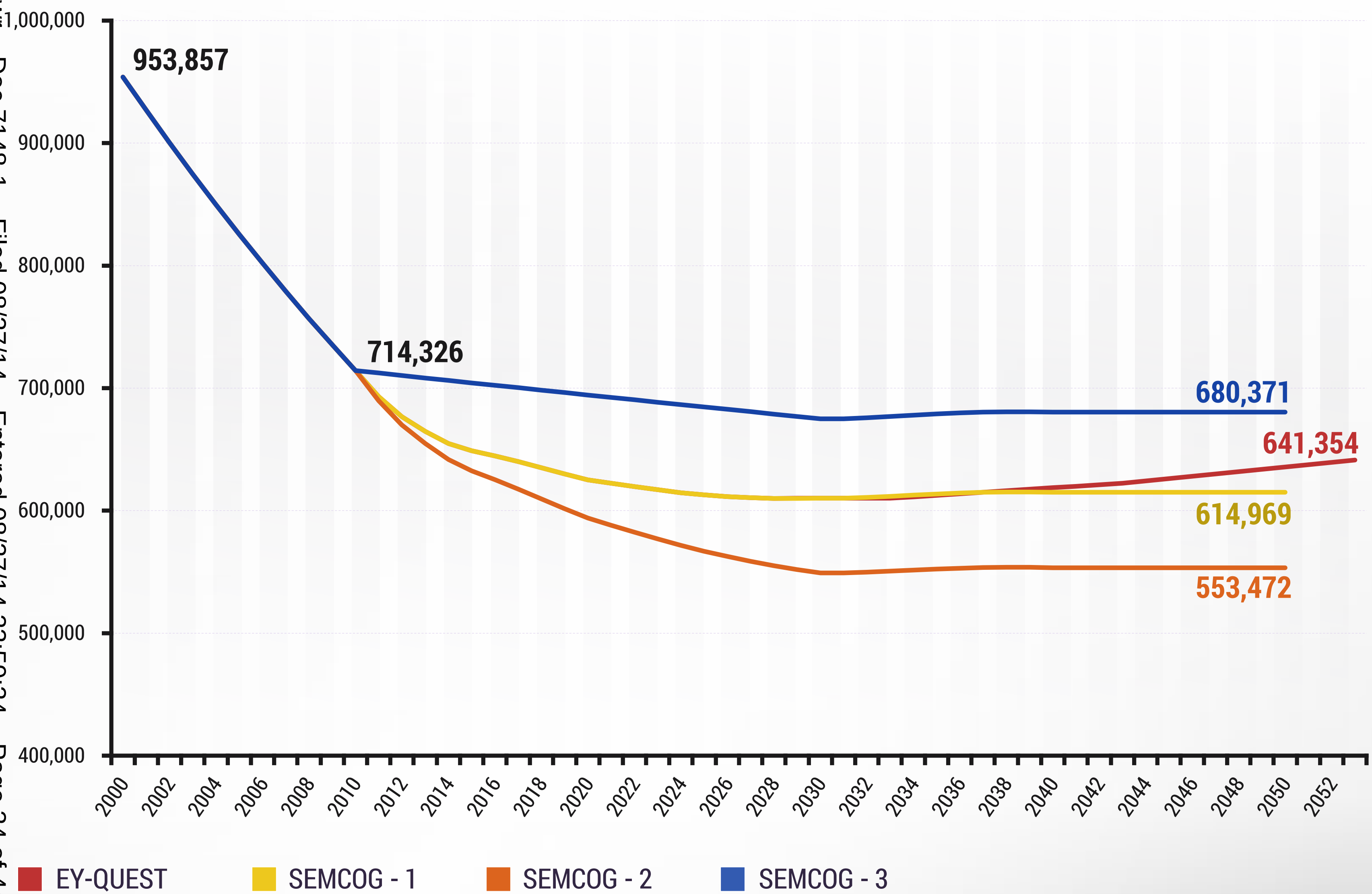
Source: BLS Local Area Unemployment Statistics

Growth Rates of City of Detroit & Michigan Employment, 2001 – 2012

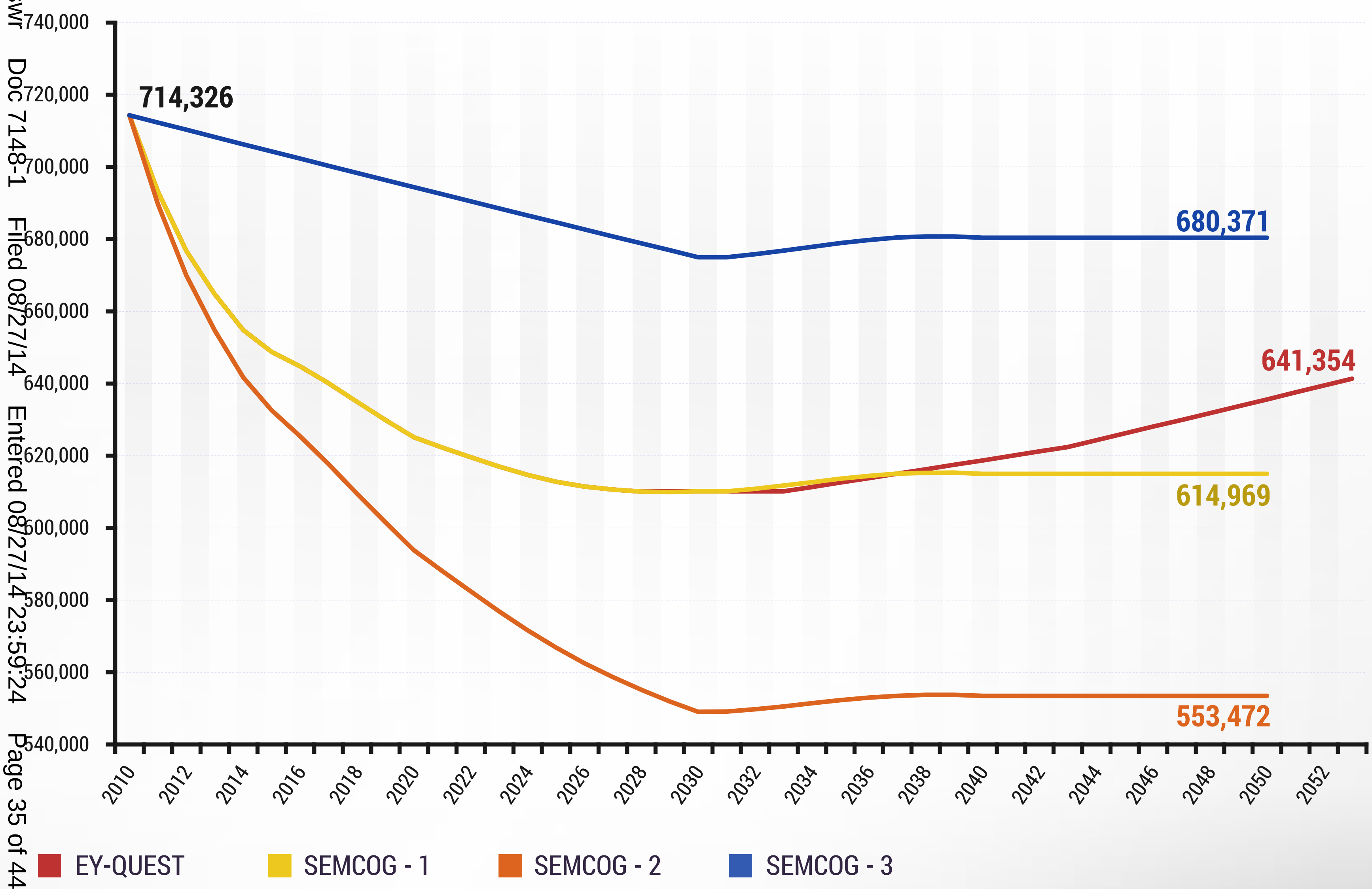


Source: BLS Local Area Unemployment Statistics

Population Change Scenarios



Population Change Scenarios



Methodology for Individual Income Taxes

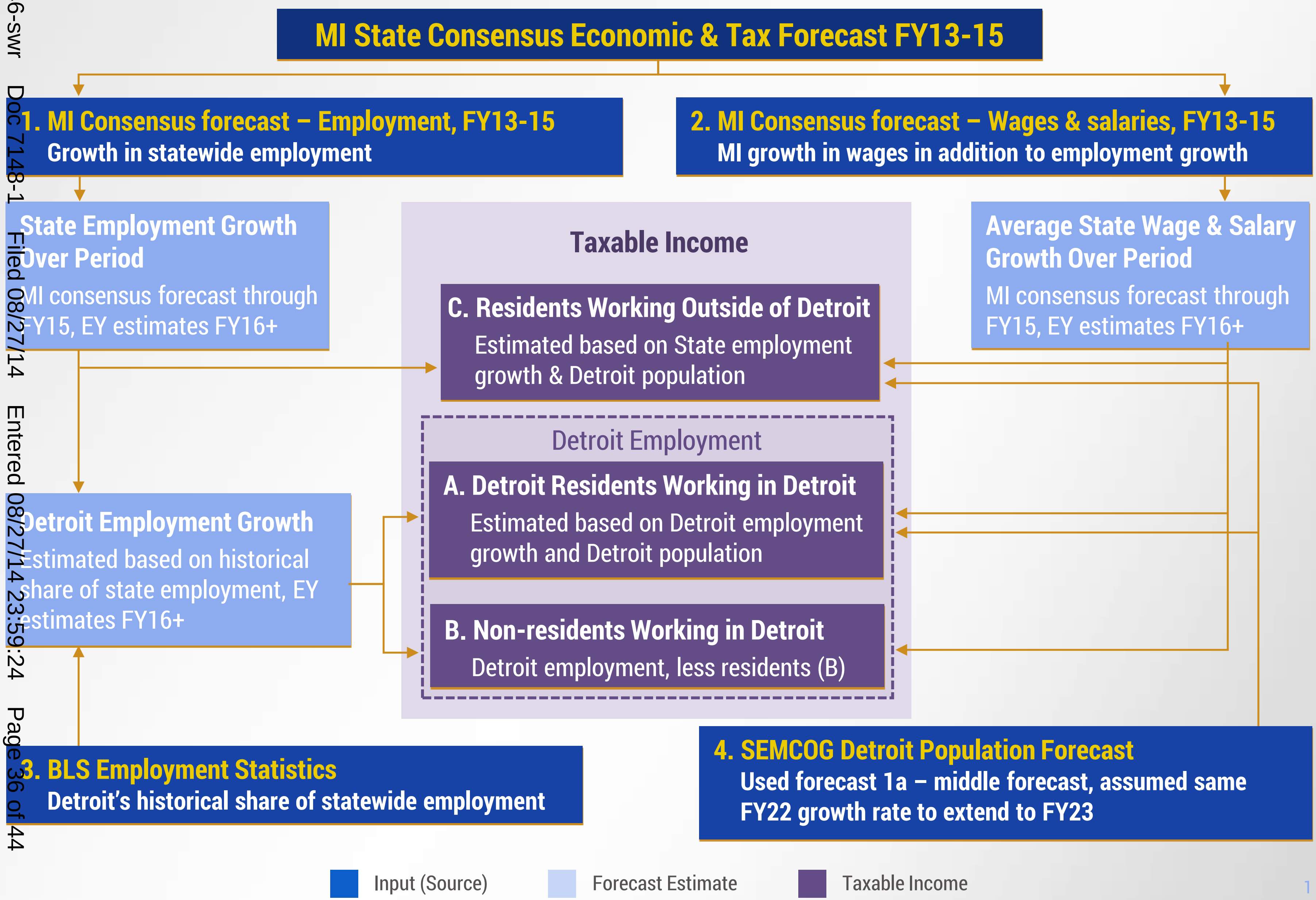


EXHIBIT C

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), *available at* http://www.detroitmi.gov/Portals/0/docs/legislative/fiscalanalysis/2013/Report%20on%20Gaming%20Tax%20Revenue%20through%20April%202013.pdf	--	--
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

June 26, 2014

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*, January21, 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.

   i. 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).

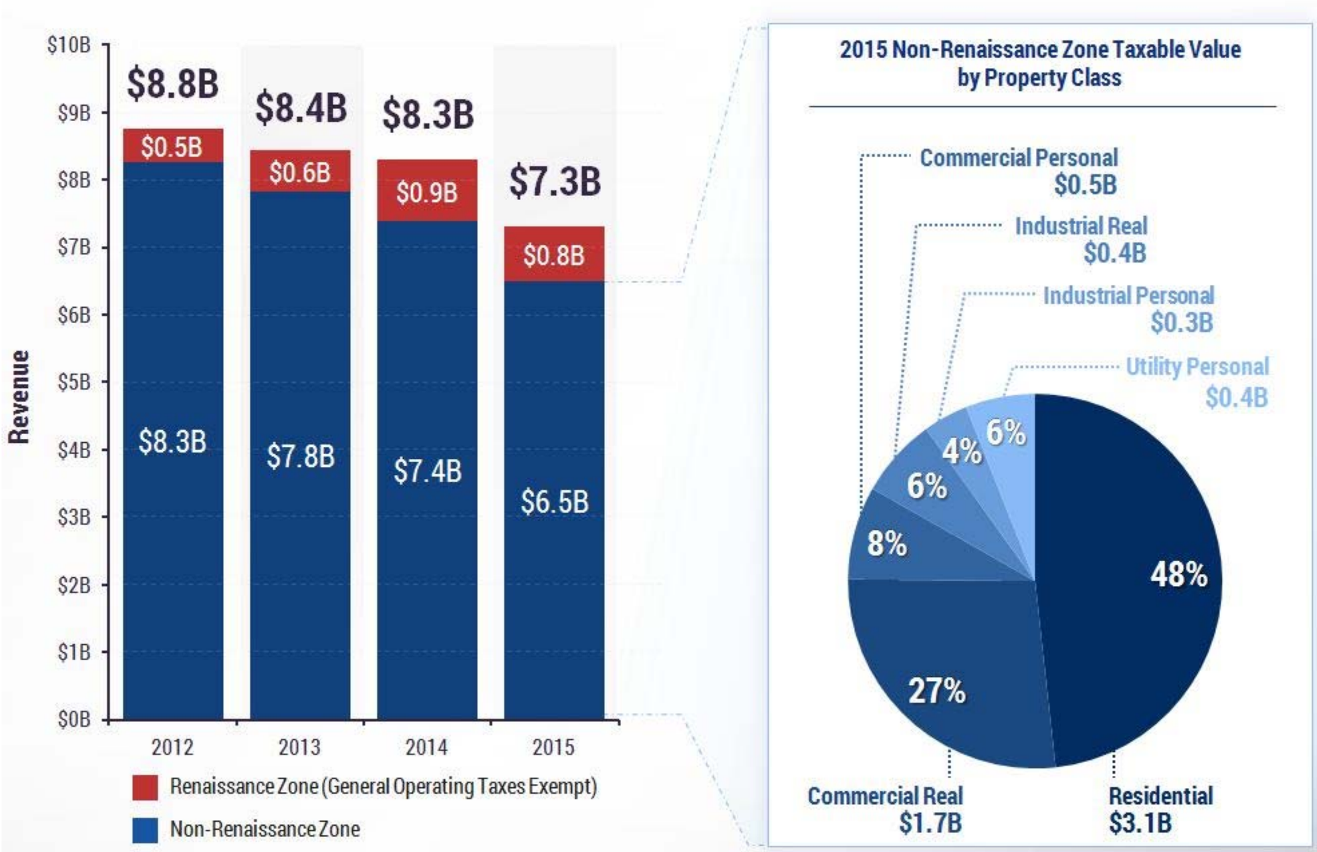
B. Developed a baseline of property tax collections for the 10-Year Forecast period. Ms. Sallee completed the following steps:

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.

i. 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:

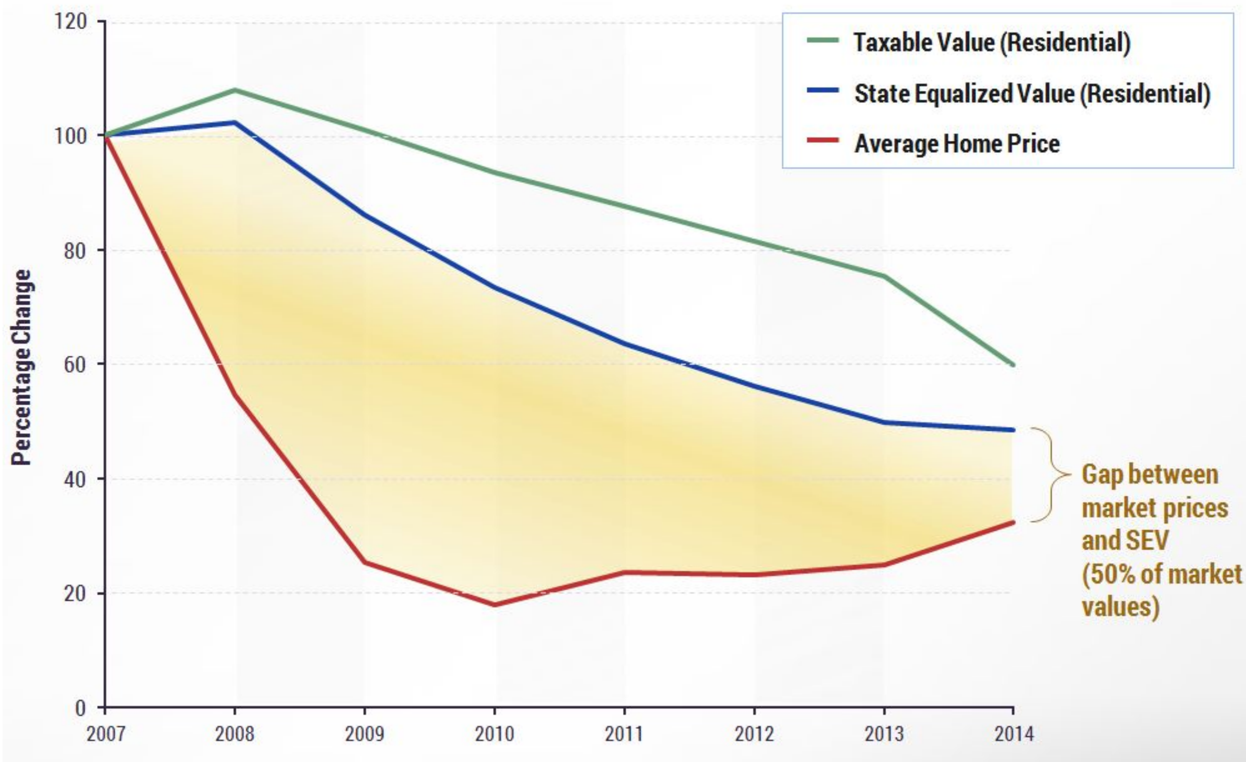
1) Ms. Sallee estimated additions to the tax base using U.S. Census building permit data for Wayne County. Ms. Sallee multiplied the cost of new construction in Wayne County per the U.S. Census building permit data by the City of Detroit's share of real property taxable value in Wayne County (19%) to 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.

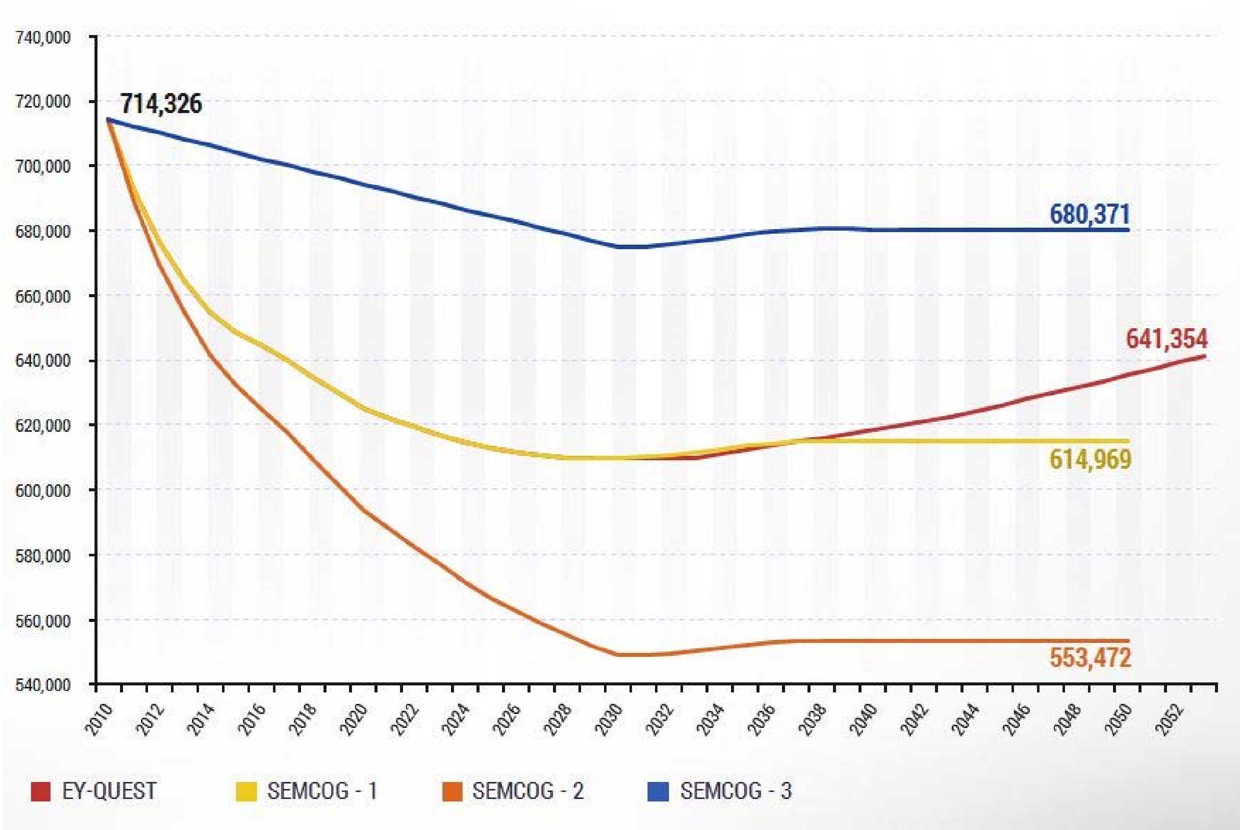
   a) Ms. Sallee based this assumption on Scenario 1a of the Southeast Michigan Council of Governments' population forecasts.

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.

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.

<u>State Revenue Sharing</u>

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 2015 revenue 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 non-constitutional 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.

<u>Documents And Other Materials Considered In Reaching Opinions</u>

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.

<u>Qualifications</u>

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

<u>Prior Expert Testimony</u>

Ms. Sallee has not previously testified as an expert.

<u>Compensation</u>

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

Caroline Sallee

EXHIBIT A

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

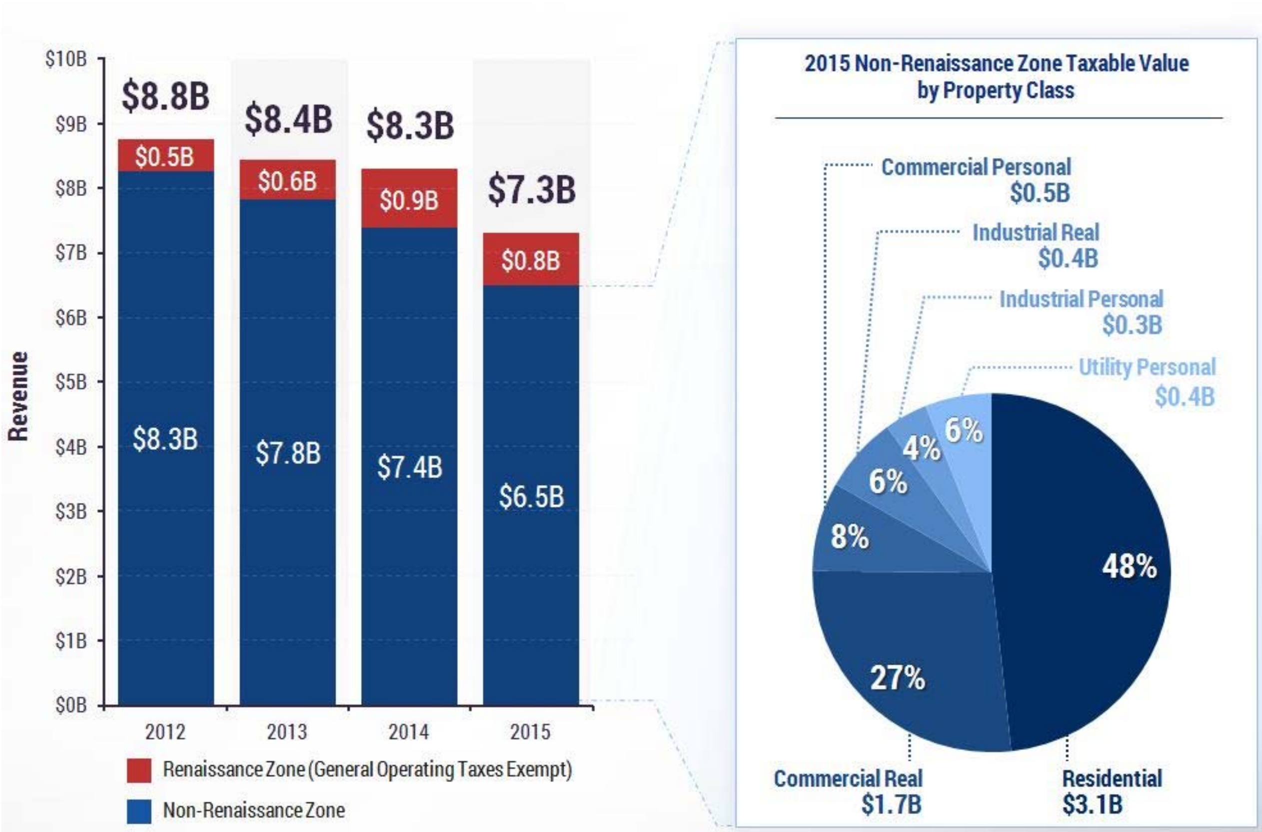


Figure 2. Percentage Change in Average Sale Price, Residential Taxable Value, and Residential State Equalized Value in Detroit, 2007-2014 (Indexed to 2007)

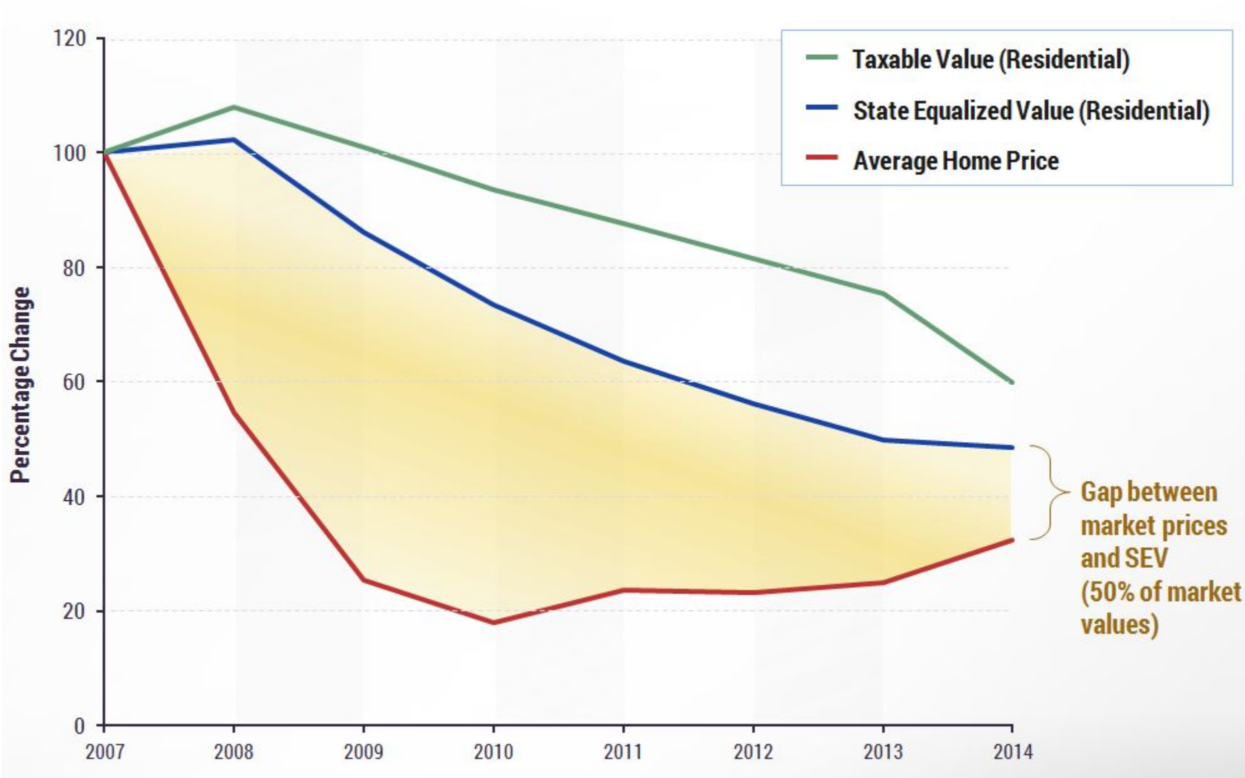


Figure 3. E&Y and SEMCOG Population Forecasts for the City of Detroit (2010-2053)

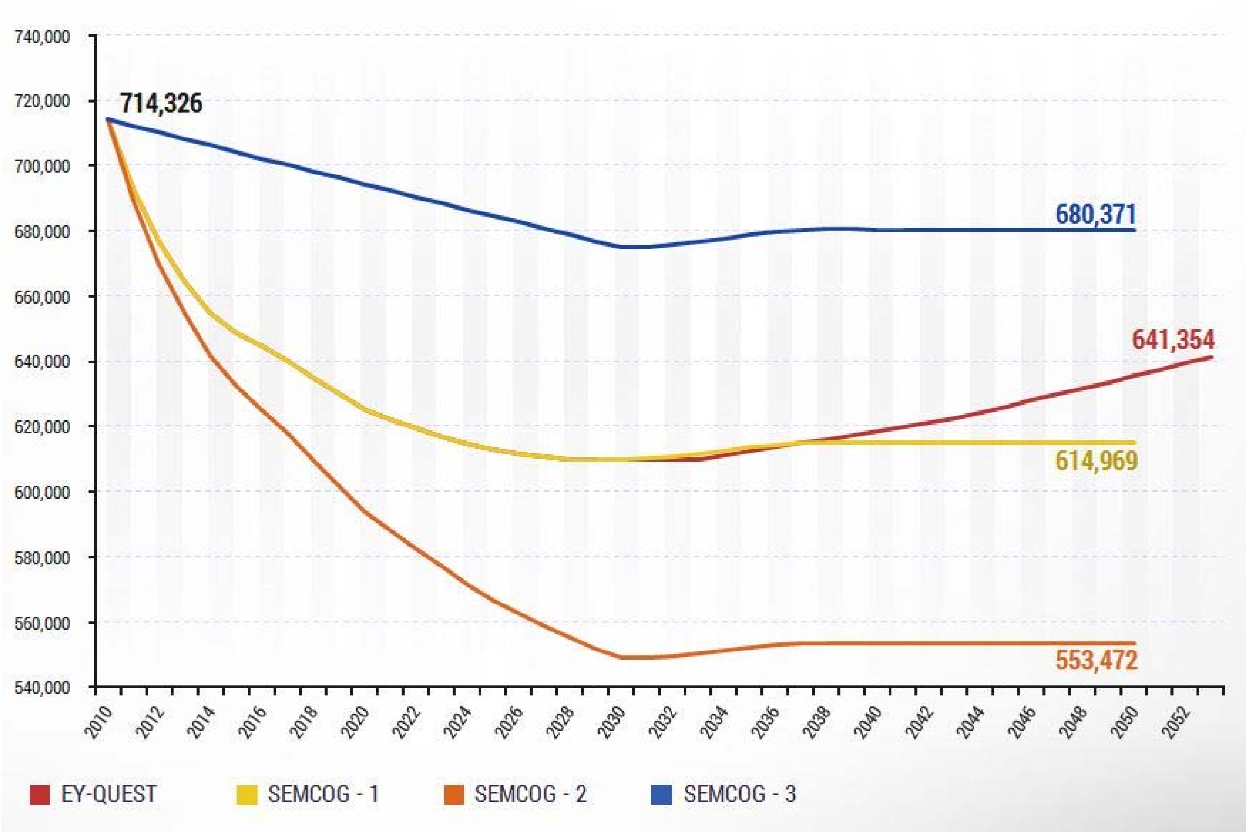


Figure 4. Steps to Forecasting Detroit General Operating Property Taxes

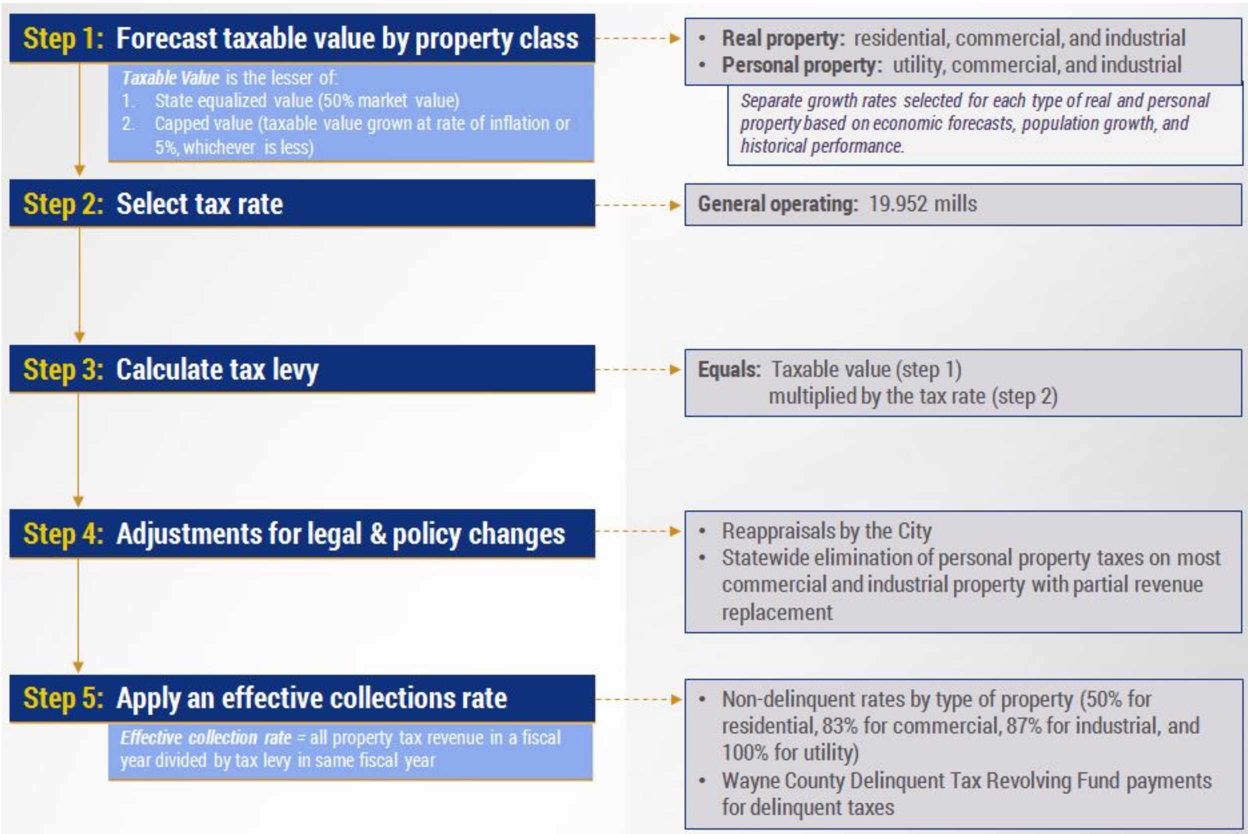


EXHIBIT B

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 – POA00111133.

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/20122013LocalUnitMilllageReport_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.

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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.

PUBLISHED REPORTS

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.

<u>EXHIBIT 3</u>

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 pre-arraignment 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 no-restructuring 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

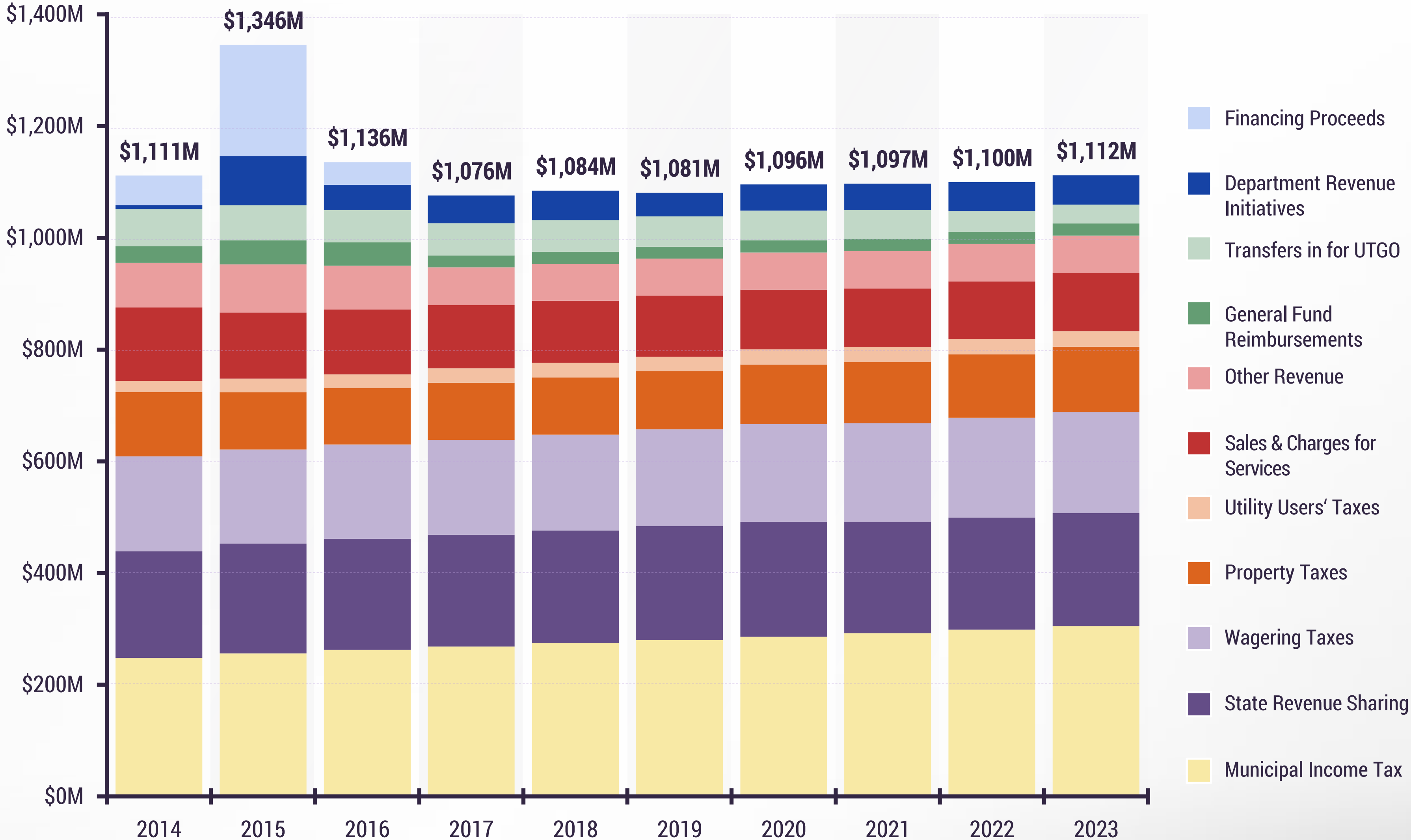
The City retained Ernst & Young LLP to provide expert witness services to the City in connection with *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.) (Rhodes, J.). The City compensates EY at an hourly rate of $800 for actual time incurred by Mr. Malhotra, as well as reasonable 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

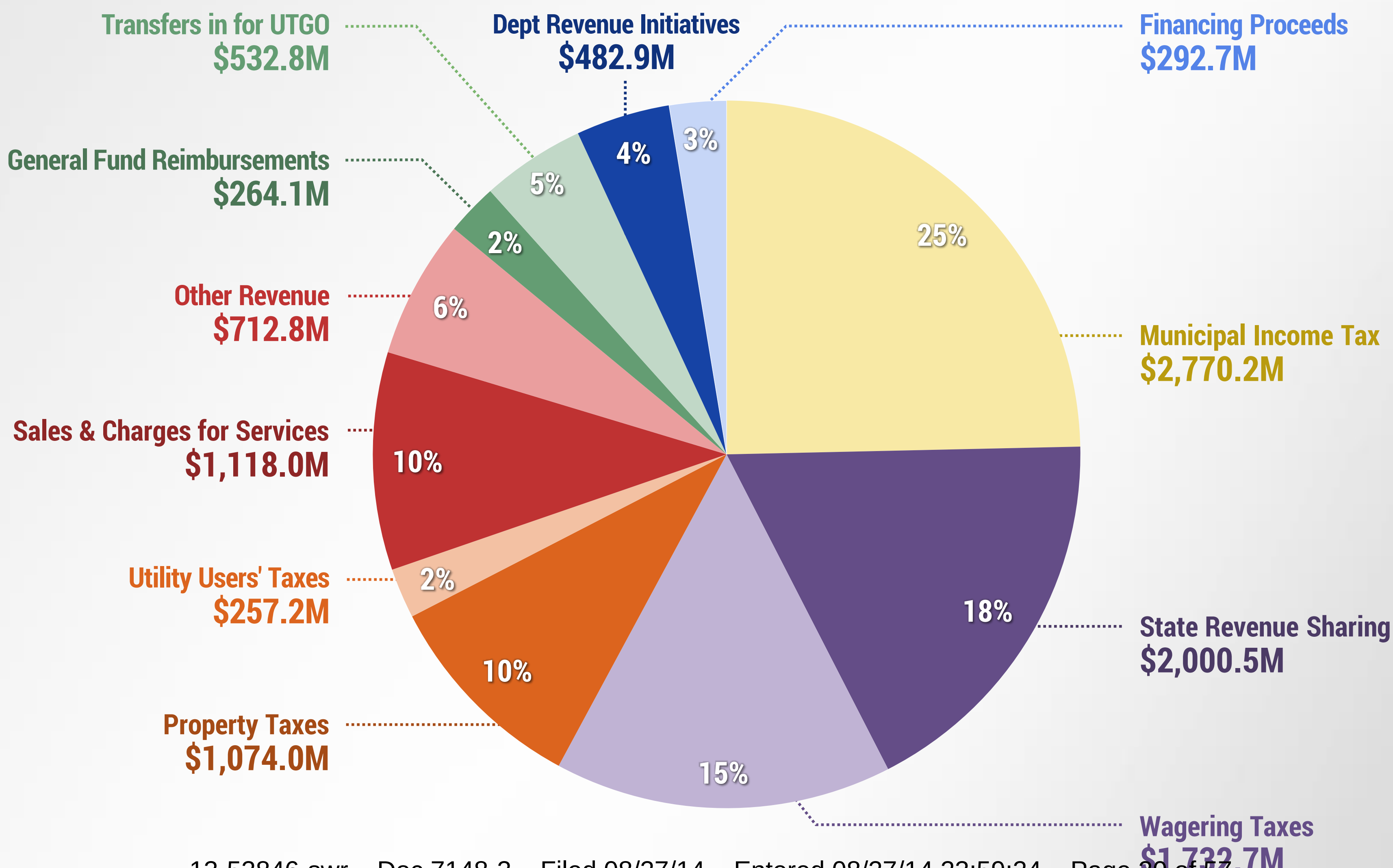
EXHIBIT A

Revenues, 2014 – 2023

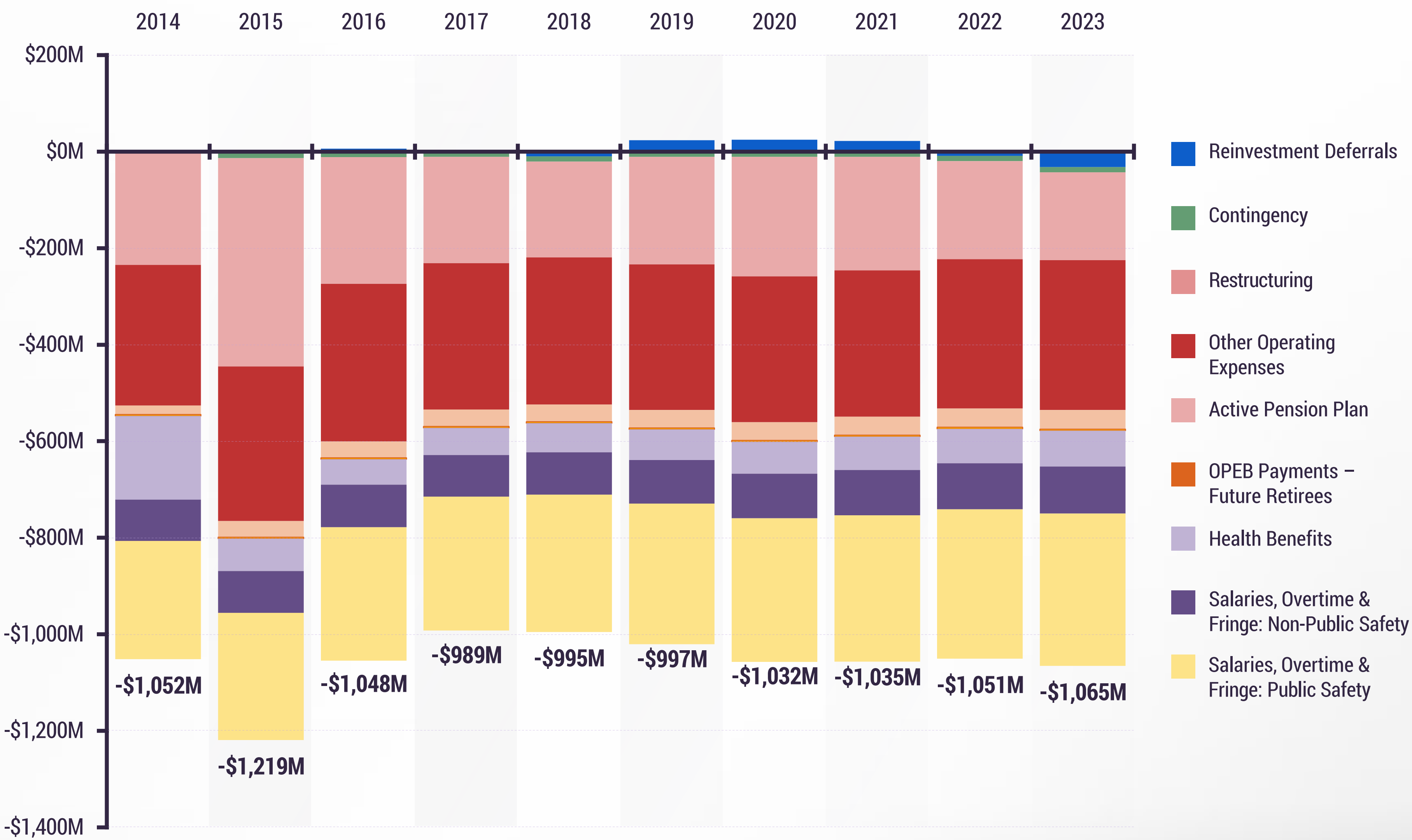


Revenues,
2014 – 2023, Ten-Year Total

Total: $11,237.8M

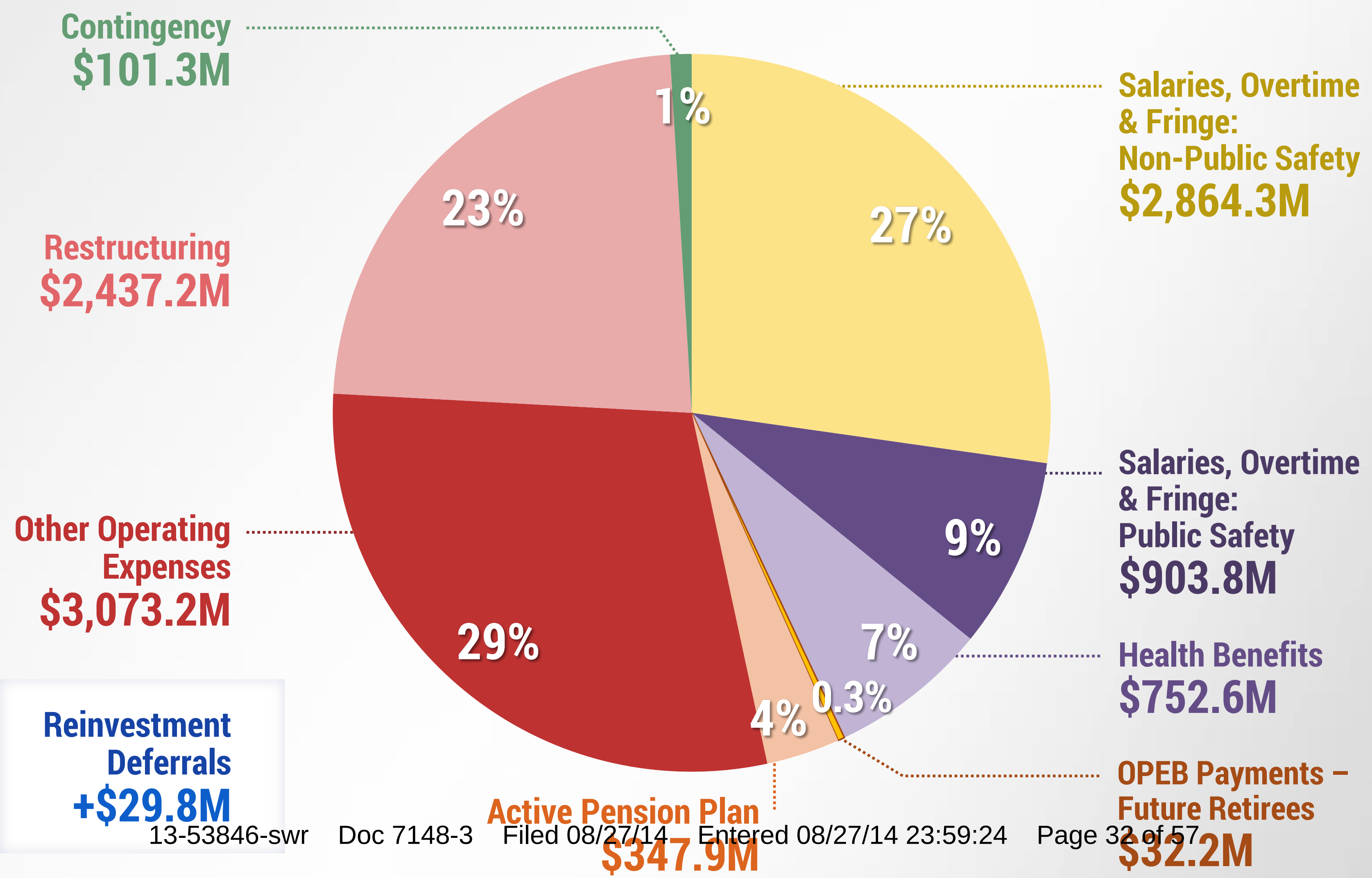


Expenditures, 2014 – 2023

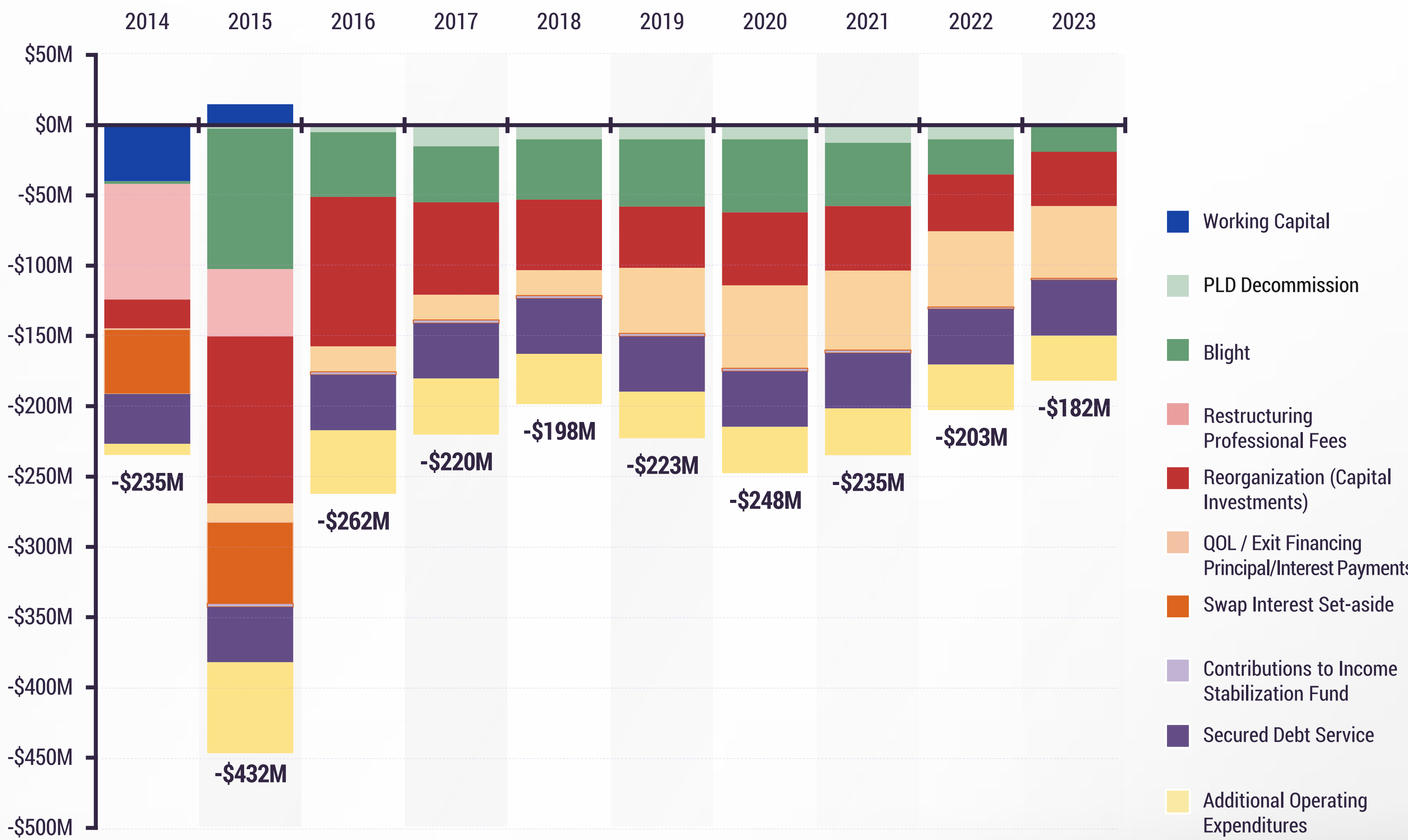


Expenditures,
2014 – 2023, Ten-Year Total

Total: $10,482.8
(Offset from $10,512.6M by Dept Revenue Initiatives)

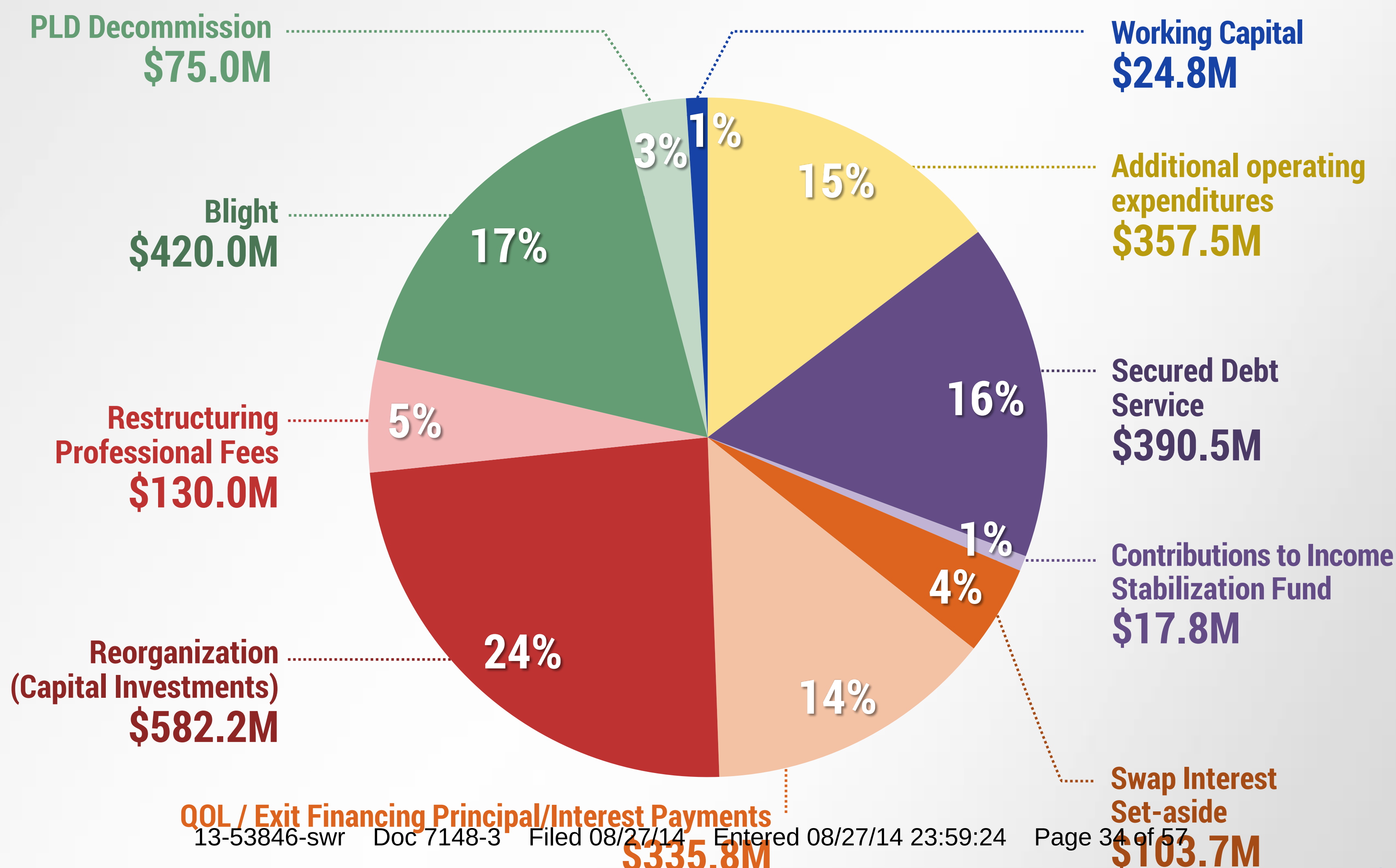


Restructuring Expenditures, 2014 – 2023

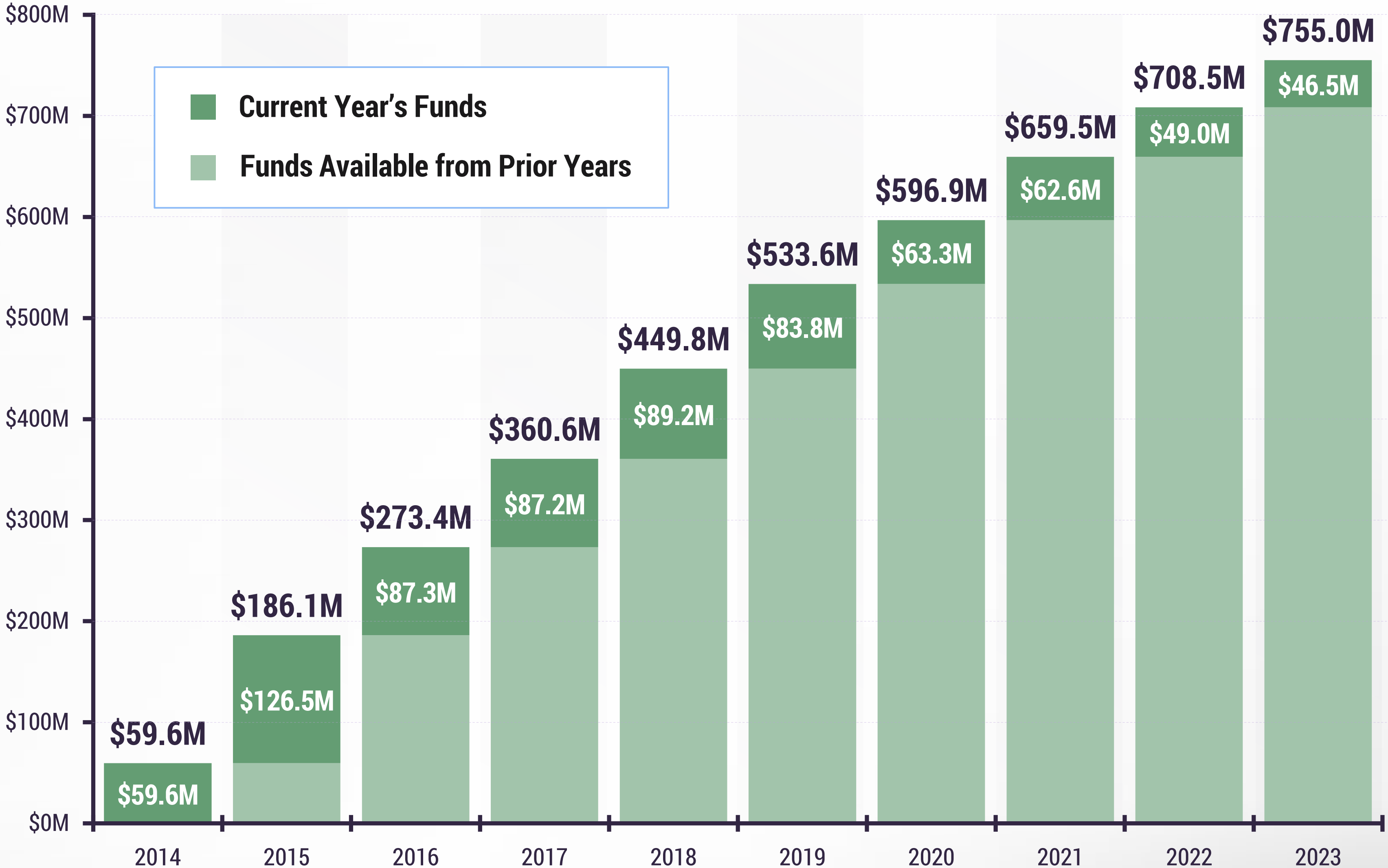


Restructuring Expenditures, 2014 – 2023, Ten-Year Total

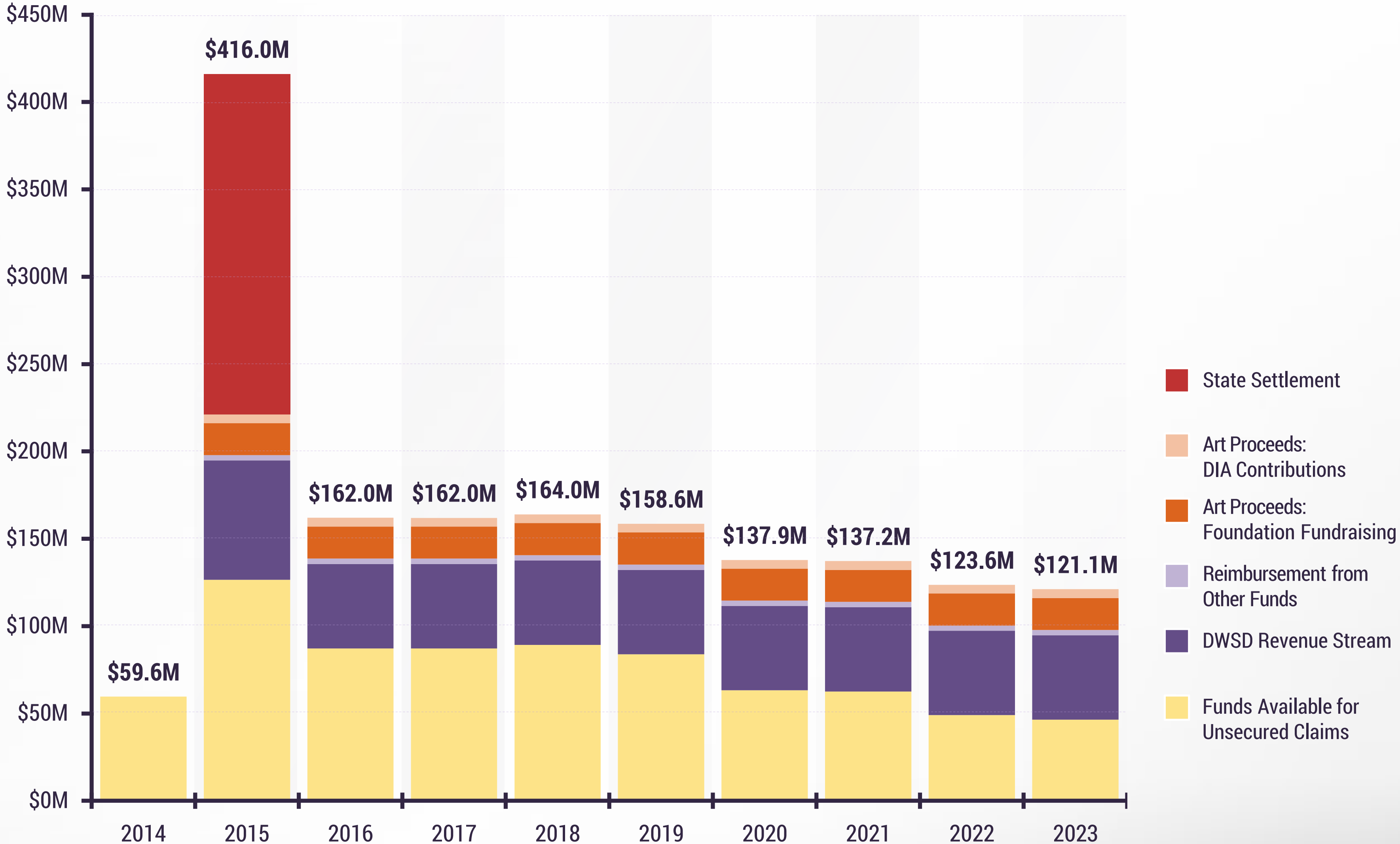
Total: $2,437.2M



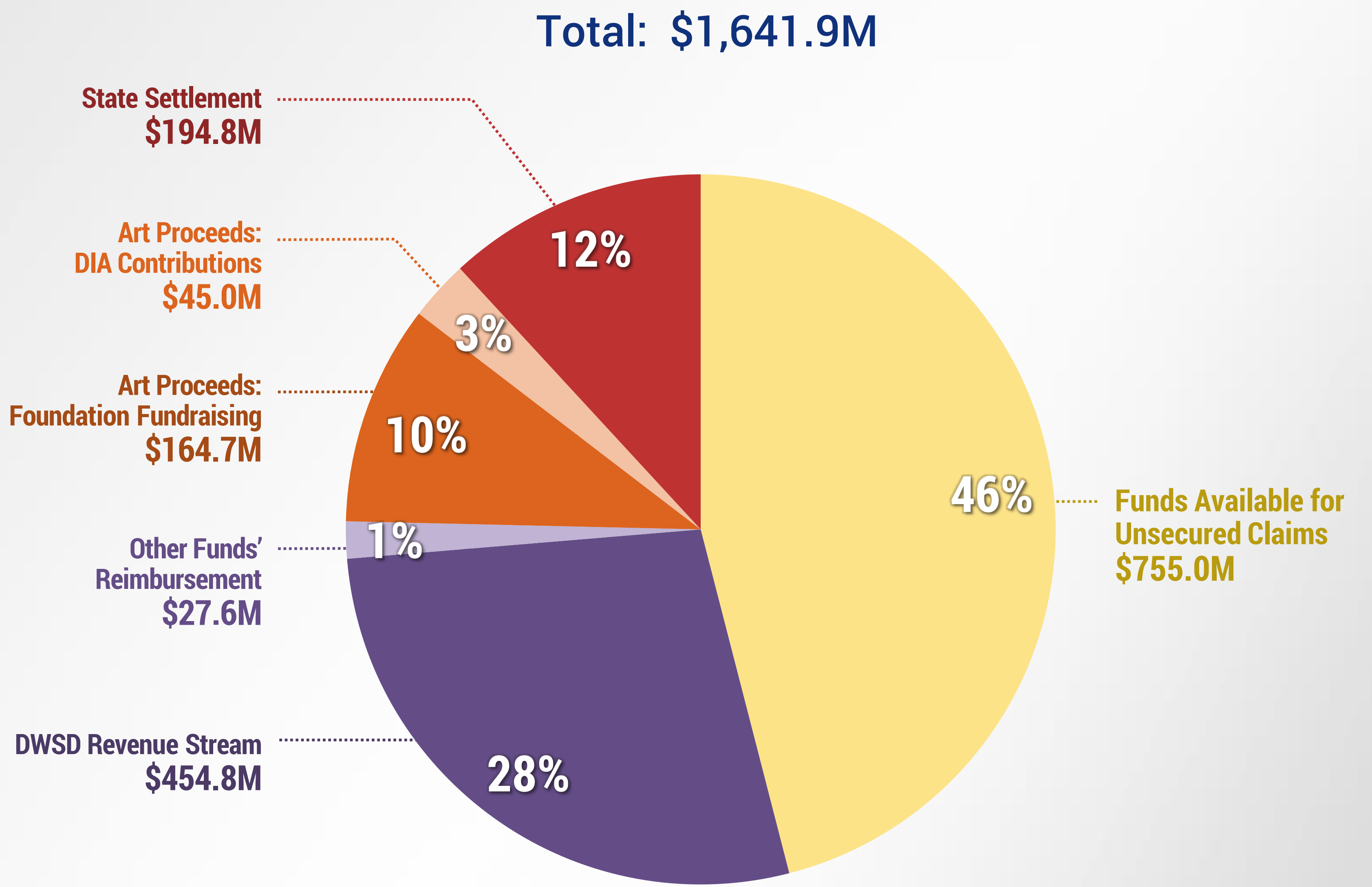
Adjusted Funds Available for Unsecured Claims, 2014 – 2023



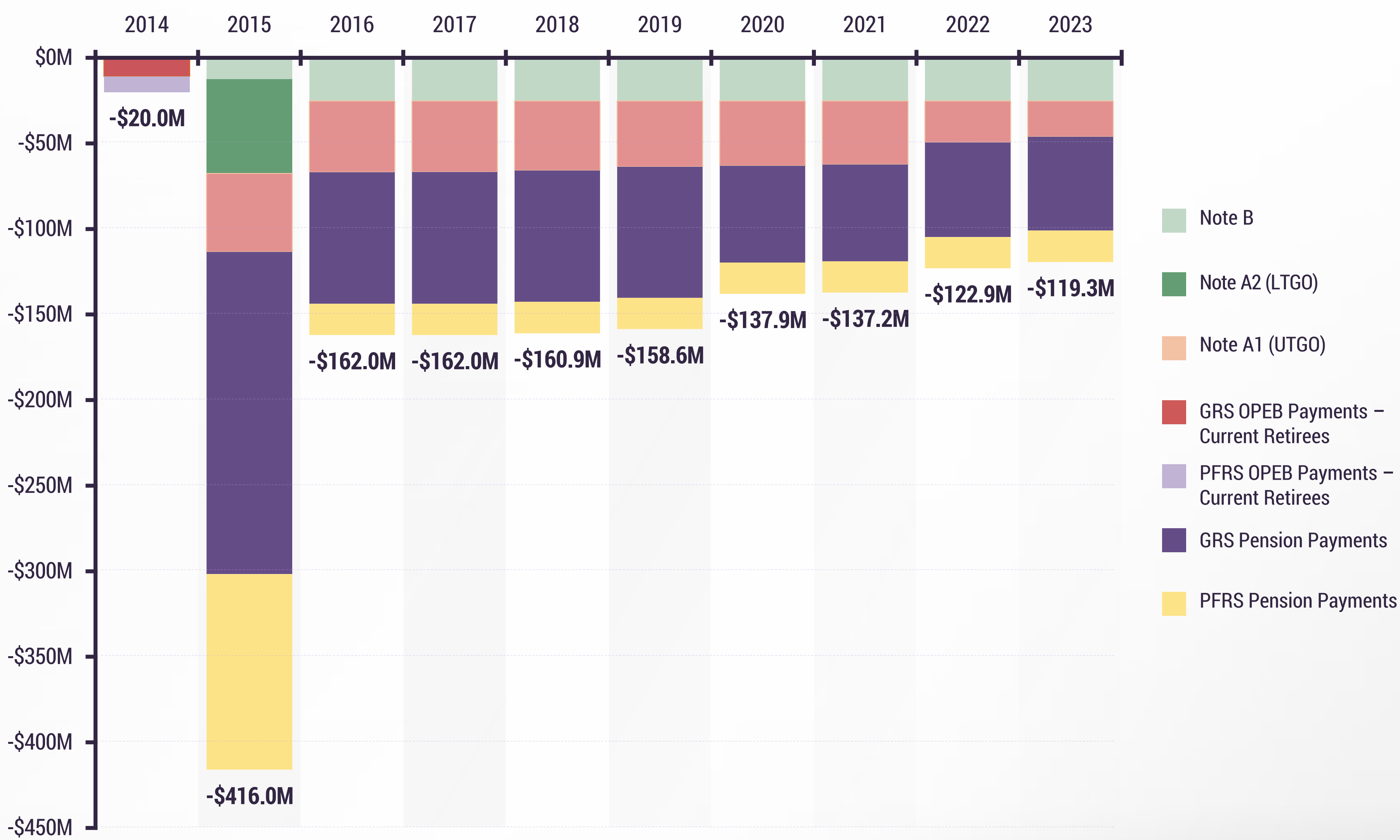
Forecasted Sources of Funds for Unsecured Claims, 2014 – 2023



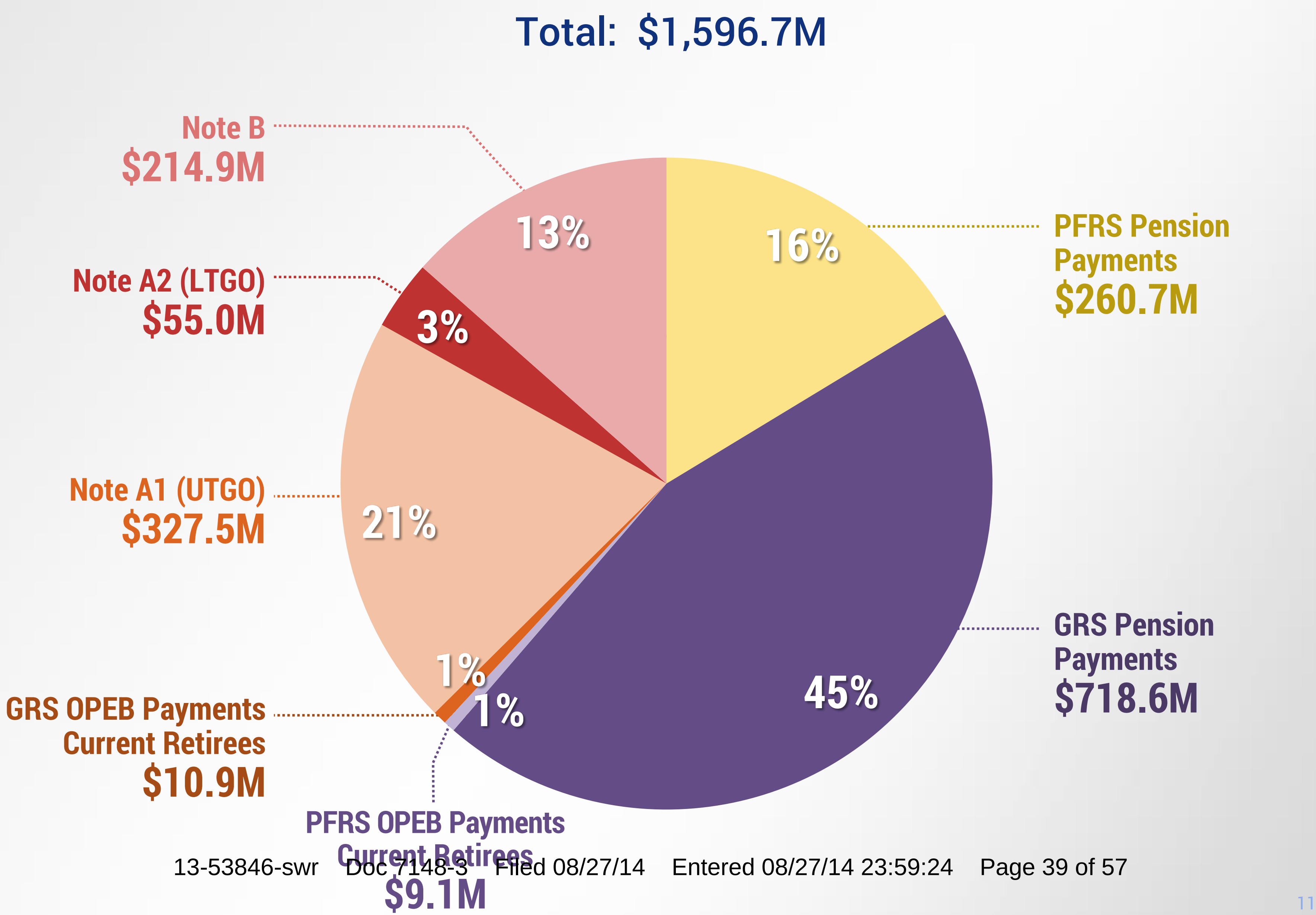
Forecasted Sources of Funds for Unsecured Claims, 2014 – 2023, Ten-Year Total



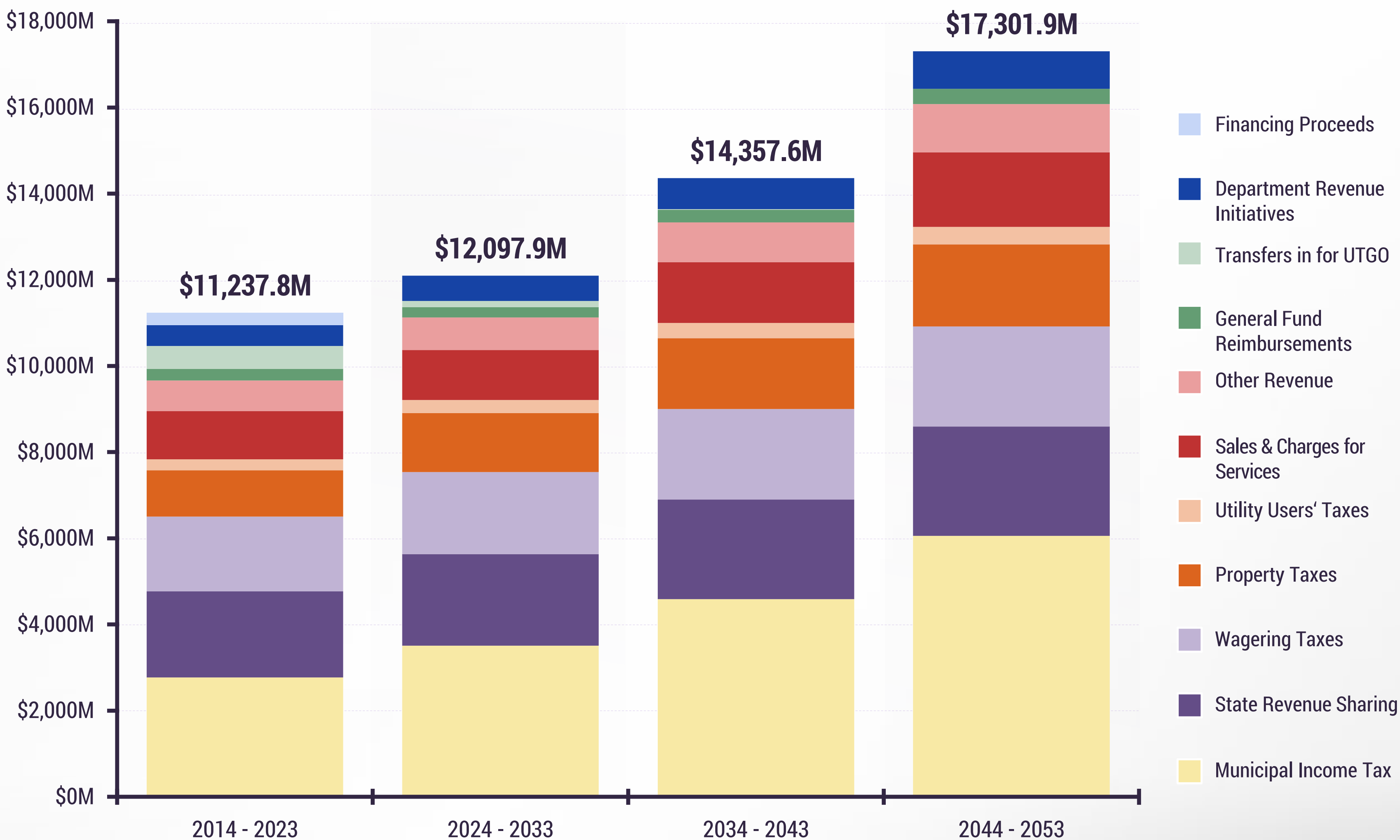
Forecasted Distributions for Unsecured Claims, 2014 – 2023



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

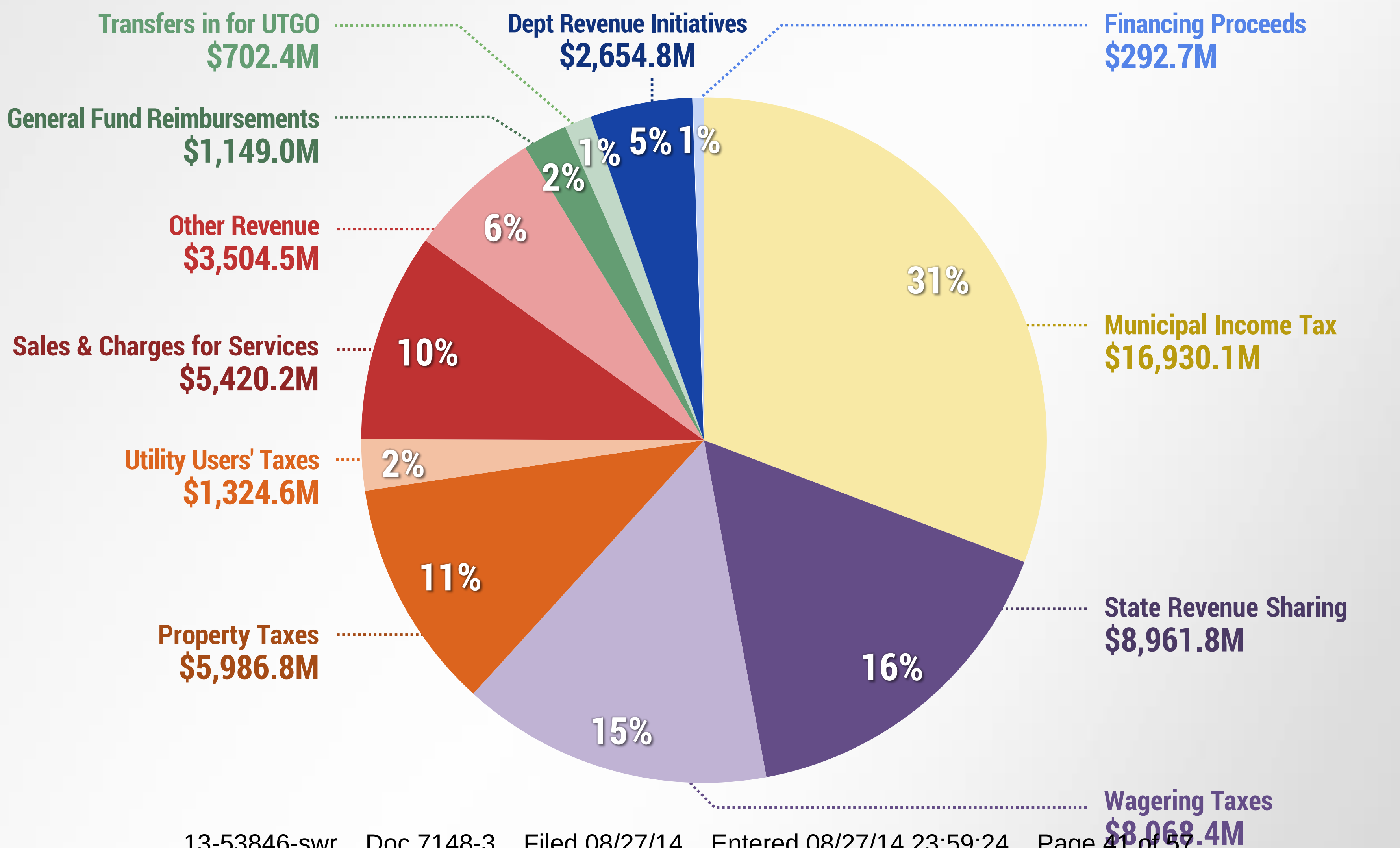


Revenues, 2014 – 2053

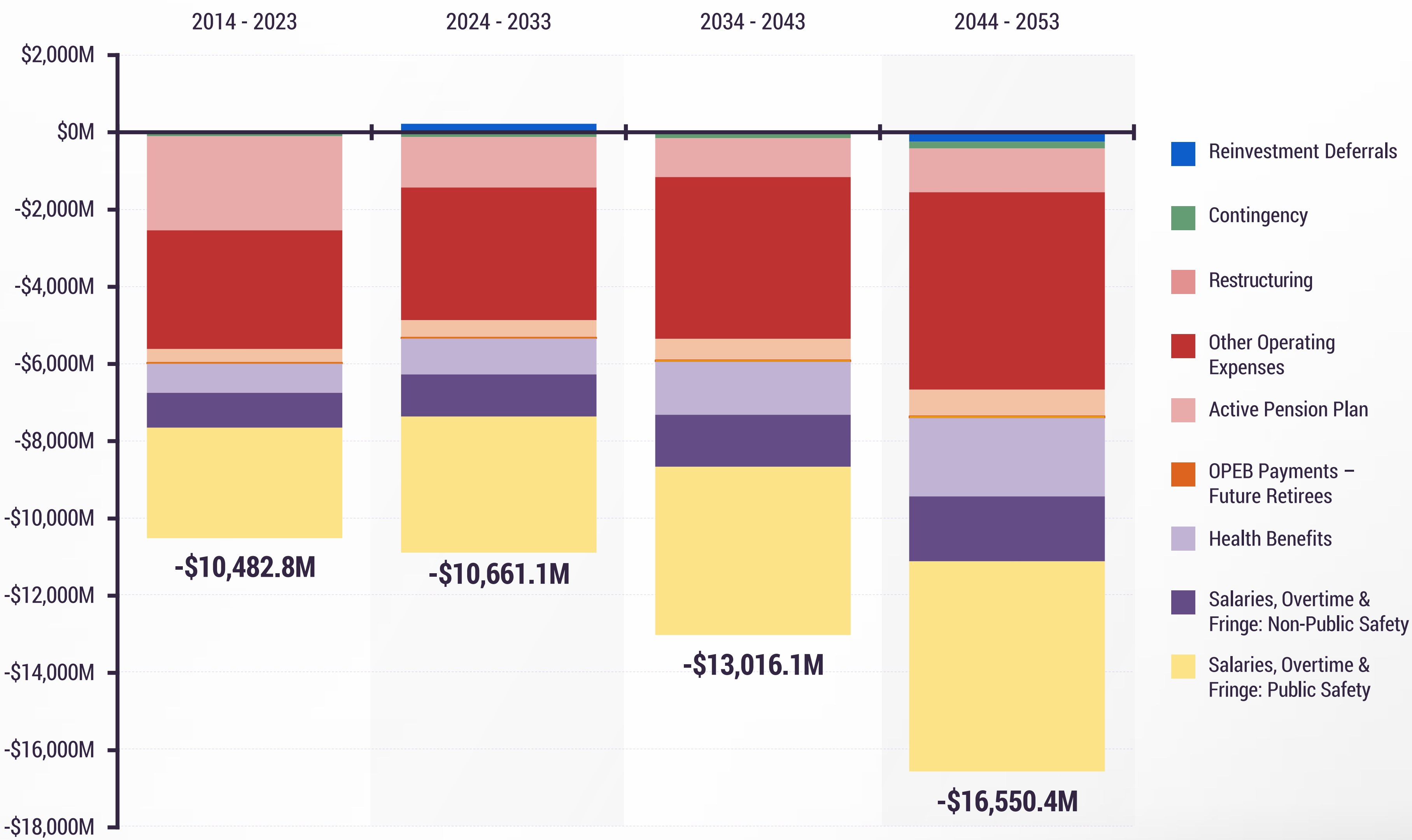


Revenues,
2014 – 2053, Forty-Year Total

Total: $54,995.2M

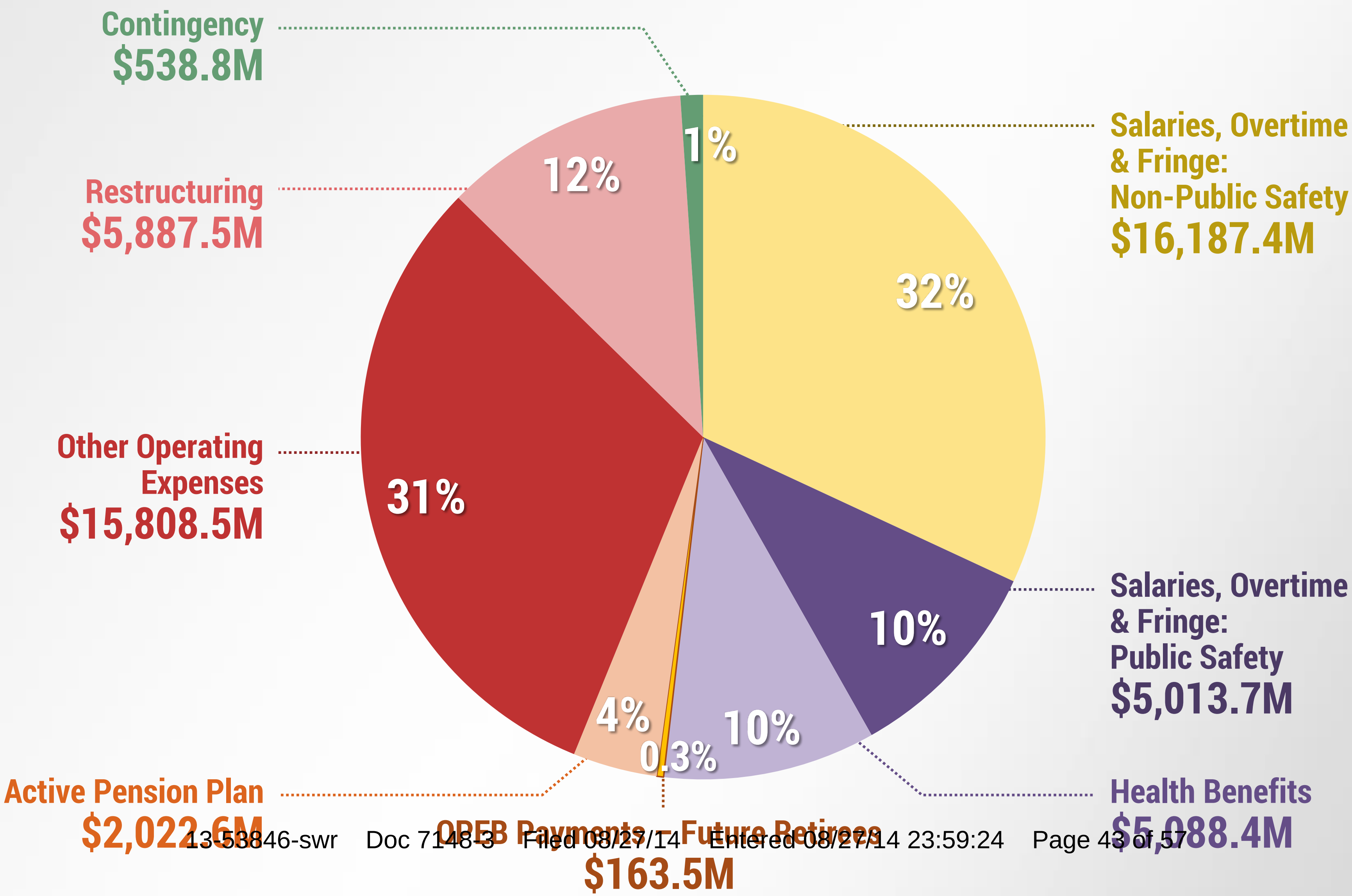


Expenditures, 2014 – 2053

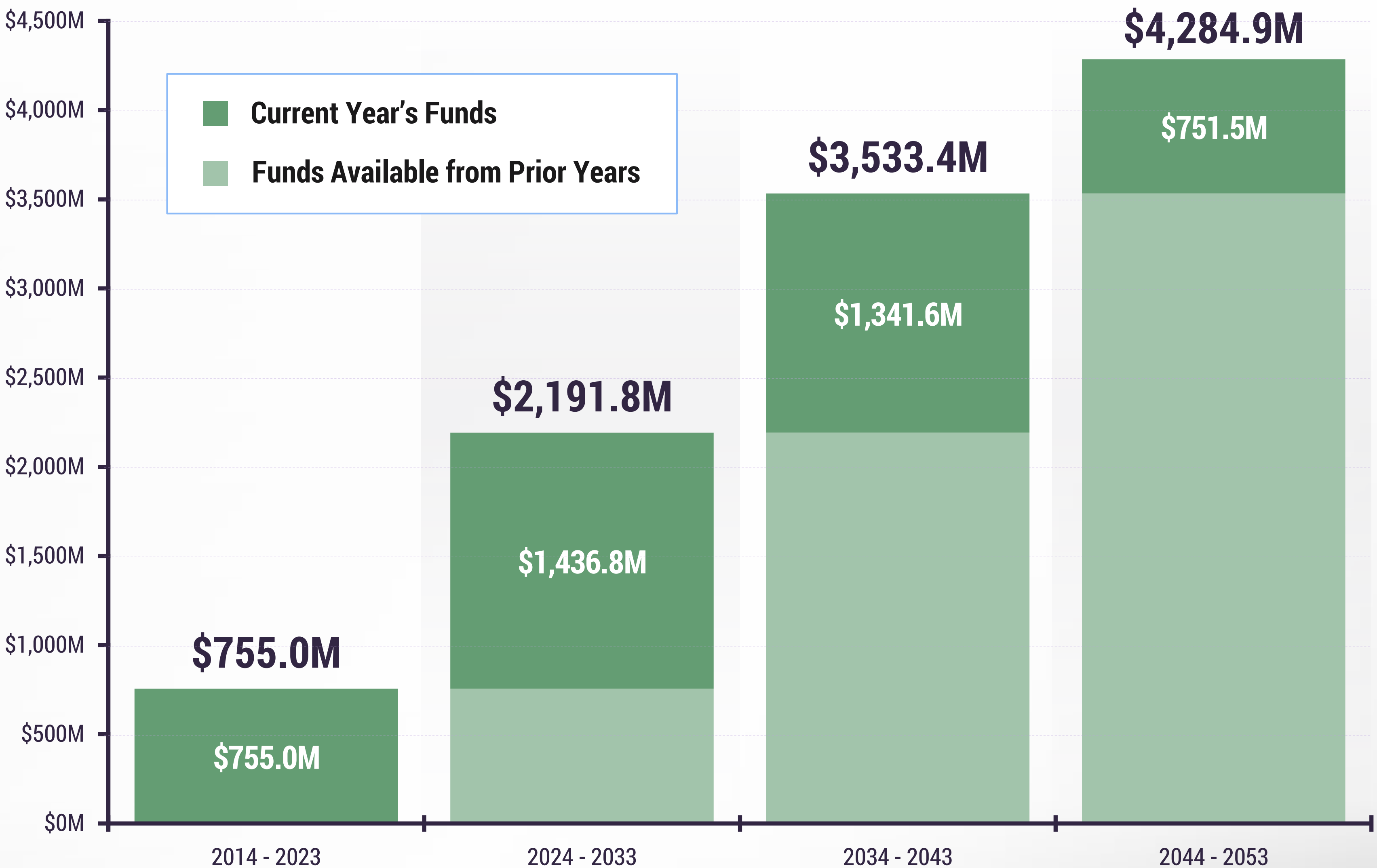


Expenditures, 2014 – 2053, Forty-Year Total

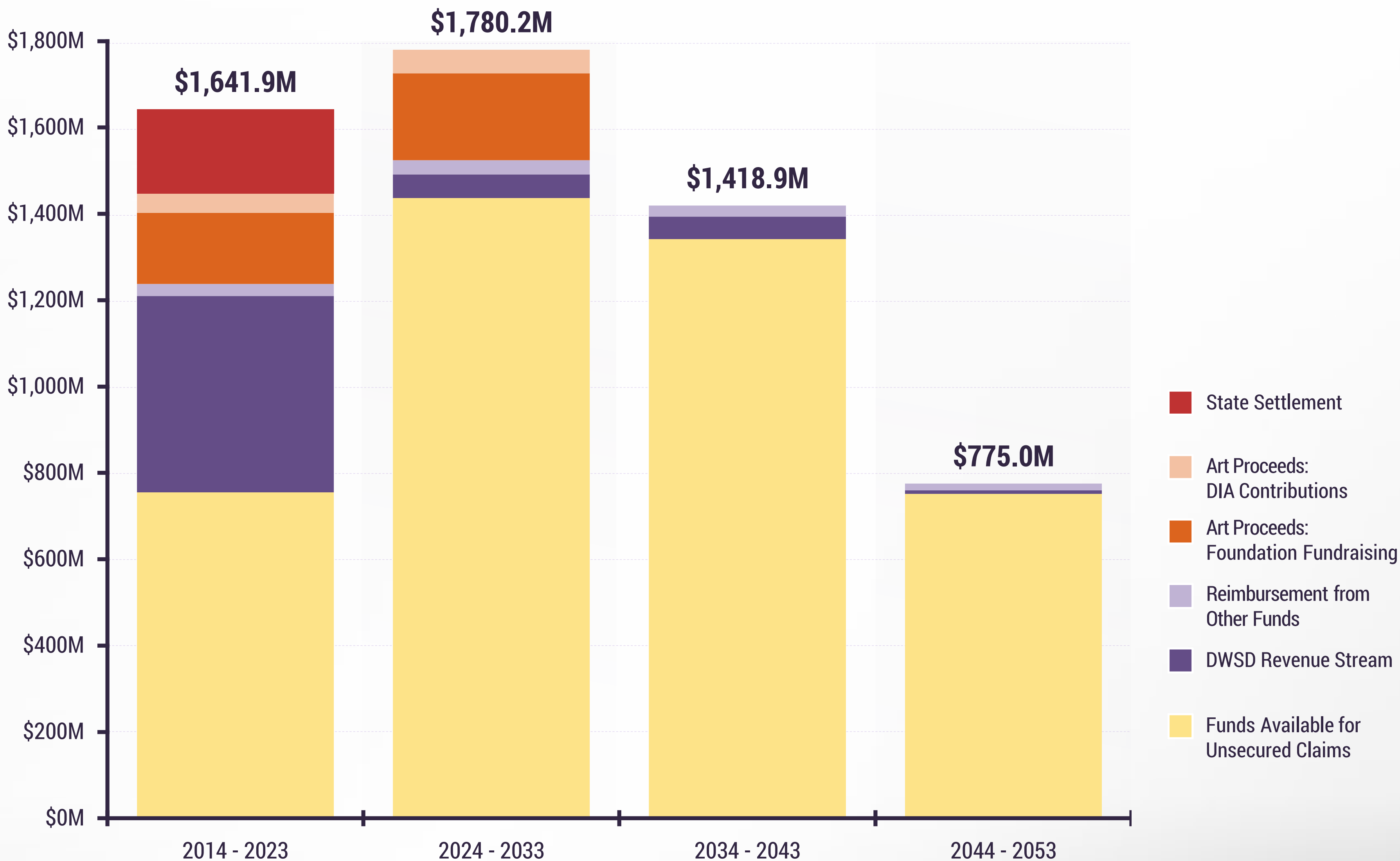
Total: $50,710.3M



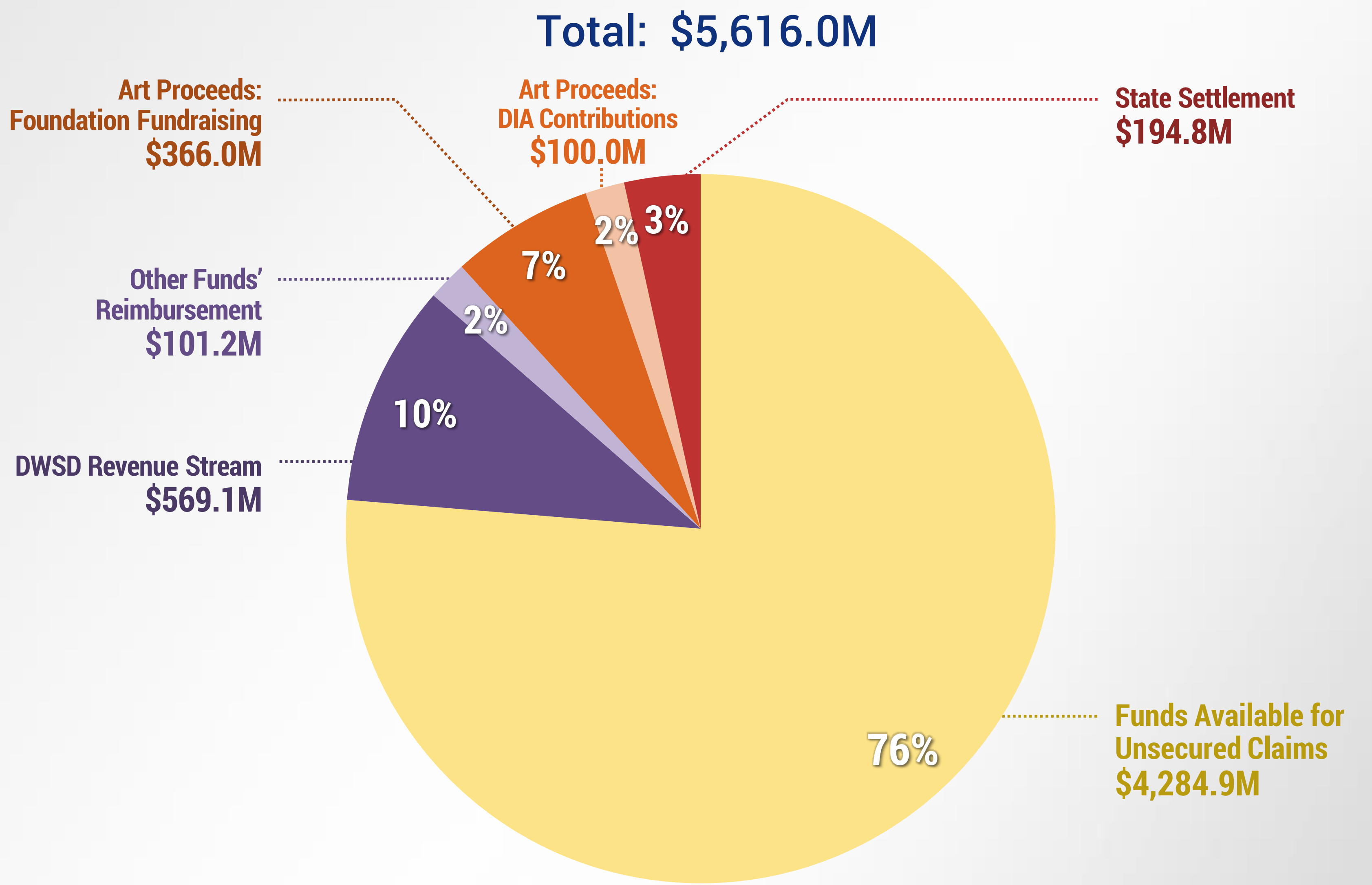
Funds Available for Unsecured Claims, 2014 – 2053



Forecasted Sources of Funds for Unsecured Claims, 2014 – 2053



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



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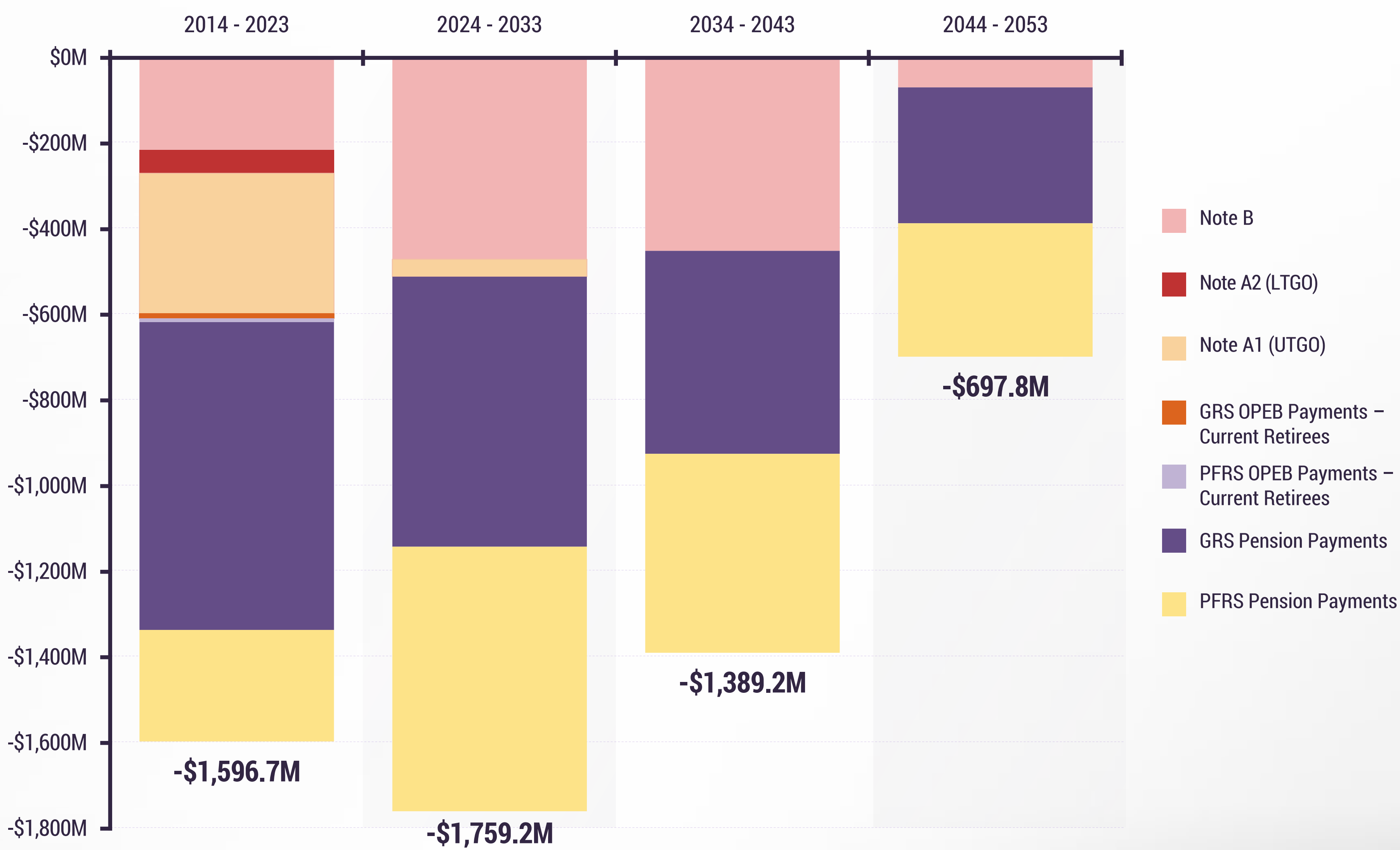
Forecasted Distributions for Unsecured Claims, 2014 – 2053



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

Total: $5,442.9M

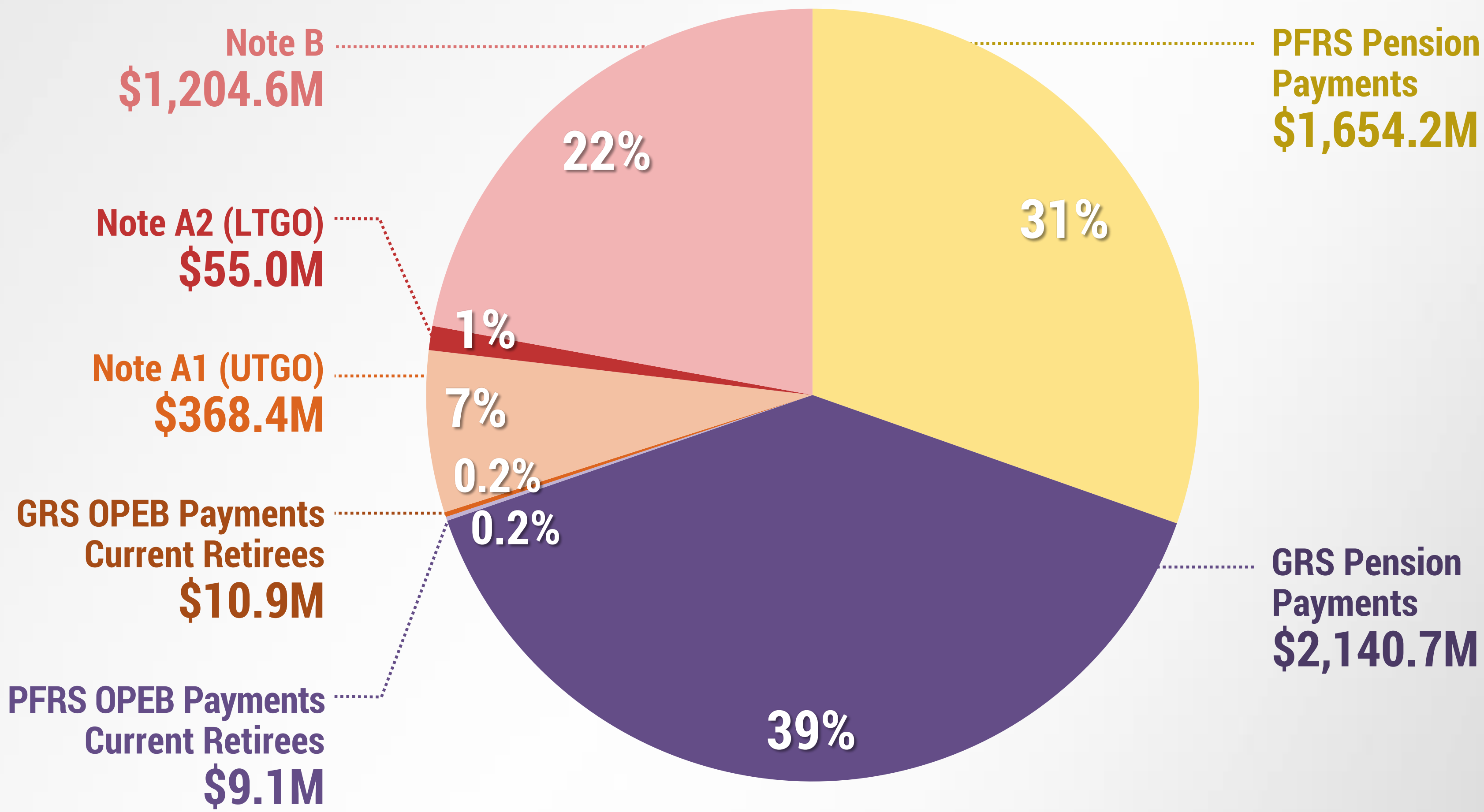


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EXHIBIT B

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

Sources Considered By Gaurav Malhotra

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

<u>EXHIBIT 4</u>

Expert Report of Martha E.M. Kopacz

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

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

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

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

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

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

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

[1] Docket #4215, Order Appointing Expert Witness

Section A – Introduction, Scope and Approach

Introduction

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

Scope and Approach

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

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

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

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

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

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

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

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

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

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

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

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

The Report

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

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

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

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

Table of Contents

Section B – Statement of Expert's Opinion

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

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

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

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

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[5] Docket # 4215, Order Appointing Expert Witness

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

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

Based on this work, I conclude that:

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

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

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

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

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[7] Transcript of Hearing, April 18, 2014

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

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

Section C – Feasibility Definition

Defining a Feasibility Standard

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

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

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

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

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

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

Two Dimensions of the Standard

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

Quantitative

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

Qualitative

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

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

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

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

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

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

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

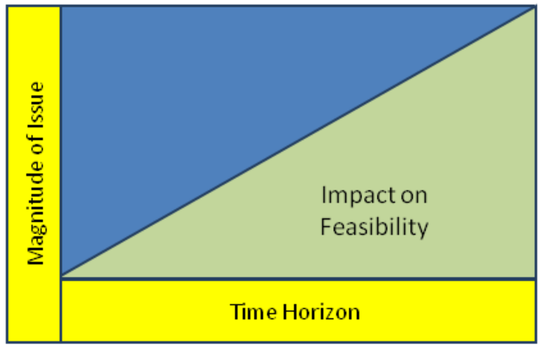
The qualitative aspects of the Standard include what I have come to refer to, as “skill and will” and are as important as the quantitative assessment. Qualitative aspects also include external influences that can affect the implementation of the Plan. Part III, Section K – Leadership and Human Capital,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

The Aspect of Time on the Standard

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

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

Ultimately, we based our Standard on an indeterminate time period. However, I believe that the issues of feasibility must be viewed both in terms of their quantitative or qualitative impact 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.



<u>The Standard Allows for a Range of Values</u>

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 solvency[12] and in some areas, the current level of service is adequate. I do not need to envision that Detroit will become a best in class municipality to determine that the POA is feasible. For Detroit, emerging from essential services failure to adequate and reasonable service delivery will be a success.[13]

What Feasibility is Not

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

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[12] Eligibility Opinion of Judge Rhodes

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

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

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

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

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

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

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

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

Section D - Context

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

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

<u>Bankruptcy Process Impact</u>

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.

<u>The Plan of Adjustment</u>

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

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

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

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

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

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

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

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

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

Outside Factors of Influence

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

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

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

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

Section E - City of Detroit Financial Forecast Summary

<u>Introduction</u>

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

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

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

Plan of Adjustment – Ten Year Financial Projections

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

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

[20] Other Post Employment Benefits

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

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

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

Plan of Adjustment – Forty Year Financial Projections

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

Plan of Adjustment - Restructuring and Reinvestment Initiatives

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

City of Detroit - Triennial Executive Budget

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

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

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

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

Phoenix Review

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

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

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

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

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

Section F - Revenue and Macro Assumptions

Summary[24]

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

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

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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.

<u>10 Yr Plan - Without RRIs</u>

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

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

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

10 Year Plan – Municipal Income Tax (Without RRIs)

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

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

Wage Growth (Without RRIs)

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

Employment Growth (without RRIs)

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

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

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

10 Yr Plan with RRIs

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

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

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

10 Year Plan – Municipal Income Tax (With RRIs)

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

Wage Growth (with RRIs)

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

Employment Growth (with RRIs)

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

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

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

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

Comparable Assumptions

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

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

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

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

Sensitivity Analysis

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

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

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

State Revenue Sharing

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

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

Constitutional Payments

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

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

Statutory Payments

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

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

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

Sensitivity Analysis

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

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

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

Wagering Taxes

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

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

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

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

Sensitivity Analysis

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

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

Sales and Charges for Services

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

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

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

Property Taxes

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

City of Detroit Millage

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

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

10 Yr Projections - Without RRIs

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

Assessed Property Values

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

Collection Rates

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

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

Components of Property Tax Value

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

10 YR Projections - With RRIs

Assessed Property Values

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

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

Collection Rates

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

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

Components of Property Tax Value

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Components of Property Taxable Value (non - RZ)											
Residential Property	3,948.1	3,138.7	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.

	Preliminary 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.

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

Other Revenues

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

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

Section G - Operating Expenditures

Summary[26]

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

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

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

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

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

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

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

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

Salaries & Wages

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

Headcount

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

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

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

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

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

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

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

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

Average Salary

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

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

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

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

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

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

Projected average salary by department by year:

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

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:

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

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

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

Health Benefits

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

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

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

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

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

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

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

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

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

Overtime

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

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

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

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

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

General Fund Overtime

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

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

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

Other Benefits

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

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

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

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

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

Active Pension

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

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

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

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

Active OPEB

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

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

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.

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

Purchased Services

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

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

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

Other Expenses and Capital Outlays

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

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

Section H – RRIs and Non-Operating Expenditures

Summary[31]

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

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

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

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

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

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

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

Revenue Initiatives

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Expenditures

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

Labor

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

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

Additional headcount by department projections can be seen below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Professionals and Contractual Services

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

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

Benefits

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

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

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

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

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

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

Training

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

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

Materials & Supplies

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

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

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

Risk Management & Insurance

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

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

Other Operating Expenditures

Other operating expenditures over the ten year period include:

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

Reorganization/Investment

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

Technology & Infrastructure

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

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

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

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

<u>Capital Expenditures</u>

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

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

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

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

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

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

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

Professional Fees

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

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

PLD Decommission

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

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

Working Capital

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

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

Income Stabilization Fund

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

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

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

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

Secured Debt

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

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

Quality of Life/Exit Financing

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

Swap Interest

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

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

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

Contingency

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

Section I - Systems, Controls and Reporting

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.

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[36] Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 6 page 3.
[37] Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 4.A. page 3.

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

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

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

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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.

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

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

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

Financial Reporting

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

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

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

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

Potential Plan Implications

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

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

[40] Emergency Manager's report

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

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

Information Technology

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

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

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

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

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

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

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

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

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

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

[41] Per the Conway McKenzie IT restructuring budget.

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

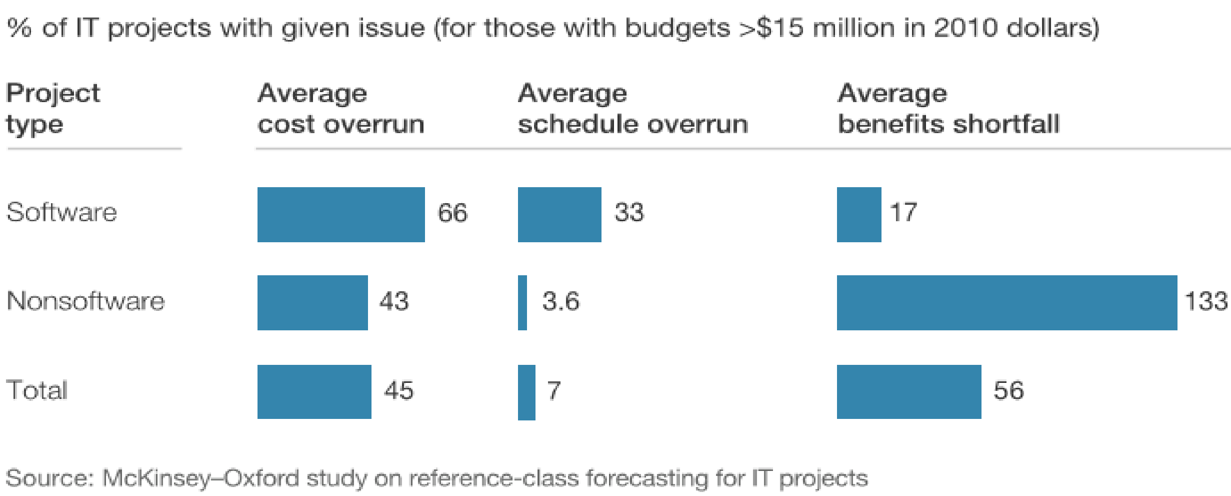
The City believes that it will take several years to implement a new ERP system and, in the interim, the City will have to rely on the existing systems. Although many of the inefficiencies and control weaknesses cannot be eliminated, the City believes the main ERP weaknesses can be mitigated by strengthening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

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

<u>Risk of Failure</u>

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

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



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

Impact on Feasibility

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

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

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

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

Section J - Pensions

Introduction

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

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

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

Background

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

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

City of Detroit Retirees Demographics

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

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

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

Pension Funding Level

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

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

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

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

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

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

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

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

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

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

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

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

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,

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

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

Active City Employees

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

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

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

Proposed POA Restructured Terms

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

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

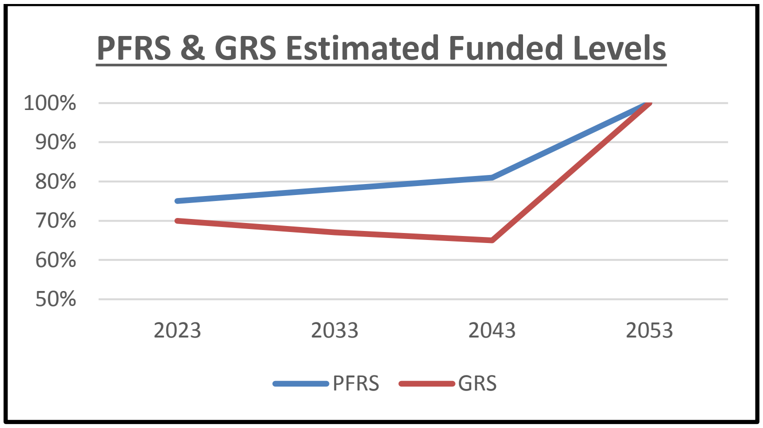
Current Retirees

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

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

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

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



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

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

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

Public Pensions - Assumed Investment Returns - Dec 2013

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

Pension Funding

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

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2053

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

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

Plan of Adjustment – Proposed GRS Contributions – FY2014-2053

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

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

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

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

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

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

<u>Plan of Adjustment – Proposed PFRS Contributions – FY2014-2023</u>

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

<u>Plan of Adjustment – Proposed GRS Contributions – FY2014-2023</u>

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

Plan of Adjustment – PFRS (Class 10)

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

PFRS – Scenario A

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

PFRS – Scenario B

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

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

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

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

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

Plan of Adjustment – GRS (Class 11)

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

GRS – Scenario A

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

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

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

GRS – Scenario B

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

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

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

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

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

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].

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

Impact on Feasibility

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

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

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

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

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

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

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

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

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

[57] Blinken Executive Summary pg. vii.

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

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

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

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

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

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

[58] Blinken pg 25.

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

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

<u>Legality of POA's Proposed Pension Cuts</u>

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 contributions[59]. The panel believes that +/- 3% points represents "plausible stresses" based on its review of prior market returns[60].

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

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

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

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

PFRS Average Rate of Return Scenario Analysis[61]

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

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

Recommendations on Reporting Requirements

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

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

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

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

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[62] Governmental Accounting Standards Board

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

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

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

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

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

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

Section K - Human Capital and Leadership

Detroit's fifty year decline was caused by changing demographics, economics and the failure of elected officials to respond effectively. The downward spiral finally resulted in the City filing for Bankruptcy. Beyond the financial crises, the City has suffered from a deterioration of the efficiency and effectiveness of its City's workforce, as measured by the cost of service delivery versus the benefit the citizens received from those services.[65] Inadequate investment in human capital and poor leadership during the decline served to exacerbate the situation.

At its core, this chapter 9 is a fundamental change project. The City, through the guidance of its bankruptcy advisors, has fundamentally changed the City's balance sheet and reduced its long term obligations. The Emergency Manager has begun the even harder task of reshaping the operations of the City for the benefit of the taxpayers. The Mayor, and other elected and appointed officials, will need to continue this part of the change project. Human capital and leadership are two of

[65] Docket # 14, page 29 of 106, Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

the most important components to any successful restructuring[66]. I believe the success, or failure, of Detroit's revitalization will hinge on the people employed by the City and the officials elected by the residents in the coming years. The skill level, on average, of City workers is low and outdated. Civil service requirements and historical collective bargaining agreements work against a merit or performance based employment culture in most municipalities and Detroit is no exception. Lack of even modest technology and up-to-date systems, as is the case with the City, ensure that employees will not perform at competitive levels to their peers in the private sector or even in municipalities that are efficient.

Impact on Feasibility

As I noted in my definition of feasibility, the second assessment prong of feasibility is "will and skill". Leadership, political and intestinal fortitude define "will" and talent and training equate to "skill".

For example, in order to arrest the downward trend of revenue, City employees must do a better job of collecting the taxes and fees that are currently due – that is skill. Better systems and more experienced management will be required

[66] I have written on this topic previously. See American Bankruptcy Journal, March 2014, "The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story"

to accomplish that goal. It was evident to me and my team that there are City employees who are knowledgeable, have good ideas about improving the operations and want to learn and advance. There are also employees who don't grasp that their job is to provide a service to the taxpayers versus the taxpayers owing them a job. This is a cultural malady that will have to change if Detroit is to be successful. Leadership that is focused on outcomes of service delivery and operating efficiency will be required, as will standards for personal and departmental performance.

Current Workforce Issues

The City employs more than 9,000 people and as a result of the RRIs expects add to almost 700 net new positions. After accounting for attrition, this is a significant mobilization. Further, my discussions with the leaders in the City indicate a universal understanding that increasing the average talent base of the employees is a cornerstone for success of the Plan and the City. This topic was acknowledged at the outset of the case and continues to present challenges to the City's management team. Throughout my team's discussions with City leaders and department managers, the issue of human resources has been a regular topic of discussion.

Throughout our discussion in the finance and accounting functions it has been noted:

> *"Many qualified and experienced employees have left their jobs over concerns about the long term prospects of their positions; Difficulty in replacing employees with qualified personnel because salary structure is no longer reasonable and competitive. This weakness has been partially mitigated by hiring employees outside the official system using Professional Service Contracts (PSC's), consultants and contractors."*

Exacerbating the problem of historic skill level are the changes made to compensation prior to, and as a result of, the bankruptcy. Prior to the Bankruptcy,

> "*the City has also implemented a 10% reduction in the wages to majority of the workforce in the addition to furlough days of 10% to a majority of the non-uniform employees. Medical and prescription drug plan designs have been changed to reduce the costs associated with healthcare and increase the percentage of contributions from active employees."* [67]

The POA eliminates future accrual of the defined benefit retirement plan and replaces with what is arguably a less generous hybrid pension plan. The Plan eliminates certain OPEB benefits, specifically, post-retirement healthcare and replaces with what is arguably a less generous VEBA plan.

Beth Niblock, the City's CIO, noted this concern in her Expert Report, *"(a)ttracting and maintaining a highly skilled workforce is a challenging task,*

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[67] Declaration of Gaurav Malhotra in Support of the City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

particularly given the current and proposed compensation rates set forth in the Projections."[68]

There is little doubt that total compensation includes not only direct pay, but the benefits conferred to employees in the current time frame plus those that are expected to be conferred to the employee in the future. Individuals may possess differing views as to relative value of each category of pay; however, they do place some value on the deferred benefits.[69] With all of these changes to compensation, it is unclear what the impact will be on retention and recruitment. While there are studies to suggest, and perhaps some experience in Detroit to confirm, that the elimination of post-retirement healthcare may offset the impact of the pension changes as a retention tool. Current employees, when they retire, will not have the benefit of receiving healthcare benefits prior to Medicare eligibility. Therefore, employees may be more likely to stay in their positions with the City.

While the specific impact of the compensation changes on retention is unknown at this time, the impact on current employees and future employees may be different. For current City employees, the City has necessarily lowered the

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[68] Report of Beth Niblock, Chief Information Officer for the City of Detroit-Expert report submitted in support of the City's POA – page 15.

[69] Are Public Pensions Keeping up with the Times? Richard W. Johnson, Mathew Chingos and Grover Whitehurst page 47."

overall economic value of City employment and changed the perception of the long term value in having worked for the City, once an employee leaves or retires. For future employees the economic and long term value analysis will be based on the individual's perception of alternative employment opportunities. The City is currently working with the consulting firm of Fox Lawson to complete a compensation review so that the City may have more than anecdotal evidence as it proceeds with the recruitment and staffing. We understand that the results of this study are not available and therefore were not considered when the City developed the POA projections.

In addition, the City has acknowledged the issue of skill development by including in the RRIs significant funding for employee training. The City has included an annual employee training budget of $2,000 for each non-uniformed employee through 2017 and $1,500 per year thereafter. The total RRI allocation to training over a 10 year period is $54.4 million. While no actual allocation of training dollars has been made, I believe that this is a strong indicator of the City's commitment to helping its current employees develop the skills they need to contribute to the success of the City and to maintain competitive skills within its employee base.

Throughout our meetings with City leaders and the advisors to the City, it has been noted that if compensation is a barrier to hiring the skilled talent required, the

City will likely adapt to this by hiring fewer but more skilled employees. I believe this approach can partially mitigate feasibility concerns regarding the City's ability to implement the Plan. Presently, the City is squeezed from both sides of the labor market: in order to do even the simplest routine task, the City has hired consultants yet maintains full time employees who should be able to manage those tasks but are not sufficiently trained to do so.

A significant challenge to acquiring the talent the City so desperately needs is the state of the Human Resources department. The Human Resources department is in need of an overhaul – recently, it has taken over six months to hire a new employee for an approved opening. As a result, department heads "work around" the department and find ways to recruit and hire employees more efficiently. The Mayor is well aware of the need for leadership in this key area.

Given the large number of recruits envisioned in the POA, a new approach to talent acquisition is needed. Consultants are in place to assess the skills needed to revamp key departments such as accounting and IT and the current leadership of those departments is experienced and capable. In fact, many of the Mayor's direct reports are experienced operational managers with successful employment histories. Overhauling the human resource function will be critical to a successful restructuring.

Leadership and Cultural Change

If the City is to counteract the vortex of underachievement that has defined Detroit, City leadership must make a long term, concerted effort to maintain the momentum needed to ensure effective City services. The Emergency Manager has made progress on the macro changes required and I believe the Mayor is developing a culture based on performance metrics and accountability and some of the *status quo* is going by the wayside.

I have confidence in Mayor Duggan. My opinion of feasibility is favorably influenced by my view of Mayor Duggan as a leader and an operational executive. I am encouraged by the manner in which he leads many of the City's departments given the real power is still held by the Emergency Manager. The Mayor has created simple metrics around which he can measure the performance of his department heads daily and/or weekly. This is a commendable workaround as the accounting and information systems, as noted elsewhere, are abysmal. While ultimately the City will need to address the core reporting system, the use of this simplistic metrics based approached is effective and understandable. When one is at the vortex of underachievement, having a few very simple and actionable goals can make a huge difference in the overall performance of the organizations. Having periodically attended the Mayor's Cabinet meetings, I know that if ambulance response times do not decrease more rapidly, it will be evident to all and managers will be held accountable; this level of accountability can change the City for the better.

In the long term, the City's leadership is subject to the democratic process. There is clearly risk that future elected leaders stray from principals in the POA, but I am choosing to rely upon the combination of the electoral process and the oversight function implemented as part of the Grand Bargain legislation to keep future City leaders focused on strong stewardship.

<u>Collective Bargaining Agreements</u>

My team has not been privy to the negotiations between the City and its unions, or the resulting term sheets. The City's financial advisors have indicated that the economic issues addressed in the collective bargaining agreements ("CBAs") negotiated during the bankruptcy have been appropriately included in the POA projections. Based on discussions with long standing and former City officials and employees, I believe the more significant workforce issues are centered on the restrictive work rule provisions that have caused labor inefficiency, higher costs and inability to change outdated processes. I do not know if, or to what extent, any of these issues have been addressed in the recently negotiated CBAs. While I believe that the Emergency Manager's desire to negotiate 5 year contracts has been beneficial in mitigating the risk associated with adverse arbitration awards in the future, I remain concerned that the City has missed an opportunity to make long term changes in its business processes and ability to manage through unforeseen events.

Section L - Blight

Detroit's Blight History

The City of Detroit, due to its shrinking population[70], depressed economy, and sagging property values, has experienced a metastasizing urban blight condition over the past several decades. Depending on which statistics are referenced, this City of approximately 139 square miles contains roughly 380,000 land parcels, of which 84,000 parcels (or 22%) have been identified as currently exhibiting blight characteristics or having indicators of future blight.[71] These blighted parcels are geographically disbursed throughout the City, resulting in a ripple effect throughout most neighborhoods which further stretch the City's limited resources. An expanding blight crisis within Detroit is not just a land and property issue; rather, this epidemic has an exponential impact on the City's efforts with regards to public

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[70]From roughly 1.8 million residents in the 1950's to the current estimate of under 700,000

[71] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

safety, education, job growth, property tax revenue, and the City's efforts to attract new residents and businesses.

As recently as 2010, under Mayor Bing's administration, the City of Detroit began a coordinated effort to tackle the City's growing urban blight, with an initial goal of razing 10,000 vacant structures, roughly 13% of the vacant structures within the City, at that time. The City reached approximately 50% of its stated blight removal goal by 2013, but lacked the necessary funding to continue its targeted efforts. Demolition expense estimates for blighted residential structures have ranged between $8,500 - $12,000 per structure, depending on the size of the building and the degree of blight and neglect. In addition to the incremental costs, the City's protracted payments to the demolition contractors have resulted in reducing the number of contractors willing to provide demolition services.

Current Blight Initiatives

Mayor Duggan has made blight eradication a top priority and has attempted to coordinate Detroit's multiple public and private organizations in an effort to streamline funding and execute a strategy toward this critical effort. To that end, the Duggan administration has created the Department of Neighborhoods and empowered the Detroit Land Bank Authority ("DLBA") to aggressively move forward with multiple blight initiatives, including:

- Nuisance Abatement
  - Legal process of the City taking proactive legal remedies to seize abandoned properties within Detroit via the transfer of title to the DLBA (after the owner has been given the opportunity to bring the property "up to code")
- Enhanced Intake Process
  - DLBA performs a cost-benefit analysis to assess the estimated costs to restore a property as compared the assumed demolition expense
- Disposition
  - DLBA has been initially successful in selling viable houses via open houses and online auctions

In addition to the City's blight efforts, the Detroit Blight Removal Task Force ("Task Force") recently released its Blight Removal Task Force Plan that articulated the Task Force's efforts since it was founded in September 2013 and its view on the City's blight efforts. The Task Force, in partnership with Data Driven Detroit and Michigan Nonprofit Association, created the Motor City Mapping ("MCM") project that created a database cataloging the physical condition, tax status, and other pertinent information of all 380,000 parcels of land in Detroit. Also, these partners developed the Maximizing Community Impact ("MCI") software tool designed to identify neighborhoods where targeted funding could stem blight expansion. Going forward, the Task Force's mission – as it pertains to the City's blight – is to focus on removing blighted structures and cleaning vacant parcels. The Task Force estimates it will cost the City approximately $850 million to execute the Task Force's demolition strategy[72].

While the City's blight action plan and the Task Force's recommendation appear to be directionally aligned, the City's overall mission to stabilize neighborhoods may result in the DLBA pursuing deconstruction efforts in lieu of demolition, where it makes more sense. If the DLBA is able to resell or recycle some of the building components of the blighted structures and create valuable job opportunities in the process, that approach may make better fiscal sense than an across-the-board demolition strategy.

Plan of Adjustment – Blight Proposals

The City's POA includes a Blight Reinvestment Initiative that proposes to allocate $420 million of funding towards blight removal over the course of the next nine years. The projected funds dedicated for blight removal have changed in each iteration of the City's POA projections and funding has been allocated to other POA obligations. The forecasted annual blight RRI is as follows:

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[72] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014.

($ millions)	City of Detroit's POA Proposed Blight Expenditures										
Fiscal Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	Total
Blight Expenditures	$ 2	$ 100	$ 46	$ 40	$ 43	$ 48	$ 52	$ 45	$ 25	$ 19	**$ 420**

Funding for the intended blight removal efforts is forecasted to come from a variety of public and private sources, namely $52 million from the federal government's allocation of its Hardest Hit fund, $20 million from the Fire Escrow fund[73], various private sector contributions, with the balance coming from the City's annual cash flow. I have been told that the funding source for blight is flexible and is currently not necessarily dedicated only for this purpose. The Exit Financing contemplated appears to be the primary source for this funding.

Assuming the City can generate, or raise, the entire $420 million dedicated for Blight removal over the next nine years, at an average demolition expense of $11,000 per structure[74], the POA only allocates enough funding to remove about 50% of the structures designated by the Task Force blight removal.

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[73]It is not clear how the City intends to access these funds for its general blight initiative, as we understand the funds in escrow are designated for the demolition of particular properties destroyed by fire.

[74]Phoenix assumed an average demolition expense of $11,000 per structure, within the $8,500-$12,000 range proffered in the Disclosure Statement and in Phoenix's conversations with the DLBA.

I am not troubled by this apparent discrepancy between what the Task Force believes is required to eradicate blight and what the City is proposing. At some point during the next ten year period, assuming the City can dedicate sufficient funding to the blight initiative in the next few years, I believe that blight removal can become more self-sustaining by incorporating private capital or cost neutral solutions. If the City is initially successful in its blight remediation efforts, private owners and investors will see an economic opportunity to allocate private capital to take advantage of the revitalization efforts. It should be noted that, of the 79,000 structures (excluding lots) that are included as blighted or indicating blight, almost half have the lesser designation of 'structures with indicators of future blight'.[75] It is likely that some portion of these structures might create realistic opportunity for private investors.[76]

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[75]Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

[76]Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224- the Blight task force estimates that 80-90% of the properties with blight indicators marked for 'further analysis' will eventually require demolition.

Blight Summary

Quantifying the near- and long-term economic impact of a successful City of Detroit blight removal initiative is difficult due to the absence of a calculable immediate return on the City's investment. The City's POA forecast, embedding the positive cash flow impact of the proposed RRIs, assumes increased income tax revenues of $204 million and property tax revenues of $110 million in the ten year period ending June 2023. While other RRIs impact the reasonableness of these incremental revenue assumptions, the relative impact of the blight removal initiative cannot be overstated.

In order to maximize the benefits of the blight removal program, the City must ensure that the funding is committed and supported in the longer term. For better or worse, blight has an emotional impact on the perception of what Detroit is and can be. I believe that the blight initiatives are immensely important to creating and sustaining a positive trajectory for the City's revitalization efforts. With substantive, long term commitments to address blight, I believe that many of the external factors, including home ownership and job creation required to abate the City's decline, can be addressed. Conversely, a start and stop approach, will likely result in ineffective investment and do little to reverse the spread of blight throughout Detroit. This trend would ultimately constrict the City's liquidity and make Detroit a less desirous location for new residents and employers. To effectively address blight, the City needs to achieve economies of scale. The Task Force estimates that through economies of scale, the average cost per structure may be reduced by 17%. Put differently, with proper planning and investment, the City's blight investment can produce 17% greater impact for the same money.[77]

Finally, continued coordination between the City, the State of Michigan, the Federal government, DLBA, and various private constituencies will be critical to the long-term success of the blight initiative. Perpetual updating of MCM, and effective utilization of the MCI software tool to identify the neighborhoods that will benefit the most from allocation of the limited blight funding, will be important to the success of this most critical City initiative.

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[77] Every Neighborhood Has A Future… And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224

Section M – Post Confirmation Oversight

As noted in my definition of feasibility, I believe that the determination of feasibility stretches far into the future, although to impact feasibility, issues that extend further into time must be more significant. Beyond the strictly financial issues, one of the most significant issues impacting feasibility involves post confirmation oversight and governance. Ultimately, the City of Detroit will be largely run by an elected mayor and an elected city council. There are obvious inherent limitations to understanding how the City will be run without knowing who will occupy these critical positions. In the end, the success of the POA will largely rest on the will of these elected officials and whether the will to make the fundamental change is inherited by future leaders.

While the democratic process necessarily creates this limitation, the State of Michigan has created a framework that will provide a level of consistent oversight for the City. If implemented correctly, this oversight will institute financial accountability in the City's operations and greatly improve the ability to address small problems before they become significant factors to long term viability.

Public Act 181 of 2014 establishes a 9 member commission, the Financial Review Commission (FRC), with fairly broad oversight power over the City. Powers to be granted to the FRC include:

- Ensure the City is complying with the POA
- Review and approve the City's consensus revenue
- Require the City to submit 4 year financial plans
- Review, approve and modify proposed and amended operational budgets of the City
- Require relevant information from the City
- Review and approve requests by the City to issue debt
- Approve the appointment and termination of the City's CFO
- Approve collective bargaining agreements
- Approve all contracts that exceed $750,000

I strongly believe that the appointment of the FRC improves the prospect of the City continuing to improve its fiscal health and therefore, provides some level of assurance to me regarding feasibility. I do note, that the FRC is populated by 9 non-compensated members. What we have learned about the City's finances, reporting and operations compels me to caution that the task the FRC is undertaking is not only challenging, but will require substantial time. Therefore, I believe that the positive prospects associated with the implementation of the FRC would be improved if the FRC hires permanent staff. My belief is that an executive director level professional with qualifications similar to a CFO would significantly improve the oversight functions associated with the FRC. I understand that the State has appropriated funds for the operation of the FRC and these funds may in fact already be allocated to the above noted purpose.

As noted elsewhere in this Report, the pension plans are very complex. The accounting and actuarial assumptions are difficult to understand; it is even harder to understand how changes in assumptions may changes the City's future financial prospects. Therefore, I believe that it is important for the FRC to require annualized reporting from the City regarding each of the GRS and PFRS systems:

- The undiscounted liability of each of its pension plans.
- A sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel that provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan.

This reporting will allow outside observers to truly understand the nature of the City's continuing legacy pension obligations and insure that the City has foresight to deal with and significant deterioration of the pension UAAL during the time in which the City will not be making any direct cash payments to the pension funds, but the liability could nonetheless grow.

Public Act 182 of 2014 provides for the appointment of the City CFO, the identification of reporting requirements to the FRC and others, among other provisions. We do note that Public Act 181 and 182 requires the following:

> That the City's financial plan include a general reserve fund for each fiscal year to cover potential reductions in revenues or increases in projected expenditures equal to not less than 5% of the project expenditures for the fiscal year.

I do not believe that the City's POA, as currently presented, complies with this requirement. The City has not identified how it intends to come into compliance with this provision.

As noted elsewhere in my Report, the City is unable to produce any reliable reporting in a timely manner. This will impact the FRC in their duties. At present, the City does not conduct monthly financial closes. That is, the City does not produce financial statements during the year. Further, it does not have a system to properly account for encumbrances. At present, the City relies on cash based information for what little information it does use to manage its operations. This cash based system is woefully inadequate for the purpose of running a major city long term. This will be compounded as the City begins to make large scale investments, such as blight remediation, which require the allocation of funding well in advance of the actual cash expenditure. The City has targeted an ERP system as one of its highest priorities in the RRIs. We fully support this initiative. However, it typically requires between 2-3 years, and sometimes even longer, for a full ERP implementation. During this time, the City will be required to continue to rely on ad hoc reporting. It is my observation that Mayor Duggan is using ad hoc operational metrics to gain visibility. Given the lack of alternative options, I applaud this and believe that this can be a reasonable proxy for the immediate term, but it cannot replace the need for quick, integrated, systematic reporting over a longer period.

I have a significant concern regarding the City's intention with regard to the ad hoc reporting currently performed. It is my belief, the City is relying heavily on the cash team on site from E&Y. I understand that 3 full time E&Y personnel are allocated exclusively to cash management and reporting. I further understand that the POA does not have any direct funding allocated to retaining E&Y for this function. Further, I do not believe the City has recruited and trained personnel for this fairly complex and critical role. Failure to address this issue prior to confirmation could have a significant impact on the City's ability to manage cash and provide any level of reporting.

Section N - City of Detroit Unresolved Issues

In the event that the Plan of Adjustment is confirmed, the City of Detroit will continue to be challenged with operational, legal and financial issues critical to the City's long-term viability and its ability to execute the proposed restructuring initiatives, including:

- Bankruptcy Eligibility
- 2005-2006 Certificates of Participation
- Potential Swap litigation
- Impact of Collective Bargaining Agreements negotiations
- Potential City of Detroit Asset Sales
- Exit Financing
- Professional Fees post-bankruptcy

The immediate and long-term impacts to the City if it ultimately receives negative outcomes from any of these key issues cannot be quantified at this time. It is likely, though, that these (and possibly other) issues, both individually and collectively, will consume significant City resources, with regards to both human capital and financial reserves, in the period immediately following the conclusion of these chapter 9 proceedings.

Chapter 9 Eligibility

The central issue before the Court since the beginning of this municipal bankruptcy has been the ultimate determination as to whether the City of Detroit was eligible to be a debtor under chapter 9 of the Bankruptcy Code. At the petition date, the City filed its Statement of Qualifications and supporting memorandum demonstrating its compliance with the chapter 9 debtor requirements. Approximately 110 objections to the City's eligibility were filed, along with the Attorney General for the State of Michigan's argument that the Pension Clause of the Michigan Constitution prohibited the City from impairing its obligations to the City's pensioners.

After three months of multiple hearings and bench trial, on December 5, 2013, the Court entered the Eligibility Order stipulating that the City was eligible to be a debtor under chapter 9 and that its bankruptcy petition was filed in good faith. The objecting parties immediately requested an Order of Relief to the Sixth Circuit Court of Appeals. The Bankruptcy Court subsequently issued a memorandum recommending that the Sixth Circuit deny the appeal request entirely, and, if the Sixth Circuit did grant the appeal, that the appeal should not be expedited and therefore ruled upon prior to the City's Confirmation hearing. On February 21, 2014, the Sixth Circuit Court of Appeals granted the appeal petitions, but stated that the appeals would not be expedited.

At this juncture, the City's bankruptcy confirmation hearing and ultimate resolution is scheduled to occur prior to the Sixth Circuit's appellate hearing and decision. The potential impact of a reversal or modification of the Court's Eligibility Order is unknown at this time. It is conceivable that a reversal of the Bankruptcy Court's Eligibility ruling would completely negate the negotiated advances the City has made to date, specifically relating to employee compensation and pension/benefits reform.

Certificates of Participation

In 2005 and 2006, the City of Detroit, via its Retirement Systems and their related service corporations, issued multiple debt instruments known as certificates of participation ("COPs") totaling $1.47 billion in an effort to reduce the pension plans' combined unfunded liability. At the petition date, three series of COPs were outstanding totaling $1.473 billion:

($ million) COP Series	Amount Outstanding		Interest Rate
2005-A	$	517.6	4.5-4.95%
2006-A	$	153.7	5.989%
2006-B	$	801.6	Floating
	$	**1,472.9**	

Material legal debate currently exists as to whether the City of Detroit was legally able to issue the COP debt instruments. The City is bound by both the Home Rule City Act, which details the level of indebtedness a city may incur, and the Municipal Finance Act, which prohibits a city from issuing a municipal security except in accordance with provisions of the Municipal Finance Act. The 2005-2006 COP debt instruments may have been in violation of either or both of these legal statutes.

On January 31, 2014, the City filed a complaint against the Service Corporations and the Funding Trusts – the non-profit entities established to effect the COP debt issuances – stating the 2005-2006 debt issuances were in violation of state law and that the related COP claims should be disallowed in the chapter 9 proceedings. Contradictory complaints were subsequently filed by the Funding Trusts, COP holders, and the COP insurers citing multiple affirmative defenses to the City's complaint. At this time, hearings on the respective motions have been adjourned indefinitely. To the degree that such legal proceedings result in the COP claims being fully or partially allowed, the City's POA could be materially weakened, and may result in incremental liquidity being required from future tax revenue to satisfy future obligations.

Potential Swap Litigation

As highlighted above, the City previously issued multiple COP debt issuances, the 2006-B series of which contained variable interest rates, thereby exposing the City to a rising interest rate environment. To hedge against this risk, the City entered into variable interest rate swap transactions in a notional amount of $800 million, equivalent to the 2006-B COPs series. The swap contracts were insured by FGIC and Syncora to guarantee the quarterly payments defined in the swap agreements.

In 2009, due to the downgrade of the 2006-B series credit rating, the swap counterparties had the right to declare an early swap termination event which, at the time, would have required the City to make a lump sum payment of $300-400 million to the swap counterparties. In an effort to avoid making such payment, the City pledged certain casino revenues and developer payments as collateral to the swap counterparties. Approximately $0.5 million per day is held in a lockbox until the City makes its $4 million monthly swap payment.

The City's UTGO bond ratings were downgraded in 2012, exposing the City to a subsequent termination event and additional, costly termination payments due to the swap counterparties. In efforts to protect its interest in the collateralized Casino revenues, the City of Detroit entered into multiple mediations and litigation with both the swap counterparties and the swap insurers. The mediation with the swap counterparties resulted in reaching the Forbearance and Optional Termination Agreement that, after significant prodding from the Court, resulted in an agreement for a reduced Optional Termination Payment of $85 million, payable when the City raises the required Exit Financing or in installments within 180 days of the case's Effective Date.

The Court entered a Swap Settlement order on April 15, 2014, which was subsequently appealed by multiple swap insurers contesting the swap counterparties ability to exercise any optional right of termination of the swap contracts without the insurers' written consent (Syncora Guarantee Inc. v. UBS AG, et al., Adv. Proc. No. 13-05395)[78]. The litigation appears to essentially hinge on two primary issues: 1)

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[78] Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

whether the swap insurers have the right to prevent the City from gaining access to its wagering tax revenues (City of Detroit, Michigan v. Syncora Guarantee Inc. et al., Adv. Proc. No. 13-04942)[79], and 2) whether the swap counterparties had the "standing" to enter into the FOTA without the swap insurers' consent. On the first issue, the District Court – in a July 14, 2014 decision - ruled the swap insurers did not have the right to trap the City's wagering tax revenues. That decision, as well as the ruling on the swap counterparties authority to execute the FOTA without the swap insurers' consent, will thus be decided by the Sixth Circuit Court of Appeals. To the degree the insurers' appeal is successful, any clarity of the City's financial exposure to a potential swap termination payment would be lost and would possibly result in the future restricted access to some portion of the vital Casino revenues.

Collective Bargaining Agreements

The City of Detroit, throughout this bankruptcy process, has been negotiating to reach CBAs with its various labor unions representing the City employees. A total of 47 labor unions represent the City's employees, all of which had their CBAs

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[79] Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

expire as of June 30, 2013. The City's employees have been subject to City Employment Terms ("CETs") since the expiration of the respective CBAs. The City estimates that the CETs have resulted in more than $200 million of annualized labor savings.

The City has negotiated many new CBAs with the goal of having them mirror the effective terms of the CETs. Phoenix has recently received the majority of negotiated CBAs, some of which have been fully approved by the State of Michigan, and some of which have been ratified but await the State's approval. Due to the timing of when Phoenix received these CBAs relative to our Report deadline, we have not fully reviewed each of these CBAs. To the degree that the final, agreed-upon terms of the respective CBAs contain aspects that are costlier to the City than the current CETs or contemplated in the projections, the City's liquidity could be negatively impacted. I am further concerned that the newly negotiated CBAs may not have sufficiently addressed the City's historic work rule issues.[80]

[80] I have received assurance from City advisors that all agreed-upon CBAs are included in the projections.

Potential Asset Sales

Concurrent with the City's bankruptcy process, the City and its representatives have been in discussions with multiple constituencies in efforts to ascertain the optimal utilization of certain assets of the City of Detroit, whether that may be the outright sale of certain assets or the proposed leasing and/or partnership of non-core City assets.

The City has been engaged in longstanding discussions pertaining to the Detroit Water and Sewerage Department ("DWSD") with the surrounding counties with regards to the potential formation of a regional water authority. It is conceivable that a new authority could assume operating control of the majority of DWSD assets. To date, the City has not able to reach an agreement on any disposition of the DWSD assets and, as such, the discussions have migrated to bankruptcy-ordered mediation.

In addition to a possible disposition of the DWSD assets, the City has also inquired with interested parties about the possibility of a public-private partnership. Such partnership would entail the operation and management of the DWSD by qualified candidates who have demonstrated the financial and operational capabilities required to execute the DWSD's operations.

The City, via its Auto Parking System ("APS"), owns and manages seven parking garages containing 6,793 spaces and controls roughly 3,400 on-street metered parking spaces. At the request of the City, Miller Buckfire & Co. has been tasked with exploring the potential monetization of the City's parking assets. At this time, no definitive decisions have been made by the City regarding these assets.

Lastly, options related to the City's Coleman A. Young Airport are currently being considered, specifically a possible sale or lease transaction. As the airport is currently a cash drain on the City's budget, the transfer of this asset could be beneficial to the City's overall liquidity.

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.

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[81] Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 3, "These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the plan while maintaining an adequate level of municipal services."

Macro-Economic Issues

I believe the City's economic forecasts that informed the projections considered normalized economic conditions. I do not believe the City's projections accounted for any significant economic disruptions similar to those experienced recently during the Great Recession. Depending on the severity, longevity and the direct impact on urban centers, a long term and negative economic condition could cause serious concerns with meeting the Plan requirements.

State and Federal Funding

The POA relies on a number of external funding sources including the State of Michigan and to a lesser extent the Federal government. The State contributes through annual revenue sharing totaling almost $2 billion over the first 10 years of the Plan as well as $194 million as part of the Grand Bargain. Any additional support for Detroit at the State level is not committed and, in fact, revenue sharing could decrease over the life of the Plan.

There is obvious interest by the Mayor in identifying new and recurring support from the Federal government and other grant making bodies. The Plan projections have tended to apply conservative assumptions to the current grants and the availability of additional grants in the future, although it is clear that not all grants assumed in the projections are committed at this time. Any increase in direct Federal support or grants will help to make the projections more achievable.

Impact of Private Parties

Third party funders have made significant commitments to the City. In fact, the Grand Bargain represents a huge commitment by these City benefactors and is already accounted for in the projections. However, there are a lot of small ways that third party benefactors may directly and indirectly impact the future of the City. The work of the Blight Task Force and the Future Cities Initiative are an example of this and cannot be measured in dollars. There would also be an improvement in the feasibility of the POA if a surge in private investment favorably impacts real estate values, employment and other factors that could contribute favorably to the initiatives in the Plan.

There is a downside to third party involvement as well. It can be fickle; a change in priorities or fortune could reduce the level of funding or delay it. The POA calls for $366 million from charities and foundations plus an additional $100 million to be raised by the DIA Corporation as part of the Grand Bargain which will be paid over a 20 year period. Failure of these foundations or benefactors to execute on their commitments will result in further funding requirements from the City of Detroit.

Exit Financing and Access to Capital Markets

The POA contemplates the closing of an Exit Financing that will support the City's investment and liquidity needs. The projections assume Exit Financing will be a $300 million facility with an 11 year term, funded on October 31, 2014, with interest only payments in the first 4 years and equal principal payments made in years 5-11. The interest rate is assumed to by 6%.[82] We understand the City, through its advisors Miller Buckfire & Co., have commenced a process to solicit bids for this financing package. As of the date of this Report, the process is still underway. Mr. Buckfire believes that the Exit Financing process is likely to be successful on the terms outlined.[83] In the event that this financing is unavailable to the City on reasonable terms, is significantly lower in terms of facility amount, or is otherwise different than the assumptions in the POA, it is unlikely the City will have sufficient liquidity to operate and satisfy its obligations.

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[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 period[85]. In the event of a significant disruption to the DWSD operations, significant loss of customers impairing its financial prospects, or in the event that

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[84] Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 pages 3-5 Sections 3-6.

[85] DWSD is expected to contribute a total of $428 million from FY2015-FY2023.

the DWSD contributions are not made according the POA, this could negatively impact on the outcome of the POA.

Sale of Assets

The POA largely excludes the sale of assets. While the sale of certain assets will have established treatment in the POA, there are significant asset sales that are not contemplated in the POA that could positively impact the projections. These assets might include parking related assets and other real estate. I have no visibility into the value of potential asset sales, but I believe they could produce cash which could improve the City's liquidity or revitalization prospects.

Tipping Point

The concept of the Tipping Point was made popular by author Malcolm Gladwell. He characterizes the tipping point as a moment of critical mass or boiling point where a group of small actions hit a threshold point and create an outsized impact. [86] A tipping point can be either positive or negative. Presently, the City has

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[86] The Tipping Point by Malcolm Gladwell, 2000 published by Little Brown.

momentum and emotional optimism that it can build upon to energize its revitalization. There is no way to stochastically identify this impact and I do not believe the City has included this optimism in its projections. But there is no doubt that it is real.

I believe the City may be experiencing a tipping point that could be either positive or negative. There is a lot of press about support for the City from external parties making significant investment in Detroit. Press accounts suggest percolating interest in real estate and low availability of market rate apartments in small sections of the City. The City is addressing in small ways the quality of life issues, including street lights and blight.

It is beginning to feel like it could be an exciting time to be in Detroit. Tipping points also work in the opposite direction. If the momentum starts to slow in lots of small ways, or if the headlines change from investors buying, to investors selling, or if blight remediation reverses direction, the City could tip backwards. It is a critical point in time for the City of Detroit. My opinion is that it is more likely to tip forward than to tip backwards.

Section P - Conclusions

As noted in the Feasibility Section of this Report, I, along with the Phoenix team, have proffered the following Feasibility Standard for use in determining whether the City of Detroit's Plan of Adjustment is feasible:

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

We have further qualified the Standard into two components:

<u>Quantitative</u>

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

<u>Qualitative</u>

- Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?

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

The Quantitative Issues

It is my opinion that, except where otherwise noted in my Report, the projections are generally mathematically correct and materially reasonably and therefore fall within the Feasibility Standard I have defined.

It is my opinion that, except where otherwise noted in my Report, the individual assumptions used to build the projections fall into a reasonable range and, that when taken as a group, these assumptions are also reasonable and fall within the Feasibility Standard.

While I have noted issues with the level of contingency in the projections, and feel this must be addressed both as a practical matter and in response to Public Acts 181 and 182 of 2014 controlling law, I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption concerning the level of contingencies, particularly in the early years. While I do not believe a 1% contingency is adequate, I believe that the POA projections, taken as a whole, fall within the range of reasonableness and within my definition of the Feasibility Standard.

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

Exhibit 1

Martha (Marti) E. M. Kopacz
Senior Managing Director
Phoenix Management Services LLC
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Mobile - (617) 840-9155
mkopacz@phoenixmanagement.com

Ms. Kopacz has over 25 years' experience assisting stakeholders in analyzing business operations and reorganization possibilities. She has led or participated in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks and Chapter 11 Trustees. Ms. Kopacz has advised in a broad range of industries including not for profit and public sector, retail, leisure and entertainment, technology and professional services. She was one of the first financial advisors to apply turnaround principles to public sector and not for profit organizations. She has served as an Interim President, Chief Restructuring Officer, Chapter 11 Trustee, Collateral Trustee, and Examiner.

General Experience

Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more, prepared by others. She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast. She has a deep understanding of the importance of developing assumptions based upon a thorough analysis of relevant data, including historical and prospective information as well as third party, independent data. Ms. Kopacz understands the nuanced area of municipal budgeting. Because municipal entities lack a "standard" in budgeting, forecasting and accounting, great variations occur in the manner in which public entities report financial results and develop forecasts. As such, preparing and evaluating projections for municipalities requires strong business acumen and deep appreciation for the challenges inherent in the forecasting methodology and approach available to the entities.

Relevant Engagements

Ms. Kopacz advised the **Nassau County Interim Finance Authority (NIFA)**, a New York state control board, in their oversight role. In early 2011, NIFA imposed a control period for Nassau County based on a substantial budget deficit. Nassau County has experienced financial difficulties for over a decade despite an annual budget that approaches $3 billion. The structural deficit for 2012 was estimated at $300 million. Ms. Kopacz advised NIFA on the financial requirements underpinning the control period, the nature and size of the likely budget deficit and the reasonableness of the County's forecasts. In addition, Ms. Kopacz and her team conducted and in depth review of the business operations of the County and developed over $300 million of cost reductions and operational improvements, which if implemented would restore Nassau County to a balanced budget in the next few years.

Serving in the capacity of the Chief Restructuring Officer and Interim President, Ms. Kopacz designed, led and executed the out-of-court restructuring of the **Legal Aid Society**, a 135 year old charity with approximately $150 million in revenue serving the legal needs of the needy in New York City.

Accomplishments included: reducing a $20 million operating deficit to better than break even; negotiating workforce reductions, compensation and benefit modifications with the UAW (lawyers' union) and the SEIU 1199 (social workers and paralegals' union) representing approximately three-fourths of the Society's 1400 employees; restructuring pension obligations; consolidating real estate, third party suppliers and infrastructure; and restructuring over $65 million of balance sheet and long term obligations with dozens of creditors and stakeholders, all of which returned the organization to solvency. In addition, Ms. Kopacz led the Society's first ever Strategic Business Planning effort, managed day-to-day operations in conjunction with the Attorney-in-Chief, and received the Society's Pro Bono service awards for 2004 and 2005.

Ms. Kopacz represented **The Educational Resources Institute, Inc. (TERI)**, a large not for profit organization providing college access to underprivileged and underserved populations. TERI's for profit subsidiary was the largest guarantor of private student loans in the country when the securitization market for student loans evaporated. The extensively negotiated plan of reorganization preserved the not for profit mission and return collateral to the original lenders.

Ms. Kopacz worked extensively with the **Archdiocese of Boston** during some of its darkest days. In addition to preparing this socially significant non-profit institution for a contingent bankruptcy filing, she worked with stakeholders to develop a crisis communication plan, arranged interim financing and designed a claims facility to adjudicate tort claims.

Prior Experience

Prior to joining Phoenix Management, Ms. Kopacz founded Brant Point Advisors, a boutique advisory firm. Previously, Ms. Kopacz co-founded and co-lead the U.S. Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and lead the group's public sector initiatives. Earlier in her career she was a Managing Director with Alvarez & Marsal, focused on public sector and not for profit clients, and a Principal with PricewaterhouseCoopers LLP until the practice was sold to FTI Consulting, as which time she was a Senior Managing Director.

Education & Certifications

Masters of Business Administration in Finance and Investments – Kelley School of Business – Indiana University
Bachelor of Science degree in Marketing – Kelley School of Business - Indiana University
Certified Management Accountant
Certified Insolvency and Restructuring Advisor

Affiliations

American College of Bankruptcy – Fellow – Twelfth Class
Turnaround Management Association
American Bankruptcy Institute
International Women's Insolvency and Restructuring Confederation,
Association of Insolvency and Restructuring Advisors
Institute of Management Accountants.

Civic Engagement

Boston 2024 Organizing Committee – Board Member
Legal Aid Society of New York – Board of Advisors
Kelley School of Business - Indiana University – Dean's Council
Graduate School of Business, Sunkyunkwan University – Dean's Council
Inly School – former Board of Trustees

Speaking Engagements and Publications

"Municipal Insolvency and Bankruptcy Part 1: Introduction, Overview and Key Issues" – Rhode Island Bar Association Annual Meeting, June 2012

"Municipal Bankruptcy" – Association of Insolvency and Restructuring Advisors Webinar, February 2012

"The Municipal Restructuring under Chapter 9: Legitimate Option or Scare Tactic?" – American Bankruptcy Institute Winter Leadership Conference, La Quinta, CA, December 2011

"Municipal Insolvencies: Is This the Next Wave?" – Turnaround Management Association Northeast Chapter, Boston, MA, November 2011

"Leadership and Political Will – Fixing States' and Cities' Fiscal Woes" – Heyman Center Series: America's Fiscal Crisis – Depression, Recession or Recovery, Cardozo School of Law, New York, New York, October 2011

"Today's Problems in Municipal Finance – Should Chapter 9 be Extended to States?" – Commercial Finance Association Advocacy Conference, Washington, DC, September 2011

"Turnaround "Apps" for the Public Sector" – Grant Thornton white paper, July 2011

"Chapter 9 Update" – American Bankruptcy Institute Northeast Conference, Newport, RI, July 2011

"Turnarounds in the Public Sector" – Kellogg Turnaround Management Conference, Chicago, IL, May 2011

"Too Big to Fail or Too Big to Bail (Out): a Discussion of the Pros and Cons of Bankruptcy for States" – Grant Thornton white paper, March 2011

"That was Then, This is Now: Financing Your Business in the Current Environment" – Proskauer Grant Thornton Seminar, New York, New York, October 2010

"Navigating Your Portfolio Through Turbulent Waters - Facing The Reality of Being Over Leveraged - And Practical Strategies for Restructuring in Zero Gravity" – Association for Corporate Growth Intergrowth Conference, Miami, May 2010

"Who Has $$ and What Are They Buying?" – Caribbean Insolvency Symposium, Grand Cayman, CI, February 2009

“Gaining Support from All of Your Constituencies” – American Bankruptcy Institute Northeast Conference, Brewster, MA, July 2008

Previous Dates – Guest Lecturer at Harvard Business School, Massachusetts Institute of Technology, Bentley College, Northeastern University, Pennsylvania State University and Indiana University concerning various corporate recovery topics. Panelist or Moderator at industry conferences hosted by Turnaround Management Association, American Bankruptcy Institute, Massachusetts Continuing Legal Education, National Credit Managers Association, Food Manufacturers Association, Barclays Bank among others.

Exhibit 2

Exhibit 2	
#	Document/Source
1	All documents referenced in this report
2	All dockets located within KCC (Kurtzman Carson Consultants) data room in re: City of Detroit, Michigan
3	All documents located within the RR Donnelley Venue data room, located at http://www.kccllc.net/detroit/document/list/3666
4	All documents located within the data room constructed for Phoenix Management to catalog the Jones Day data productions, serviced by AlphaLit data room, located at www.go2edirect.com
5	All information located within the City of Detroit website, located http://www.detroitmi.gov/
6	All communications with City of Detroit personnel
7	All communications with Advisors of the City of Detroit
8	All communications with personnel responsible for the City's pension funds
9	All communications with the advisors of the City's pension funds
10	Emergency Manager Orders
11	Emergency Manager Announcement
12	Emergency Manager Reports
13	All documents released from the state of Michigan in regards to the City of Detroit Bankruptcy
14	American Bankruptcy Journal article titled “The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story”(March 2014)
15	Detroit Blight Removal Task Force publication titled "Every Neighborhood Has A Future… And it Doesn’t Include Blight, Detroit Blight Removal Task Force Plan"(May 2014)
16	Daily Bankruptcy News article titled "$4 Trillion In Hidden Muni Liabilities: SEC Commissioner Gallagher" (May 2014)
17	Journal of Corporate Renewal article titled "Chapter 9 May Be Tough to Swallow for Unions, Retirees" (June 2014)
18	The Society of Actuaries panel titled “Report of the Blue Ribbon Panel on Public Pension Plan Funding”(February 2014)
19	The Brookings Institution publication titled "Are Public Pensions Keeping Up With The Times?"(June 2013)
20	The Rockefeller Institute of Government publication titled "The Blinken Report: Strengthening the Security of Public Sector Defined Benefit Plans(January 2014)
21	BenefitsPro article titled "Public Pensions Hiding Trillions in Liabilities, SEC Commissioner Says"(June 2014)
22	Goodwin Proctor article titled "Visionary Schemes Need Not Apply: The Chapter 9 Plan Feasibility Requirement" (June 2013)
23	WSJ article titled "Detroit’s Bankruptcy Revival " (April 2014)
24	Elizabeth Warren, U.S. Senator for Massachusetts press release titled "Rockefeller, Warren Introduce Legislation to Protect Employees and Retirees from Unfair Benefit Cuts"(June 2014)
25	Unionwatch Article titled "GASB Loopholes Created Illusions of Insolvency"(March 2013)
26	New York Times article titled "Panel Seeks Greater Disclosures on Pension Health"(February 2014)
27	The Detroit Free Press article titled "Judge Rhodes spars with Detroit fire union over bankruptcy objection"(July 2016)
28	Dow Jones Financial Information Services publication titled "Balancing Best Interests and Feasibility in Chapter 9"(March 2011)
29	The Detroit Free Press article titled "Monitor finds Detroit's 36th District Court much improved since May 2013"(May 2014)
30	The Detroit Free Press article titled "An energized Detroit Land Bank leads Duggan's blight effort"(May 2014)
31	Detroit News article titled "Clearing neighborhood blight to cost $850M, Detroit group finds"(May 2014)
32	California Policy Center article titled "How New Rules from Moody's and GASB Affect the Financial Reporting of Pensions in Seven California Countries"(March 2013)
33	Journal of Public Economics article titled "Financial incentives and retirement: evidence from federal civil service workers"(March 2008)
34	Boston College Law Review article titled "Some Confirmed Chapter 11 Plans Fail. So What?" (Vol.47)(December 2005)
35	American Education Finance Association publication titled Teacher Pension Incentives, Retirement Behavior, and Potential for Reform in Arkansas"-2010
36	National Association of State Retirement Administrators publication titled "The 80-percent threshold: Its source as a healthy or minimum funding level for public pension plans)(January 2012)
37	C. Scott Pryor publication titled "Who Bears The Cost? The Necessity of Taxpayer Participation in Chapter 9" (June 2013)
38	C. Scott Pryor publication titled "Municipal Bankruptcy: When Doing Less Is Doing Best" (April 2014)
39	A Collier Monograph titled "Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code"-2012
40	Bankruptcy of Mount Carbon Metropolitan Dist. Bankruptcy No. 91-20215 MSK(November 1999)
41	Bankruptcy of the City of Colorado Springs Spring Creek General Improvement District. Bankruptcy No. 94-15333.(January 1995)

Exhibit 2	
#	Document/Source
42	Detroit Blight Removal Task Force Plan titled, "Every Neighborhood Has a Future . . . And It Doesn't Include Blight," (May 2014)
43	McKinsey & Company Publication titled "Delivering large-scale IT projects on time, on budget, and on value"(October 2012)
44	City of Detroit Triennial Executive Budget 2015-2017
45	Detroit Future City - Detroit Strategic Framework Plan(December 2012)
46	Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
47	Report of John Hill, Chief Financial Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
48	Report of Kenneth Buckfire, of Miller Buckfire & Co; in re: City of Detroit, Michigan Case No. 13-53846
49	Report of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
50	Declaration of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(July 2913)
51	Report of Robert Cline, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
52	Report of Alan Perry, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
53	Report of Caroline Sallee, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
54	Report of Suzanne Taranto, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
55	Report of Charles Moore, of Conway MacKenzie, Inc.; in re: City of Detroit, Michigan Case No. 13-53846
56	Third Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846.. Doc 4271(April 2014)
57	Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846. Doc 4391
58	Opinion Regarding Eligibility; in re: City of Detroit, Michigan Case No. 13-53846. Doc 1945. (December 2013)
59	Order to Show Cause Why Expert Witness Should Not Be Appointed; in re: City of Detroit, Michigan Case No. 13-53846. Doc 3170. (March 2014)
60	Declaration of Kevyn Orr in Support of City of Detroit, Michigan’s Statement of Qualifications Pursuant to Section 109 “C” of the Bankruptcy Code. Doc 11(July 2013)
61	City of Detroit: Proposal for Creditors. Prepared by Miller Buckfire & Co., LLC, Jones Day. (June 2013)
62	City of Detroit: Operational Restructuring Summary. Prepared by Office of the Emergency Manager. Conway MacKenzie, Inc. (November 2013)
63	Independent Auditors’ Report on Internal Control. Prepared by KPMG LLP. (December 2012)
64	Quarterly Report of the Emergency Manager for the quarterly period of January 1, 2014 through March 31, 2014. (April 2014)
65	Letter from Robert Childree of AGA Financial Management Standards Board. Addressed to David Bean, Director of Research and Technical Activities of Governmental Accounting Standards Board (GASB). Comments on Pension Accounting and Financial Reporting. (July 2009)
66	Email from Mike Duggan of the City of Detroit. Plan of Adjustment Due Diligence. (May 13, 2014)
67	David Whitaker, Director of Legislative Policy Division Staff for the City of Detroit. 2013-2015 Budget Analysis.(May 2014)
68	Treasurers Report for 12/2011 Via: City of Detroit, Michigan Notice of Preliminary Financial Review Findings and Appointment of a Financial Review Team. Doc 11-3.(January 2012)
69	2012 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-4. (March 2012)
70	Treasury Report. Prepared by Andrew Dillon, Michigan State Treasurer. Doc 11-6(December 2012)
71	2013 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-7.(February 2013)
72	Kevyn Orr, Emergency Manager for the City of Detroit. Recommendation Pursuant to Section 18(1) of PA 436. Doc 11-10(July 2013)
73	Governor Rick Snyder. Authorization to Commence Chapter 8 Bankruptcy Proceedings. Doc 11-11(July 2013)
74	City of Detroit: Alternative Plan of Adjustment Proposal. Prepared by Houlihan Lokey. (September 2013)
75	City of Detroit – Restructuring Plan; Mayor’s Implementation Progress Report. (March 2013)
76	McKinsey Repot on City of Detroit. As posted on the City of Detroit website (May 2011)
77	Report prepared by: Sekely, C.(Conway MacKenzie, Inc.), Redmond, C.(Pierce Monroe & Assoc., LLC), Hutchings, C. (Municipal Parking Department). Titled "Revenue Enhancement Actions For Parking Violations Bureau"(December 2013)
78	0%
79	Kevyn Orr, Emergency Manager, City of Detroit. "Order No. 24: Order to Amend Chapter 55 of the 1984 Detroit City Code"(April 2014)
80	Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (
81	Order Appointing Expert Witness. Docket #4215
82	Notice Regarding Interviews of Expert Witness Applicants, Docket #4068

Exhibit 2	
#	Document/Source
83	Docket # 4216, Order Appointing Non-Testifying Consultant
84	Transcript of Hearing, April 18, 2014(April 18, 2014)
85	Milliman Letter Re: City of Detroit Active Health Plan Projections (November 2014)
86	NASRA Issue Brief: “Public Pension Plan Investment Return Assumptions”; April 2014; original source: U.S. Census Bureau
87	Milliman, Inc. letter(April 17, 2014)
88	Milliman, Inc. letter(April 20, 2014)
89	Milliman, Inc. letter(April 23, 2014)
90	Milliman, Inc. letter(April 25, 2014)
91	Milliman, Inc. letter(May 7, 2014)
92	Milliman, Inc. letter(July 2014)
93	Milliman, Inc. letter(November 2, 2013)
94	Milliman, Inc. letter(November 3, 2013)
95	Milliman, Inc. letter(July 9, 2014)
96	The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan
97	The Society of Actuaries “Report of the Blue Ribbon Panel on Public Pension Plan Funding”; February 2014
98	Governmental Accounting Standards Board
99	Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Docket No 14(July 2013)
100	State of Michigan Enrolled House Bill No. 5566 (June 2014)
101	State of Michigan Enrolled House Bill No. 5567(June 2014)
102	State of Michigan Enrolled House Bill No. 5568(June 2014)
103	State of Michigan Enrolled House Bill No. 5569(June 2014)
104	State of Michigan Enrolled House Bill No. 5570(June 2014)
105	State of Michigan Enrolled House Bill No. 5573(June 2014)
106	State of Michigan Enrolled House Bill No. 5574(June 2014)
107	State of Michigan Enrolled House Bill No. 5575(June 2014)
108	State of Michigan Enrolled House Bill No. 5576(June 2014)
109	State of Michigan Enrolled House Bill No. 5600(June 2014)
110	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 9, 2013)
111	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 20, 2013)
112	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(December 11, 2013)
113	Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(March 31, 2014)
114	Comprehensive Annual Financial Report, City of Detroit FYE June 30, 2012
115	City of Detroit, IT Optimization Discussion Document (August, 2013)
116	FAB Financial Subcommittee Meeting (January 2014)
117	ERP Needs Assessment: City of Detroit. Prepared by Plante Moran
118	ERP Cost Analysis
119	HR Technology Assessment, City of Detroit (December 2013)
120	Plan of Adjustment (May 2014)
121	Plan of Adjustment (July 2014)
122	PVB Revenue Enhancement White Paper (December 2013)
123	NASRA Issue Brief titled "Public Pension Plan Investment Return Assumptions" (April 2014)
124	"The Tipping Point" by Malcom Gladwell (2000)
125	Yale Law Journal Publication titled "The New Minimal Cities" (March 2013)

Exhibit 3

Exhibit 3

Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/22/2014	Marti Kopacz	Bob Fishman - Shaw Fishman	Call	Discuss procedures
4/22/2014	Marti Kopacz	Neal Munshi - Reporter at Financial Times	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Tom Hals- Reporter at Reuters	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Chris Christoff- Reporter at Bloomberg	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Steve Buchanan - Reporter at NYTimes	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Seth Brumby - Reporter at Debt wire	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Pat Halligan- Reporter at The Deal	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	In regards to the contact info for the City's Advisors and CFO
4/23/2014	Marti Kopacz	Judge Rosen	Meeting	Case Background
4/23/2014	Marti Kopacz	Peter Hammer	Call	In regards to the city history
4/23/2014	Marti Kopacz	Eugene Drinker	Call	Schedule tour
4/23/2014	Marti Kopacz	Stephen Lerner - Squire Sanders	Call	In regards to representation
4/24/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Email	Scheduling emails for meeting with public safety unions
4/25/2014	Marti Kopacz	Gregory Clash - Municipal Credit Consultants	Email	Offer of service on project team
4/25/2014	Marti Kopacz	Arthur O'Reilley - Honigman	Email	Scheduling Meeting with DIA
4/25/2014	Marti Kopacz	Robert Gordon - Clark Hill	Email	Scheduling with Pension System
4/28/2014	Marti Kopacz	Richard Levin - Cravath	Email	In regards to the DIA meeting
4/28/2014	Marti Kopacz	Heather Lennox - Jones Day	Email	In regards to work space
4/29/2014	Marti Kopacz, Bob Childree, Brian Gleason	Rodney Sizemore, Mark Diaz, Mark Young, Jeffery Pegg, Barbara Patek, Chris Legin, Elise Osbourne, Jim Moore, Donna Lato,Stacy Carin	Meeting	General discussion of Police and Fire Union issues, positions on the POA
4/29/2014	Marti Kopacz	Sharma Liveria - Sandler	Email	Schedule meeting
4/29/2014	Marti Kopacz	Robert Duffy - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	David Parker - Goldin & assoc.	Email	Schedule meeting
4/29/2014	Marti Kopacz	Albert Koch - Alix Partners	Email	Schedule meeting
4/29/2014	Marti Kopacz	Scott Davido - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	Eunice Hayes - City of Detroit	Email	Schedule meeting
4/30/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Eugene Drinker, Attorney and Jeri Stroupe, Office of Economic Development at Wayne State	Bus Tour	Tour of the city
4/30/2014	Marti Kopacz	Thomas Mayer - Kramer	Call	To get contact info for COPs and insurer contact
4/30/2014	Marti Kopacz	Vincent Marriott-Ballard Spahr	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Alfredo Perez - Weil	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Ryan Bennett- Kirkland & Ellis	Email	Schedule Meeting
5/1/2014	Marti Kopacz, Bob Childree	Kevyn Orr , Sonya Mays, Stacy Fox - Emergency Manager	Meeting	Discuss City, Kevyn's role, long-term risks culture, behavior
5/1/2014	Marti Kopacz	Robert Gordon, JosephTurner, Ronald King - Clark Hill, Michael VanOverbeke - VanOverbeke, Michaud	Meeting	Case Background
5/1/2014	Marti Kopacz	Scott Davido - FTI	Call	Scheduling
5/1/2014	Marti Kopacz	Alfredo Perez, client and colleagues - Weil Steve Spencer and John Popehn - Houlihan	Call	Case Background
5/2/2014	Marti Kopacz	Kenneth Buckfire - Miller Buckfire	Meeting	Case Background
5/2/2014	Marti Kopacz	Heather Lennox- Jones Day	Call/email	Protocol for meeting with City employees and advisors
5/2/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Jones Day request for JD attorney participation in City contacts
5/5/2014	Marti Kopacz	Michael Imber & team- Alvarez & Marsal	Call	Access to A&M insights and work product
5/5/2014	Marti Kopacz	Ryan Bennett, Steve Hackney- Kirkland & Ellis	Call	Case Background
5/7/2014	Marti Kopacz	Judge Rosen- US District Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Sheila Cockrel-Former Councilwoman	Meeting	Detroit financial and operational history
5/7/2014	Marti Kopacz, Brian Gleason	Dick Ravitch-Judge's Expert	Meeting	Introductory meeting
5/7/2014	Marti Kopacz	Gene Gargaro, Graham Beal, Annemarie Erickson-DIA	Meeting	Art disposition; grand bargain feasibility
5/7/2014	Marti Kopacz	Bob and Susie Bluestein, Gerald Rosen, Kevyn Orr, Mike Duggan, Richard Ravitch, Rip Rapson, Tom Lewand, Victoria Roberts, Gene Drinker, Gene Gargaro (plus spouses)-Various	Dinner Party	Introduction to Detroit
5/8/2014	Marti Kopacz, Brian Gleason	Mike Duggan-Mayor of Detroit	Meeting	POA Due Diligence
5/9/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Access to info; Counsel participation in interviews
5/12/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Retention and hearing
5/12/2014	Marti Kopacz	Vince Marriott-Ballard Spahr	Meeting	Case Background
5/13/2014	Marti Kopacz, Bob Childree, Michael Gaul, Kevin Barr	Bob Kline - Ernst & Young	Call	Revenue assumptions
5/13/2014	Marti Kopacz, Bob Childree	Kurt Beckerman, Albert Koch - AlixPartners, Samuel Kohn - Chadbourne & Park LLP , Guy Neal , Sidley	Meeting	POA, projections, EM,Areas of opportunity Labor, DWSD, Discuss Alix Partners' work product and insights
5/13/2014	Marti Kopacz	David Prager, Jay Goldin-Goldin & Assoc.	Call	Case Background and their work product
5/13/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Document control procedures for our requests to E&Y, CM, MB and City
5/13/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Expert witness procedures
5/13/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Supplemental Order

Exhibit 3				
Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
5/14/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio and Gaurav Malhotra - Ernst & Young	Call	10 year - 40 Year plan
5/14/2014	Marti Kopacz, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Stephen Lerner and Scott King - Squire Sanders	Call	Instructions re: document control; access to E&Y working model
5/14/2014	Marti Kopacz, Brian Gleason	Mike Duggan & staff-City of Detroit	Meeting	Attend Cabinet meeting
5/14/2014	Marti Kopacz, Brian Gleason	Rip Rapson, Laura Trudeau-Kresge Foundation	Meeting	Detroit Future Cities, Grand Bargain due diligence
5/15/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Call	Engagement Update
5/19/2014	Marti Kopacz	James Craig and Lesley Warmuth -Chief of Police and Pepper Hamilton	Meeting	Background interview re: Police Department
5/19/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Meeting	Pensions
5/20/2014	Marti Kopacz	Dan Dirks and team-DDOT Director	Meeting	Background interview re: Transportation Department
5/20/2014	Marti Kopacz	Stacy Fox-Deputy EM	Meeting	Information Requests Outstanding
5/20/2014	Marti Kopacz	Chuck Moore and Glenn Kushiner-Conway Mackenzie	Meeting	Pensions
5/20/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding
5/21/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan and Cabinet-City of Detroit	Meeting	General POA discussion
5/22/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding; Letter to Judge
5/22/2014	Marti Kopacz	Gaurav Malhotra -Ernst & Young	Call	Returning my emails re: Information Request Outstanding and letter to the Judge
5/23/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Follow up on his conversations with Jones Day re: info requests
5/27/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Prep for hearing on Wednesday
5/28/2014	Marti Kopacz, Brian Gleason	Richard Ravitch-Judge's Expert	Meeting	Report development discussion
5/29/2014	Marti Kopacz, Brian Gleason, Kevin Barr	Mike Imber, Nancy Zielke, Bill Roberti - Alvarez & Marsal, Marianna Marysheva - Martinez, Joe Nichols, David Lawrence - FTI Consulting, Ryan Bennett, Noah Ornstein - Kirkland & Ellis, Jennifer Rothschild - Rothschild, Steven Spencer, John Popehn, Michael Lin, John Pepehn, Daniel Mn - Houlihan Lokey, Alfredo Perez, Kelly DiBlasi, Dana Kaufman - Weil	Meeting	Review other financial advisors' inquiries and learnings
5/29/2014	Marti Kopacz	Erica Ward-Land Bank Authority	Call	Blight
5/30/2014	Marti Kopacz	Melissa Smiley-City of Detroit	Call	Blight
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, and Squire Sanders	Call	Bankruptcy discovery transmission issues
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Stephen Lerner - Squire Sanders	Call	Bankruptcy discovery transmission issues
6/3/2014	Marti Kopacz	Richard Ravitch - Judge's Expert	Call	Catch up on case developments
6/3/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Update on document requests
6/3/2014	Marti Kopacz	Erica Ward - Detroit Land Bank Authority	Call	Blight
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Kevin Hand & Glenn Kushiner - Conway Mackenzie, Gaurav Malhotra, Juan Santambrogia & Dan Jerneycic - Ernst & Young, Melissa Smiley - City of Detroit, & Jones Day	Meeting	10 yr and 40 yr projections and reinvestment initiatives
6/3/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Call	Schedule meeting with firefighters and police unions
6/3/2014	Marti Kopacz	Chris Leggio - Counsel to Firefighters	Call	Schedule meeting with firefighters
6/3/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler	Email	Schedule meeting with AFSCME
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Jones Day, E&Y, CM	Call	Open Information Request list
6/4/2014	Marti Kopacz, Brian Gleason	John Hill - City of Detroit/EM	Meeting	Follow up on conversation from Mayor's Cabinet meeting
6/5/2014	Marti Kopacz, Brian Gleason	Mary Martin - City of Detroit	Meeting	Discuss Lean initiatives
6/5/2014	Marti Kopacz, Brian Gleason	Gaurav Malhotra - Ernst & Young, Chuck Moore - Conway Mackenzie	Meeting	POA Issues re: Feasibility
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Representatives of Detroit Land Bank Authority, CM, and Sonya Mays	Meeting	Blight remediation
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Reconciliation of POA and Triennial Budget
6/6/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Trish Stein, Tom Lewand - City of Detroit, Michelle - Consultant to Planning and Development Department	Meeting	Budget review meeting for planning department and economic development
6/6/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquired about report deadline extension
6/6/2014	Marti Kopacz	Chris Gannon - Conway Mackenzie	Meeting	BSEED restructuring initiatives
6/7/2014	Marti Kopacz	Mayor Duggan, Gary Brown, Melissa Smiley, Pam Scales - City of Detroit, Dan Dirks and team - DDOT - City of Detroit, Beth Niblock - ITS - City of Detroit, Ron Brundidge and team - DPW - City of Detroit, Beau Taylor and team - DLP - City of Detroit, Norman White and team - Parking - City of Detroit	Meeting	Budget reviews and POA reconciliation
6/9/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Scheduling status
6/9/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, E&Y, CM, and Squire Sanders	Call	Bankruptcy discovery transmission issues

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6/10/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Pam Scales, Law Department team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/10/2014	Marti Kopacz	Brenda Jones, Stephen Grady - City Council	Meeting	Plan of Adjustment
6/11/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Chief Craig and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/11/2014	Marti Kopacz, Brian Gleason	Judge Rosen - US District Court, Mediators - Various, Jones Day, E&Y, CM - Advisors to the City, Richard Ravitch - Judge Rhodes' Consultant, Stephen Lerner - Squire Patton Boggs (via phone)	Meeting	Feasibility for the POA
6/11/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Departmental meetings - DPD and DFD
6/12/2014	Marti Kopacz	Mark Diaz and team - DPOA, Barbara Patek - Counsel to DPOA, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Police Department
6/12/2014	Marti Kopacz, Brian Gleason	Kevyn Orr - Emergency Manager, Stacy Fox - Office of the EM, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Status of Assignment
6/12/2014	Marti Kopacz	John Hill - City of Detroit, Representatives of E&Y and CM, Leslie Warmuth - Pepper Hamilton, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Review Finance, Accounting and IT issues
6/14/2014	Marti Kopacz	Heather Lennox - Jones Day, Gaurav Malhotra - Ernst & Young	Call	New POA date and projections update
6/14/2014	Marti Kopacz	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Status on Report completion
6/16/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Work on Report sections - Pensions and Post Confirmation Issues
6/17/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler, Stephen Kreiser - AFSCME, Richard Ravitch - Judge Rhodes' consultant	Meeting	Union issues
6/17/2014	Marti Kopacz, Brian Gleason	Kenneth Buckfire, Jim Doak and team - Miller Buckfire	Meeting	Update on Asset Dispositions and Exit Financing
6/18/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart and others - Jones Day	Call/email	Document production; "Big Issues" Meeting; projections v.11
6/19/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	John Naglick, Glenn Kushiner, Dan Jerneycic, E&Y, Rick Drum, Accounting, Renee Shorts, budgets	Call	Round table conference call to discuss state of the monthly reporting that the City is generating, and ability to do post emergence reporting against budget. Post call with Bob Childree
6/19/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr, Stephen Lerner	Juan Santambrogio and Gaurav Malhotra - Ernst & Young, Chuck Moore and Glenn Kushiner - Conway Mackenzie, Jones Day Team	Meeting	"Big Issues" Meeting and feasibility assessment
6/19/2014	Marti Kopacz	Noah Ornstein - Kirkland & Ellis	Call	Inquiry re: confirmation issues for creditors
6/20/2014	Marti Kopacz, Brian Gleason	Melissa Smiley - City of Detroit	Call	New projections and impact on Mayor's Budget Reviews
6/24/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Brad Dick and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review Meeting for GSD
6/24/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquiry re: contingency provisions in HB 5567
6/24/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Discuss financial requirements in Grand Bargain legislation
6/25/2014	Marti Kopacz	Melissa Smiley - City of Detroit, Dan Jerneycic - Ernst & Young	Call	Utility cost estimates in POA projections
6/25/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Information Requests
6/26/2014	Marti Kopacz, Brian Gleason	Prof. Scott Pryor - Regent University	Call	Ch. 9 feasibility article
6/27/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Future utility costs
6/30/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Dan Dirks and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review for DDOT
7/1/2014	Marti Kopacz, Michael Gaul, Kevin Barr	Daniel Jerneycic - Ernst & Young, Chris Gannon - Conway Mackenzie	Call	40 year revised draft projections discussion
7/2/2014	Marti Kopacz, Michael Gaul	Melissa Smiley - City of Detroit	Call	New Projections Pending
7/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Call	Departmental meeting - DFD
7/3/2014	Marti Kopacz	Mayor Cabinet Members - City of Detroit	Meeting	Mayor's weekly status meeting
7/9/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant, Peter Kiernan - Shiff Hardin	Meeting	Revised projections and impact on feasibility
7/9/2014	Marti Kopacz	Steven Hackney - Kirkland & Ellis	Call	District Court decision on wagering revenues
7/10/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call/email	Outstanding information requests
7/10/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	DWSD
7/14/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call	Status call re: scheduling and report due date
7/16/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Report development discussion
7/17/214	Marti Kopacz	Stacy Fox-Deputy EM	Call	Requesting draft of report
7/17/214	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Requesting draft of report

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Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/29/2014	Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Barbara Patek	Meeting	Debrief on meeting with Fire and Police Unions
4/30/2014	Al Mink, Bob Childree	John Hill CFO	Meeting	Discussed John Hills vision for the Finance and Accounting function and the major issues he believes the Department faces
4/30/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	10 Year Plan Development
5/1/2014	Al Mink, Bob Childree	John Naglick, Finance Director	Meeting	Issues facing the Finance department, specifically those departments reporting to John Hill. John walked us through his view of the status of each of the departments reporting to him.
5/2/2014	Michael Gaul, Kevin Barr	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/5/2014	Al Mink	Michael Jameson, Deputy Finance Director	Meeting	Meeting to discuss his views of the issues facing the departments reporting to John Hill.
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed their views of finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Michael Gaul	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/6/2014	Al Mink, Bob Childree	Donald Settles, Risk Manager, Glenn Kushiner, Conway	Meeting	Overview and details of the Risk Management department. Discussed the existing structure, and restructuring alternatives being investigated including potentially outsourcing the Third party administration of Workers Comp and engaging a third party insurance policy to cover auto
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Glenn Kushiner	Meeting	Accepted reassessment plan, impact on forecasted revenues, and restructuring of the Assessors department
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Chief Assessor	Meeting	Property tax process, organization, issues, problems
5/6/2014	Al Mink, Bob Childree	Glenn Kushiner and Chris Gannon - Conway Mackenzie	Meeting	DWSD, CFO restructuring, Plante Moran's role
5/7/2014	Michael Gaul, Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire and Rec Departments
5/7/2014	Kevin Barr	Chris Gannon and Emily Petrovski - Conway Mackenzie	Meeting	Ombudsperson and Mayors Office
5/7/2014	Al Mink, Bob Childree	Boysie Jackson, Director Purchasing and Glenn Kushiner - Conway Mackenzie	Meeting	Procurement processes, issues, contracts, personal services contracts, RFP process, people, POA,risks
5/7/2014	Al Mink, Bob Childree	Pam Scales, Budget Director and Glenn Kushiner	Meeting	Budget process, Staffing, organization, POA staffing, and issues
5/8/2014	Al Mink, Bob Childree	Boise Jackson purchase director, Glenn Kushiner	Meeting	Over view of the Purchasing department including restructuring initiatives, processing of contracts, approvals for expenditures
5/8/2014	Al Mink, Bob Childree	Glenn Kushner, Pam Scales, Budget Director	Meeting	the development of 2015 Budget submission to Council using the Budget in the plan of adjustment. Also discussed challenges in reporting against budget.
5/8/2014	Kevin Barr	Chris Gannon and Danielle Iafrate - Conway Mackenzie	Meeting	Police Department
5/8/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Blight
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	General Services Department
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	36th District Court and DDOT
5/8/2014	Al Mink, Bob Childree	Glenn Kushiner - Conway Mackenzie	Meeting	Conway's role, scope of work, issues
5/8/2014	Al Mink, Bob Childree	Eric Higgs	Meeting	Financial reporting, CAFR, Reporting post bankruptcy reconciliations , staffing issues
5/8/2014	Al Mink, Bob Childree	Leighton Duncan and Glenn Kushiner	Meeting	Treasury functions, revenue collections outsourcing, organization, retention,
5/8/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General	Meeting	audits, internal controls, findings, organization , functions, issues
5/8/2014	Michael Gaul	Juan Santambrogio - Ernst & Young	Call	10 year - 40 Year plan
5/9/2014	Al Mink, Bob Childree	Leighton Duncan, Project Manager, Treasury, and Glenn Kushner.	Meeting	Discussed status of Treasury department functions and restructuring.
5/9/2014	Al Mink, Bob Childree	Glenn Kushner	Meeting	Discussed Conway activities; restructuring activities in departments and helping to implement changes.
5/9/2014	Al Mink, Bob Childree	Eric Higgs, Chief accounting officer, Glen Kushner.	Meeting	Discuss the current activities of the Accounting department and the issues.
5/9/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General, Glenn Kushiner	Meeting	Mark is going to provide us with audit reports on the Accounting and finance functions he has conducted in recent years.
5/9/2014	Kevin Barr	Chris Gannon - Conway Mackenzie	Call	Planning & Development, City Council and Building & License
5/9/2014	Kevin Barr	Kevin Hand - Conway Mackenzie	Call	Airport
5/9/2014	Kevin Barr	Danielle Iafrate - Conway Mackenzie	Call	Law
5/9/2014	Al Mink, Bob Childree	Sonya Mays, Dan Sutton, Nakia Johnson, Chris Gannon - Conway Mackenzie	Meeting	Grants Management…projects, plans, timeframes,
5/12/2014	Al Mink	Glenn Kushiner	Meeting	Review global 10 year forecast spread sheets and then focused on the restructuring spreadsheets for each of the finance and accounting functions

Exhibit 3				
Date	**Phoenix Attendees**	**Attendees**	**Type of Meeting**	**Topics**
5/12/2014	Al Mink	Michael Swartz, Plante Moran, Adam Rujan, Plante Moran, Laurie Zyla, Plant Moran, Glenn Kushiner, Chris Gannon, Sonya Mays, Nakia Johnson	Meeting	Discuss status of new ERP proposal. Discuss with Michael Swartz, Plante Moran's contribution to the Year End Closing process. Discuss issues with doing monthly financial statements.
5/12/2014	Al Mink	Glenn Kushiner, Beth Niblock, CIO and Charles Dodd.	Meeting	Overview of current status of Department and the vision for implementation of an integrated ERP System.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	10 year reorganization budget spreadsheets for the finance and accounting departments.
5/13/2014	Al Mink, Bob Childree	Chris Gannon, Sonya Mays, Nakia Johnson	Meeting	Development of the new Grants administration department.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	Review organization Chart.
5/14/2014	Al Mink	Glenn Kushiner	Meeting	Review of Finance and Accounting pre-reorganization organization charts
5/14/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio, Gaurav Malhotra and Daniel Jerneycic - Ernst & Young	Call	Pension and OPEB Conversation
5/19/2014	Al Mink	Glenn Kushiner	Meeting	Meeting to discuss centralization of Accounting and Finance
5/19/2014	Al Mink	Dan Jerneycic, an Juan Santambrogio E&Y	Meeting	Discuss E&Y Cash Flows and Cash flow procedures. Also discuss EM reports and discuss post emergence monthly reporting
5/19/2014	Al Mink, Kevin Barr	Juan Santambrogio, Daniel Jerneycic and Nick Bugden - Ernst & Young	Meeting	Cash Forecasting
5/20/2014	Al Mink	Glenn Kushiner	Meeting	Review Data Requests
5/21/2014	Al Mink, Bob Childree	Tanya Stoudemire, Income Tax Manager and Glenn Kushiner	Meeting	Over view of the Income Tax Department, initiatives and plans for Restructuring
5/21/2014	Al Mink	Niki Timmons	Meeting	Review process for submitting and following up on past due real real-estate submissions to Wayne County
5/21/2014	Al Mink, Bob Childree, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	Cash Forecast vs. 10 Year Plan variance
5/21/2014	Bob Childree, Michael Gaul	Executive Director of GRS/PFRS, RS legal counsel, RS actuary, and RS financial advisor	Meeting	POA treatment re: Retirement Systems
5/27/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss Payroll and Governance
5/28/2014	Al Mink	Joel Kowalski	Meeting	CAFR audit. Review with him the 2012 management letter from KPMG
5/28/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Nick Bugden - Ernst & Young	Call	Detailed 10 Year-40 Year Working Model Review
5/28/2014	Kevin Barr	Kevin Hand and Glenn Kushiner - Conway Mackenzie	Call	Deferred Reinvestments
5/29/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss payroll
5/30/2014	Michael Gaul	Jones Day personnel	Call	Bankruptcy discovery transmission issues
5/31/2014	Michael Gaul	Brian Leatherman - Jones Day	Call	Bankruptcy discovery transmission issues
6/2/2014	Al Mink, Bob Childree	Niki Timmons, Leighton Duncan, Glenn Kushiner	Meeting	Discuss Wayne County payments
6/2/2014	Al Mink, Bob Childree	Kyle Herman, Miller BuckfireKarl Sankey (not present), Leighton Duncan, Niki, Jeff Addison- Conway Mackenzie, Peter Baywold-Conway Mackenzie	Meeting	Wayne County Property tax issues, process
6/3/2014	Al Mink, Bob Childree	Ursula Holland, Michael Hall, Glenn Kushiner	Meeting	Payroll systems and procedures
6/3/2014	Al Mink	Devin Patel, Jeffrey Addison from Conway, Geoffrey Stewart, Chris DiPompeo, Jones Day, Sheshian Swamnathan, E&Y	Meeting	Discuss Cash Reporting
6/3/2014	Al Mink, Bob Childree	Mike Hall, Ursula Holland , Glenn Kushiner Conway Mackenzie	Meeting	Payroll
6/3/2014	Al Mink, Bob Childree	Jeff Addison, Devin Patel - Conway Mackenzie, Jeff Stewart, Dan Jerneycic - E&Y	Meeting	Cash flows, reconciliations, disburesements, A/P , encumbrances
6/3/2014	Michael Gaul	Representatives of Detroit Land Bank Authority	Call	Required funding for Blight remediation
6/4/2014	Al Mink, Bob Childree	John Hill, John Naglick and Glenn Kushiner	Meeting	Finance Reorganization, CFO position, ERP, Payroll, monthly reporting
6/4/2014	Al Mink, Bob Childree	Lena Willis, Boysie's deputy	Meeting	Encumbrances, A/P
6/4/2014	Michael Gaul	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/5/2014	Al Mink	John Naglick, Glenn Kushiner	Meeting	Continue discussion on finance and accounting issues
6/5/2014	Al Mink	Larry King, Kevin Hand	Meeting	Work being performed on Accounting Organization
6/5/2014	Al Mink, Bob Childree	Larry King and Chris Gannon - Conway Mackenzie	Meeting	Finance reorganization, Job descriptions, Hr
6/5/2014	Al Mink, Bob Childree	John Naglick and Glenn Kushiner	Meeting	Financial reporting,
6/6/2014	Michael Gaul, Kevin Barr	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason	Robert Gordon, Joe Turner, Michael , Ron King	Call	Retirement systems
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Evan Miller, Alexander Blanchard - Jones Day	Call	Pensions and OPEB
6/10/2014	Michael Gaul	RS legal counsel	Call	Pension governance
6/11/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire Dept. Review
6/12/2014	Michael Gaul	Tina Tolliver - DPD	Meeting	DPD RRI's
6/13/2014	Kevin Barr	Nick Bugden and Juan Santambrogio - Ernst & Young	Call	10 Year model
6/13/2014	Michael Gaul	Erica Raleigh - Data Driven Detroit	Meeting	Data gathering re: Detroit

Exhibit 3				
Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
6/17/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Call	Fire Dept. Review
6/26/2014	Kevin Barr	Daniel Jerneycic and Shavi Sarna - Ernst & Young	Call	Utilities

Exhibit 4

Phoenix Management Services, Inc.
In re: City of Detroit, Michigan, Debtor
Case No. 13-53846
Open Information Requests as of July 18, 2014

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
OUTSTANDING REQUESTS			
Jones Day	6/10/14	Any stochastic or sensitivity analyses undertaken by City advisors or advisors to the Retirement Systems relevant to use of a 6.75% investment return assumption for GRS.	
Ernst & Young	5/21/14	Comparison of the Revenue and Expenditures as reported on E&Y's Actual Cash Flow reports for the fiscal years 2012 and 2013 against the completed CAFR	
Ernst & Young	5/29/14	Pension: All pension plan sensitivity analyses; including, those that look at how changes in investment returns impact unfunded level	Received for PFRS; not received for GRS
Ernst & Young	5/29/14	Pension: Sensitivities on how different pension return rates impact the pension restoration provisions in the plan If none exist, please run Pensions UAAL calculation at 3%, 5%, 6%, and 8% assumed rate of return	Received for PFRS; not received for GRS
Ernst & Young	5/30/14	Actuary reports/analysis that provide detailed support behind yearly contributions to pensions for active employees in the 40 Year Plan	
Ernst & Young	5/29/14	Modified version of 10 Year Plan that fully integrates CM's Restructuring Initiatives within the departmental budgets – including the department-level detail of Restructuring deferrals	

REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
Ernst & Young	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Conway MacKenzie	5/22/14	Reconciliation of 10 Year Plan and City's Triennial Budget	
Conway MacKenzie	5/27/14	Status of Fox Lawson review of White Book; anticipated changes to pay grades and classification post-petition; estimated Plan impact of said changes	
Conway MacKenzie	5/27/14	Total budget - by line item - for each department in Finance, Accounting and IT if Centralized Governance was approved. How much City wide the ten year plan envisions spending on IT, Accounting and Finance?	
Conway MacKenzie	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Ernst & Young/CM	7/9/14	City employee headcount by department– as of 6/30/14; gross payroll cost (excluding OT) for FYE 6/30/14; annualized gross payroll run rate (excl. OT) as of 6/30/14	

<u>EXHIBIT 5</u>

Cline Deposition Transcript

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

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

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

APPEARANCES:
For the Debtor City of Detroit and the witness:
GEOFFREY S. STEWART, ESQ.,
SARAH A. HUNGER, ESQ.,
CHRISTOPHER DiPOMPEO, ESQ.
JONES DAY
51 Louisiana Avenue, N.W.
Washington, D.C. 20001-2113

For the Official Committee of Retirees:
DAN BARNOWSKI, ESQ.
DENTONS US, LLP
1301 K Street, N.W.
Suite 600, East Tower
Washington, D.C. 20005-3364

For Syncora Guarantee, Inc., and Syncora Capital Assurance, Inc.

DOUGLAS G. SMITH, P.C.
KIRKLAND & ELLIS, LLP
300 North LaSalle
Chicago, Illinois 60654

For Creditor Assured Guaranty:
LISA SCHAPIRA, ESQ.
CHADBOURNE & PARKE, LLP
30 Rockefeller Plaza
New York, New York 10112

For Creditor National Public Finance Guarantee Corp.

JEFFREY S. BEELAERT, ESQ.
SIDLEY AUSTIN, LLP
1501 K Street, N.W.
Washington D.C. 20005

For Creditor Financial Guaranty Insurance Company:
PRAVIN R. PATEL, ESQ.
WEIL GOTSHAL & MANGES, LLP
1395 Brickell Avenue
Suite 1200
Miami, Florida 33131

Also Appearing:
Jonathan Perry, Videographer
Marguerette Hosbach, Ernst & Young, via telephone

I N D E X

R. CLINE

THE VIDEOGRAPHER: This is disk number one of the video deposition of Robert Cline taken in the matter of the City of Detroit, Michigan in the U.S. Bankruptcy Court for the Eastern District of Michigan. Chapter 9, Case No. 13-53846.

We are at the offices of Jones Day, 51 Louisiana Avenue Northwest, Washington, D.C. The time is approximately 9:04 a.m. The date is July 14th, 2014. The court reporter is Marjorie Peters and the videographer is Jonathan Perry, both here on behalf of Elisa Dreier Reporting Company.

Would counsel please introduce yourselves and state whom you represent.

MR. SMITH: Doug Smith for Syncora.

MR. STEWART: Geoffrey Stewart and Sarah Hunger of Jones Day for the City of Detroit and for the witness.

MS. SCHAPIRA: Lisa Schapira from Chadbourne & Parke for Assured Guaranty.

MR. BEELAERT: Jeff Beelaert from Sidley Austin for National.

MR. PATEL: Pravin R. Patel from Weil Gotshal & Manges representing Financial Guaranty Insurance Company.

R. CLINE

THE VIDEOGRAPHER: And would the reporter swear in the witness, please.

ROBERT CLINE,

a witness, having been first duly sworn, was examined and testified as follows:

BY MR. SMITH:

Q. Good morning, Mr. Cline. You have been deposed before; is that correct, or not?

A. I have testified in a court case before.

Q. Okay. Have you ever given a deposition?

A. I don't remember. I have prepared reports. I don't remember whether I actually participated in this type of deposition.

Q. Okay. I'll be asking you a series of questions, and you will let me know if you don't understand any of my questions?

A. I will.

Q. Okay. And feel free to take a break whenever you need to, okay?

A. All right.

Q. The report you filed, your report in this matter, you're acting as an expert in tax policy; is that correct?

A. My responsibility in this project was to do

R. CLINE

revenue estimates for the City of Detroit.

Q. Okay. And what is your area of expertise?

A. For my professional career, I've worked in public finance, the economic aspects of public finance.

Q. Okay. So, you would be an expert in public finance and the economic aspects of public finance; is that correct?

A. My professional career has been doing state tax work, whether it's revenue estimating, tax bill analysis or forecasting.

Q. Okay. You wouldn't hold yourself out as an expert in urban policy, correct?

A. I would not.

Q. And you wouldn't hold yourself as an expert on health benefits?

A. I would not.

Q. You're not an expert on government in general?

A. I'm not.

Q. You're not an expert on blight reduction?

A. No, I'm not.

Q. Not an expert on art valuation?

A. No.

Q. Not an expert on pensions?

A. No.

R. CLINE

Q. Not an expert on government grants?

A. No.

Q. Do you hold yourself out as an expert on casinos or wagering revenue?

A. I do not.

Q. Do you hold yourself out as an expert on state revenue sharing?

A. I've studied state revenue sharing.

Q. In what context?

A. The State of Michigan, I was responsible for various revenue estimates.

Q. And other than that, do you have any experience with state revenue sharing?

A. I do not.

Q. You're not an expert on Detroit's government, correct?

A. I am not.

Q. Not an expert on information technology?

A. No.

Q. Not an expert on transportation systems.

A. No.

Q. Have you ever done forecasting for a city?

A. I have not done forecasting for a city.

Q. And you're not an expert in accounting, are

R. CLINE

you?

A. I am not.

Q. You're not an expert on Chapter 9 bankruptcies?

A. No, I'm not.

Q. You're not a restructuring expert, correct?

A. No.

Q. You're not holding yourself out as a legal expert, correct?

A. No, I'm not.

Q. And you're not a lawyer, correct?

A. I am not.

Q. Have you ever done a tax forecast for a wagering tax before?

A. No, I have not.

Q. And have you ever done a tax forecast for a corporate tax?

A. I have for the State of Michigan, and I did for the State of Minnesota.

Q. Okay. But in the context of corporate tax revenues to a city, you haven't done a forecast?

A. I have not.

Q. You haven't done a municipal income tax forecast before, have you?

R. CLINE

A. I have not.

Q. You haven't done a municipal property tax forecast, have you?

A. I have not.

Q. Have you ever done a tax forecast over a period of -- as long as ten years?

A. I have not.

Q. Okay. Typically, what was the length of time of the forecasts you have done previously?

A. The forecasts were usually tied to the budget cycle, determined by the legislature. You might go out four to six years.

Q. Okay. So, the standard forecast length that Michigan used was four to six years?

A. I would say it was four, in Michigan.

Q. Okay. So, the generally accepted standard length of a forecast in Michigan was four years?

A. That was the forecast tied to the budget cycle. You would do forecasts longer term for other types of projects.

Q. Okay. So, and the longest term forecast you ever performed in the ordinary course of your work as a forecaster was six years; is that correct?

A. I might have done forecasts that went beyond

R. CLINE

that. I don't recall.

Q. Okay. But sitting here today, you can't identify any forecasts you ever did that was longer than six years?

A. I do not remember one.

Q. And I mean, just to get -- make the record clear, the standard forecast for purposes of tax forecasting in Michigan state was four years; is that correct?

A. I believe it is. The budget cycle would be either two years or four years of forecasts.

Q. Okay. So, the standard forecast length in Michigan and the accepted forecast length for tax forecasting is either two or four years; correct?

A. Correct.

Q. And you previously worked as an expert in one case; is that correct?

A. I did.

Q. And is that the only case you worked as an expert?

A. As I can recall, that was the only case where I testified as an expert.

Q. And when you testified as an expert, it wasn't in forecasting, correct?

R. CLINE

A. It was not.

Q. When did you begin your work for Detroit?

A. It would have been in the spring, I believe, of 2013.

Q. Your work in this case, you have prepared some expert opinions for the confirmation hearing, correct?

A. I have -- I don't understand the question.

Q. Okay. Well, you know you filed an expert report.

A. Correct.

Q. You know that, right?

A. Correct.

Q. And you're acting as an expert who is going to testify at the confirmation hearing?

A. I understand that, yes.

Q. Okay. And I'm just wondering, other than your work as an expert in the testimony you're going to give at the confirmation hearing, have you done any other work for the City of Detroit?

A. If you could clarify that question. Are you referring to all of the work I have done as an EY employee for the City of Detroit?

Q. Well, yes. Basically, what I'm trying to figure out is I have a copy of your expert report, and

R. CLINE

you've talked about your forecasting work that you have done in order to provide expert opinions in this case. So, I have seen that already, and I'm just trying to understand whether you did any other work for the --

A. No.

Q. -- City of Detroit.

A. No. The work that we did was the forecasting, 10-year forecasts for the City of Detroit, plus an extension beyond that period.

Q. Okay. So all of the work that you've done for the City of Detroit is reflected in your expert report that --

MR. STEWART: Objection.

MR. SMITH: -- that you've provided, correct?

THE WITNESS: There is a very extensive amount of material that lies behind those summary numbers.

BY MR. SMITH:

Q. Okay. Well, let me rephrase the question, then. All of the work that you've done for the City of Detroit is reflected in your expert report or the

R. CLINE

supporting materials that you produced with it, correct?

MR. STEWART: Objection.

THE WITNESS: I don't believe that's correct.

BY MR. SMITH:

Q. Okay. What materials haven't we been provided that reflect your work?

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

Q. Well, I'm trying to -- you just told me that you have prepared some materials, right? I'm trying to figure out if we have got them all. That's a fair question, right?

MR. STEWART: So, what's the question?

MR. SMITH: The question is, have we been provided all of the materials that reflect your work in this case.

THE WITNESS: I don't know the answer to that question.

BY MR. SMITH:

Q. Okay. So, you can't represent to the Court that we've been provided a complete set of the materials --

A. I cannot personally represent that.

Q. But just to clarify, the only work that you've

R. CLINE

done for the City of Detroit relates to offering expert opinions in this case; is that fair?

MR. STEWART: Objection.

THE WITNESS: I don't think that's an accurate description.

BY MR. SMITH:

Q. Well, the only work you've done in this case relates to doing the forecasting work that's the subject of your expert opinions in this case; correct?

A. What we were asked to do is to provide a 10-year forecast of expected revenues from the major tax sources for the City of Detroit.

Q. And the reason you were asked to provide that was for purposes of a confirmation hearing and you're testifying as an expert, correct?

A. I don't think that's an accurate description.

Q. What other purpose is that forecast being used for; any other purpose?

A. To my knowledge, it's been part of the budgetary discussions for the City of Detroit.

Q. So, you've done some forecasting work that the results of which are reflected in your expert report that the City has also used for budgetary purposes; is that fair?

R. CLINE

MR. STEWART: Objection.

THE WITNESS: I do not know how the information that we have provided has been used. It's beyond my knowledge.

BY MR. SMITH:

Q. Okay. So, the only thing you know is that you've provided expert opinions reflected in your expert report, and that's the work you've done for the City of Detroit?

MR. STEWART: Objection.

BY MR. SMITH:

Q. Correct?

A. We prepared revenue estimates over a 10-year period for the City of Detroit.

Q. Okay. And that's the only work you've done for the City of Detroit, correct?

A. That has been my responsibility in this.

Q. Okay. And your forecasting work that you just referenced is reflected in your expert report?

A. It is a summary of the results of the work we did.

Q. Okay. You weren't involved in putting together forecasts for use with the creditor proposal?

A. Not to my knowledge.

R. CLINE

Q. Did you know if there was anybody else at Ernst & Young who worked on tax issues for purposes of the creditor proposal?

A. Not to my knowledge.

Q. And do you know if the City has sought out experts other than yourself to testify in the area of taxes?

A. I am not familiar with anyone else.

Q. Did you personally calculate the numbers that are in your expert report, or did someone else do the actual, you know, number calculations that are reflected?

A. My responsibility was to construct the general framework of the estimating model and to evaluate the results at each step of the way.

Q. Okay. So, you didn't do the actual calculations that are reflected in your expert report; is that fair?

A. I do have a staff with -- several staff members who worked on the actual estimation.

Q. How many staff members assisted you in your --

A. I would say --

Q. -- in developing your expert opinions?

A. -- we may have three staff members in addition to myself.

R. CLINE

Q. Who are those --

MR. STEWART: And you have to let him finish his question and then pause so I can object before you start your answer, or you end up talking over each other which complicates the reporter's job.

BY MR. SMITH:

Q. Who are the staff members that assisted in formulating your expert opinions?

A. Caroline Sallee and Katie Ballard. Those were the two principal people.

Q. And so it's fair to say that you didn't personally calculate the numbers in your report; it was people on your staff, correct?

A. Could you define "calculate" for me.

Q. Well, there are numbers that are plugged into the model, right, and then out pops some results, right?

MR. STEWART: Objection.

BY MR. SMITH:

Q. And I'm wondering, did you actually do any of the computations that are reflected in your expert report?

MR. STEWART: That's a compound question. Which one do you want answered?

R. CLINE

MR. SMITH: Okay.

BY MR. SMITH:

Q. Did you do the calculations in your expert report or did staff members do them?

A. I would say staff members constructed the mechanics of the model.

Q. Okay. And you haven't -- have you ever constructed the mechanics of a forecasting model before?

A. I have.

Q. But you didn't do it in this case; correct?

A. I don't think that's an accurate summary.

Q. Well, I'm trying to get at who did the actual computations in your report?

A. I worked very closely with my staff at all phases of the estimation process.

Q. Okay, but did you actually personally do the computations that appear in the report?

A. I personally reviewed each of the spreadsheets that were used to do the calculations.

Q. And who actually created the spreadsheets that did the calculations that appear in your report?

A. Under my direction, my staff constructed the individual spreadsheets.

Q. Ever forecast inflation rates before?

R. CLINE

A. I have.

Q. Have you ever forecasted municipal population levels before?

A. I have not.

Q. Have you ever forecast population levels of individuals commuting into a city to do work?

A. I have not.

Q. You never forecast population levels of individuals living inside a city but working outside of it?

A. I have not.

Q. Have you ever done any economic forecasting to assess income levels?

A. I don't understand the question.

Q. Have you ever forecasted income levels of a population over time?

A. What do you mean by income levels?

Q. Well, the levels -- there's a population of working people, and they're receiving income from doing work. Have you ever forecast what their income will be in the future?

A. As tax research director, I was responsible for forecasting taxable income for taxpayers.

Q. The State of Michigan, when you worked there,

R. CLINE

they don't do any forecasting for the City of Detroit, do they?
A. Not that I know of.
Q. Ever forecast a city employment growth rate?
A. No, I have not.
Q. Ever forecast wage growth rate in a city?
A. Do you mean prior to the Detroit project?
Q. Prior, yes.
A. No, I have not.
Q. But you're doing that in your report here; is that fair?
A. It is part of the analysis that we did.
Q. Ever forecast income tax rates for a city?
A. No, I have not.
Q. Ever forecast corporate tax rates for a city?
A. No, I have not.
Q. Ever forecast property tax rates for a city?
A. I may have done some local work in Michigan for a city related to property taxes.
Q. Which city was that?
A. Holland, Michigan.
Q. And what work did you do?
A. I was a member of the public school board. I may have looked at property tax forecasts for the school

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 prepared by the school district.
BY MR. SMITH:
Q. Do you agree that wage earning tax revenue depends on a number of factors?
A. Yes, I would agree with that.
Q. Would it depend on the level of gambling, the level of revenue at the casinos and the wagering tax rate?
A. Yes.
Q. Any other factors that might influence the wagering tax?
A. I believe you accurately described the calculation of the tax revenue figure.
Q. Would it be fair to say that the utility tax revenues also depend on a number of factors?

R. CLINE

A. They do.
Q. And among the factors that could influence utility tax rates are use of the utility, the rate of collection of the taxes, the general economic conditions, correct?
A. Correct.
Q. Anything else you can think of?
A. I think those would be key drivers.
Q. But do you -- can you think of other key drivers?
A. I have no others.
Q. Have you ever forecast a utility tax revenue before?
A. I may have as part of the budget for either Michigan or Minnesota; I don't recall.
Q. Okay. But a municipal utility tax, have you ever forecast that?
A. No, I have not.
Q. I wanted to ask you about some of the inputs from your model. There are various inputs that you use in your model to do your forecasting, correct?
A. Correct.
Q. And many of the inputs that you use in your model are inputs that you've taken from other people, or

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 --
A. -- or are working with the State of Michigan.
Q. And are there any other sources that you're relying on that are created by experts other than yourself?

R. CLINE

MR. STEWART: Objection.

THE WITNESS: I'm not sure I understand what you mean.

BY MR. SMITH:

Q. Well, I mean, here's another example. You're relying on the forecasts that have been created in this case for the City of Detroit by experts other than yourself, such as Mr. Malhotra, correct?

MR. STEWART: Objection.

THE WITNESS: The economic forecast I was referring to was created for the State of Michigan.

BY MR. SMITH:

Q. No, I know. I'm just trying to found out what sources you've used. That's one source, correct?

A. Correct.

Q. Another thing that you say in your expert report that you're relying on is Mr. Malhotra's forecast for the City of Detroit. Do you recall that?

A. I don't recall saying that in the report.

Q. Did you write your report?

A. I did work with...

Q. Why is your report written in the third person talking about Mr. Cline all the time?

A. I'm not sure.

R. CLINE

Q. The Michigan employment growth rate; did you create that input to your model, or did you derive that from somebody else?

A. It was a combination of beginning with the forecast, the consensus forecast for the State of Michigan. For the out years when that forecast was not available, EY provided the forecast.

Q. When you say EY provided the forecast, who provided it?

A. My shop.

Q. The ratio of Detroit employment to Michigan employment, who provided that number?

A. I believe we calculated that number.

Q. The lag of Detroit's recovery behind the Michigan recovery; who calculated that?

A. I believe that was part of our analysis.

Q. The Detroit population growth rate; where did that come from?

A. I believe it originally came from SEMCOG as reported in -- I believe it's Detroit City -- Detroit First City Organization that has done economic analysis of the City.

Q. Did you rely on information from the City of Detroit for your analysis?

R. CLINE

A. We did receive information from the City of Detroit.

Q. And what information did you rely on from the City?

A. We relied upon their actual tax collection information, and their update of the flow of revenue collections.

Q. And you're aware that there have been a number of independent experts who have criticized the City of Detroit's recordkeeping as unreliable, correct?

MR. STEWART: Objection.

THE WITNESS: I'm not aware of that.

BY MR. SMITH:

Q. Have you done any investigation to look into assessments of the City of Detroit's recordkeeping?

A. No.

Q. So, you haven't done any analysis or testing to ensure the reliability of the information you were provided from the City of Detroit for your model?

MR. STEWART: Objection.

THE WITNESS: We worked very closely with the City of Detroit to clarify and understand the information that was provided to us.

BY MR. SMITH:

R. CLINE

Q. But you didn't do any independent analysis or testing to verify the accuracy of the information provided to you by the City, correct?

A. I did not.

Q. And nobody on your team did, correct, as far as you're aware?

A. Not that I know of.

Q. The -- did you rely on information provided by Conway & MacKenzie?

A. Not to my knowledge.

Q. Were there any consultants for the City that you relied on for information for your analysis?

A. Beyond the EY team?

Q. Yeah. Beyond the EY team.

A. Not that I know of.

Q. Who on the EY team did you rely on for information for your analysis?

A. A number of folks in working with the City of Detroit.

Q. Like who?

A. Gaurav was our primary contact.

Q. And Mr. Malhotra?

A. Mr. Malhotra.

Q. Anybody else?

R. CLINE

A. There were others.

Q. And who were the others?

A. I don't have a full list of names.

Q. Would it be fair to say that you've relied on information from a number of people whose identities are unknown to you?

MR. STEWART: Objection.

THE WITNESS: I would not agree with that statement.

BY MR. SMITH:

Q. Okay. Can you -- other than Mr. Malhotra, you -- there's other people, and can you identify any of them?

A. I would have to get that list of names for you.

Q. Okay. So, sitting here today, you can't identify all of the people who you relied on for information for your model, correct?

MR. STEWART: Objection.

THE WITNESS: No, I cannot.

BY MR. SMITH:

Q. And in general, you didn't do anything to independently verify the accuracy or reliability of the information you were provided by other people for your

R. CLINE

forecasting models, correct?

A. We evaluated all of the information we were provided to see if we thought it was reliable in the sense that it looked consistent over time, there weren't unexplained differences. We looked carefully at all of the information that's provided to us.

Q. But you didn't do any independent testing or analysis to go back and actually check or audit the information you were provided in order to ensure that it was reliable, correct?

MR. STEWART: Objection.

THE WITNESS: We were not asked to audit figures for the analysis.

BY MR. SMITH:

Q. And so, you didn't do it, correct?

A. As I mentioned, we carefully reviewed all of the information that we were given before we plugged it into the model.

Q. Okay. I understand you reviewed information, but you didn't go back and check the information against the sources of the information to ensure that it was reliably reported before you plugged it into your model, correct?

MR. STEWART: Objection.

R. CLINE

THE WITNESS: I'm not sure what that process would look like.

BY MR. SMITH:

Q. Well, for example, you didn't go back and look at records -- well, how many hours did you spend on your work in this case?

A. I do not know what the total is.

Q. Can you give me a ballpark?

A. I really cannot.

Q. Was it more than 100 hours?

A. As I say, I do not know what the exact number of hours is.

Q. Would it be fair to say that there were a number of individuals who were not designated as experts, haven't submitted an expert report in this case, whose opinions you relied on as inputs to your model?

A. I don't understand what the word "expert" means.

Q. Well, you understand that there's some people that have submitted expert reports, like Mr. Malhotra, Miss Sallee, correct?

A. Yes, I understand that they did submit reports.

Q. Okay. And by "expert," I'm talking about the

R. CLINE

people that submitted reports in this case --

A. Yes.

Q. -- for the City.

A. I'm aware of those reports.

Q. Okay. So, we're on the same page about how I'm using the term expert, correct?

A. I believe that I do understand.

Q. But there were a number of individuals who were not submitting reports in this case who you relied on for your analysis, correct?

A. There are a number of people who provided us inputs for our analysis, including people at the State level as well as the City level.

Q. And those are experts in their fields, but they're not people who have submitted expert reports in this case, correct?

MR. STEWART: Objection.

THE WITNESS: I don't know -- excuse me.

MR. STEWART: Go ahead.

THE WITNESS: I don't know what "expert" means in that context.

BY MR. SMITH:

Q. Did you cooperate closely with people from the State in developing your analysis?

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A. I would say we did.

Q. And was that facilitated by the emergency manager or how did that come about?

MR. STEWART: Objection.

THE WITNESS: It was also based upon my contacts with the State over a long period of time, so that we knew the people to talk to to provide us with additional information.

BY MR. SMITH:

Q. And who were those people that you talked to?

A. Jay Wortley would be one exam example.

Q. Who is that?

A. He's the tax research director for the State of Michigan.

Q. Anyone else?

A. There may have been others. I don't know the names.

Q. Okay. Did anyone from the State tell you that the tax rates that you look at in your model would not be raised within the 10-year period you looked at?

A. In our revenue estimates, we assumed current law in the determination of the tax rates. So, we did understand what current law rates are, and under current law, there's no scheduled increase in those tax rates.

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Q. But nobody from the City -- nobody from the State or the City that you talked to represented to you that the rates, the tax rates in your model would not rise during the 10-year or 40-year period you looked at, correct?

A. We did not ask that question.

Q. And so, nobody from the State or the City represented to you that there would be no increase in tax rates over a 10-year or 40-year period, correct?

A. We didn't ask that question.

Q. And so nobody represented to you that there would be any increase in tax rates, correct?

A. We had no discussion of increases in tax rates.

Q. Okay. So, you didn't -- in developing your model, you didn't investigate whether tax rates would increase, correct?

A. As I mentioned, in developing the model, following the normal revenue estimating procedures, we assumed tax rates would remain as they are under current law.

Q. So, you didn't conduct an investigation to determine whether there were plans to raise tax rates, correct?

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MR. STEWART: Objection.

You can answer.

THE WITNESS: As I believe I've answered, we used existing law statutory tax rates in our revenue estimates.

BY MR. SMITH:

Q. No, I know, you assumed the tax rates would remain constant for 10 and 40 years, correct?

A. The accurate description is that we accepted current law as the tax rates that we put into the model.

Q. And so, I'm -- what I'm asking, though, is did you ask -- bother to ask anybody whether there might be changes in the tax rates over the next 10 years or 40 years.

A. I believe I've answered that question.

Q. And the answer was, no, you didn't do that, correct?

A. We did not ask about future tax rates. We discussed the current law statutory rates for Detroit.

Q. And you didn't ask anybody from the City whether tax rates could increase, correct?

A. We did not.

Q. And you didn't ask anybody from the State that you had been talking to whether current tax rates would

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increase, correct?

A. Are you saying would increase or could increase?

Q. Either, could or would.

A. Current law --

MR. STEWART: Reask the question. And it's a compound question.

BY MR. SMITH:

Q. Okay. Did you ask anybody from the State whether current tax rates might increase over the next 10 years or 40 years?

MR. STEWART: Objection. Asked and answered.

THE WITNESS: I believe I've answered that question.

BY MR. SMITH:

Q. And the answer is, no, you didn't, correct?

A. Correct.

Q. Are there individuals who have some expertise that you lack that you relied on for your inputs or opinions in the report?

A. As I mentioned, we used a number of sources, people we talked to at the State level as well as the City level, to gather as much accurate up-to-date

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information as we could.

Q. So, the answer is yes, correct?

MR. STEWART: Objection.

THE WITNESS: We did use input from other people in doing our analysis.

BY MR. SMITH:

Q. And you used input from people that have expertise that you lack in doing your analysis, correct?

MR. STEWART: Objection.

BY MR. SMITH:

Q. Such as people from the City, correct?

A. For example, we talked to people at the City to find out what current revenue collections were, which we did not have direct access to.

Q. Okay. So, you did rely on individuals who have expertise that you lack in performing your analysis, correct?

A. We used other people as sources of information that we used in our revenue forecasts.

Q. And that included people who have expertise that you lack.

MR. STEWART: Objection.

MR. SMITH: Correct?

THE WITNESS: Again, I'm not sure what you

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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 the witness. And that actually wasn't the question you asked before. He has every right to be confused when you said it had already been covered. That's a misstatement of the record.

MR. SMITH: The record will speak for itself.

BY MR. SMITH:

Q. But it's fair to say that you had to rely on -- this is a massive -- you would agree with me that this is a massive undertaking, the forecasting of tax revenues for the City, correct?

A. It is a complicated analysis that we did.

Q. And forecasting in general, all of the revenues and costs for the City, the forecasts that

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Mr. Malhotra is doing, that's an even more complex task with a lot of moving parts, correct?

A. I'm not sure I have a judgment about the level of complexity of the expenditure side because we were not doing that analysis.

Q. Okay. But your analysis gets plugged into Mr. Malhotra's analysis, correct?

A. It's my understanding that that is how it was -- the product of our analysis was used.

Q. Okay. And in order to perform the analysis, you needed to rely on numerous people other than yourself; correct?

MR. STEWART: Objection.

THE WITNESS: We relied upon information provided to us by other people.

BY MR. SMITH:

Q. And you relied on information provided to you by other people who have expertise that you lack, correct?

MR. STEWART: Objection. Is this the sixth time, eighth time you've asked that question, Mr. Smith?

THE WITNESS: And I'm still a little confused by what you mean by "expertise."

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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 prepared for the City of Detroit.

Q. So, you're not holding yourself out as an expert on revenue forecasting, correct?

A. I have extensive experience in revenue forecasting at the State level. We did the revenue forecasts for the City of Detroit.

Q. You wouldn't call yourself an expert on revenue forecasting, correct?

A. Again, I have trouble with the term "expert."

Q. And so, the answer is you wouldn't use that term to describe yourself, correct?

A. I don't know what you mean by the term "expert."

Q. Okay. So, you wouldn't -- you wouldn't call

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anybody involved for the City an expert in this case; it's not a term you would use, correct?

A. I don't understand what you mean by the term "expert."

Q. Okay. Well, what do you -- have you ever used the term "expert" before?

A. I can't relate that to the questions you've been asking me.

Q. Can you define "expert" for me?

A. No.

Q. And so, because you can't define the term "expert," you certainly wouldn't hold yourself out as an expert in this case, correct?

MR. STEWART: Objection.

MR. SMITH: Correct? Are you going to answer the question?

MR. STEWART: If you are going to gesture at the witness, I'd like the camera to start capturing Mr. Smith's arms' motions.

MR. SMITH: I object. The camera should stay on the witness.

MR. STEWART: Well, if are you going to gesture like that.

MR. SMITH: I'm waiting for an answer.

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We're sitting here waiting for a long time. There's delaying tactics going on and he's not responding to the questions.

MR. STEWART: The fact of the matter is you're asking very poor questions and it's your own fault. Let's repeat the question and the witness can answer -- or have the question.

MR. SMITH: You wouldn't call yourself --

MR. STEWART: Go ahead.

BY MR. SMITH:

Q. You wouldn't call yourself an expert in this case, correct?

A. I don't know what you mean by the term "expert."

Q. And so, the answer is, no, you wouldn't call yourself one, correct?

A. The answer is: I don't know what you mean by "expert."

Q. Did you rely on reinvestment numbers from Conway & -- oh, wait. I think we covered that question. You have had no interaction with Conway & MacKenzie; is that correct?

A. I don't know if the question -- that is a question, but it sounds like you posed a separate

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question this time.

Q. Have you had any interaction with Conway & MacKenzie?

A. I have been at a presentation with people from those firms.

Q. What presentation was that?

A. I believe it was a presentation to bond holders and bond insurers in New York City.

Q. Other than that, have you had any interaction with Conway & MacKenzie?

A. I have not.

Q. Have there been any formal studies that have been conducted to ascertain whether the City can increase revenues?

A. I am not aware of those studies.

Q. Okay. You're not aware of any study ever being conducted to ascertain whether the City can increase revenues, correct?

A. I assume that you were asking about studies during the period of time when we were doing the analysis of the City of Detroit's revenue outlook.

Q. Or any -- any -- I'm -- I didn't mean to constrain my question to a particular time frame. Are you aware -- you're not aware of any formal studies that

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have been conducted to ascertain whether the City can increase revenues, correct?

A. I am aware of one study, which I actually did myself.

Q. Okay. Other than your expert analysis, you're not aware of any formal studies conducted to ascertain --

A. Not that I looked at.

Q. I'll ask the question so I can finish it, and then you can answer.

MR. STEWART: You do have to give him time to finish.

BY MR. SMITH:

Q. Other than your analysis, you're not aware of any formal studies conducted to ascertain whether the City can increase revenues, correct?

A. I am not.

Q. And you're not aware of any formal studies conducted to ascertain costs that the City conducted -- cut, correct?

A. Do you mean from the expenditure side of the budget?

Q. Yes.

A. I'm not aware of any.

Q. You're not aware of any formal studies

conducted on Detroit income tax, wagering tax, utility users' tax or corporate tax, correct?
A. I am aware of the forecasts the City of Detroit did for those tax sources.
Q. Is that the forecast that you have done, or is that a different forecast?
A. That would be the forecast prepared as the normal budgetary cycle for the City of Detroit.
Q. All right. Did you perform that, or did somebody else perform that?
A. It was done -- my understanding is it was done by the City.
Q. And the City -- what time period do they use as their standard period for forecasting?
A. I believe they go out two years, might be three, but I believe it's a two-year forecast.
Q. You're not aware of any forecast conducted for the City of Detroit that's longer than three years, correct?
A. I'm not aware of any studies of forecasting tax revenues beyond that period of time.
MR. STEWART: You mean by the City of Detroit not for the City of Detroit, right, Mr. Smith?

MR. SMITH: No, I mean for.
BY MR. SMITH:
Q. You're not aware of any forecasts for the City of Detroit going out more than three years, whether conducted by the City or any other party, correct?
A. I am not.
MR. STEWART: Excluding his?
MR. SMITH: Yes. We're excluding his.
MR. STEWART: Yeah. That's what I figured. That's why I raised it.
BY MR. SMITH:
Q. Your forecast is anomalous, correct, in terms of the length of time that it goes out, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know what you mean by "anomalous."
BY MR. SMITH:
Q. It means there's no forecast like the one you've conducted here that's ever been conducted for the City of Detroit, correct?
A. I did not say that.
Q. Well, I'm asking you now. There's no forecast like the one you've conducted for the City of Detroit --
A. I don't --

Q. -- correct, that's ever been done?
A. I don't know if that's correct.
Q. Okay. Sitting here --
MR. STEWART: Do let him finish his question before you answer, because you're making his life harder, too.
BY MR. SMITH:
Q. Sitting here today, you can't identify any forecasts using the type of methodology that you used for the City of Detroit, correct?
A. No, that's not correct.
Q. What forecast has been done for the City that's used the methodology you used?
A. The methodology that we have used is a fairly standard forecasting methodology that's been used extensively in the City of Detroit and for the State of Michigan and in other cities.
Q. Have you reviewed any depositions in this case?
A. I have not, other than my own.
Q. The -- you say that the methodology used is a standard methodology that's been used before, correct?
A. The methodology we used in constructing the forecasting model is based upon my experience as a

revenue forecaster, and I believe it is fairly standard in terms of how State revenue forecasting is done.
Q. Can you point me to any treatise or other publication that lays out the methodology you've used for forecasting in this case?
A. There are a number of publications, books, and articles that discuss revenue forecasting. I can't give you specific references today.
Q. But is there any book or other written publication that specifically lays out the specific methodology that you've used in this case?
A. The methodology that we used in this case is the methodology that I thought followed as a tax revenue estimator in both the State of Minnesota and the State of Michigan.
Q. Okay. And you were doing forecasting for the State, not cities, correct?
A. Correct.
Q. And you never used -- while you were at the State of Minnesota or the State of Michigan, you never forecast tax revenue out to 10 years, correct?
A. I don't know if that's a correct statement.
Q. Sitting here today, you can't identify any instance when you were at either the State of Minnesota

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or the State of Michigan where you constructed a tax forecast that looked at a period of time as long as 10 years, correct?
A. The tax forecasts that we -- that I have done at the State level, that have been published, have been the forecasts related to the budget cycle, which is determined by the legislature.
Q. And that length of time would be much less than 10 years, correct?
A. It would be.
Q. And there's a model that you used that you plug the numbers into. Where did that actual model come from; is that something you constructed for purposes of this case?
MR. STEWART: Objection.
THE WITNESS: We prepared our revenue estimates using a model of the specific taxes that we looked at that we constructed.
BY MR. SMITH:
Q. For purposes of this litigation, correct?
A. For purposes of making a 10-year forecast for the City of Detroit.
Q. Okay. So, the model that you use in your -- to generate the numbers in your expert report is

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something that you constructed for purposes of your work on -- for the City of Detroit, correct?
A. That is correct.
Q. Did you personally construct that model, or was that somebody on your staff?
A. As I believe I've answered, I was the director of the construction of the model. The calculations, the creation of the revenue estimating formulas was done by my staff.
Q. And so, before you started your work in the spring of 2013, the model that you're using did not exist, correct?
A. Prior to our joining the project, I believe the team in Detroit had created the framework of a 10-year revenue forecasting model.
Q. Okay. Who did that?
A. We got that information from the EY team in Detroit. I'm not sure who put that model together initially.
Q. Okay. So, the model was put together by the time you started your work on the case; is that correct?
A. I don't think that's accurate.
Q. Well, what was put together by the time you started your work on the case?

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A. An Excel spreadsheet had been put together that identified the major revenue sources, and that had done some initial estimates for a 10-year period of time.
Q. And do you know who specifically put that together?
A. I do not.
Q. But you used that spreadsheet, the pre-existing spreadsheet as the basis or at least as a source for your work on the case?
A. It was a starting point for our modeling.
Q. Did you look at the experience in any other cities in developing your forecast?
A. We did at one point.
Q. What other cities did you look at?
A. We looked at the economic recovery in various cities that had suffered population decline over a period of time. I could get you a list of those cities. I believe it was about a dozen separate cities.
Q. In any of the cities that you looked at that had suffered population decline, did anybody file for Chapter 9?
A. I don't know the answer to that.
Q. Sitting here today, though, you can't identify any cities suffering population decline that filed for a

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Chapter 9 as a result, correct?
A. Not to my knowledge.
Q. Have you had any interaction with Mr. Hill?
A. I have not personally.
Q. Have you had any interaction with Gary Evanko?
A. Not personally, I have not.
Q. To your knowledge, has anybody on your team?
A. Don't know the answer to that. I'd have to check. I'm just not aware of any interactions they may have had.
Q. Have you worked with Eric Scorsone at Michigan State?
A. I have not personally worked with him.
Q. And do you view him as an expert?
A. Again, I'm not sure what you mean by "expert."
Q. Okay. Do you know who he is?
A. I do know who he is.
Q. Okay. What do you know about him?
A. I know that he has been providing the City of Detroit with revenue estimates at various points in time.
Q. Okay. And have you reviewed revenue estimates that have been provided by Mr. Scorsone to the City of Detroit?
A. I have.

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Q. And are there ways in which your revenue forecasts differ from Mr. Scorsone's?

A. They differ in terms of the results.

Q. And could you explain how -- in what ways they differ in terms of the results?

A. When we looked at his revenue estimates that were made available to us about late spring, perhaps June of 2013, we noticed that his current forecast, or the most recent that we saw, had revenue estimates that were higher than the actuals that were coming in at that point in time.

Q. And so, Mr. Scorsone's revenue estimates are generally higher than the ones that you've provided in this case, correct?

MR. STEWART: Objection.

THE WITNESS: I don't -- I don't know.

BY MR. SMITH:

Q. Mr. Scorsone, is he a Professor at Michigan State University?

A. I believe he is.

Q. Does he have any -- he works with the State in some capacity; is that correct?

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

Q. I'll probably mispronounce this name, but

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Shavi Sarna, do you know who that is?

A. I do.

Q. Do you work with that person?

A. He was one of the members -- he is one of the members of the EY team in Detroit.

Q. And what has been his role?

A. He has provided us with a lot of the information that had been prepared by the EY team in Detroit.

Q. Okay. So, you have been working with Shavi Sarna, and Mr. Malhotra has been working with Shavi Sarna; is that fair?

A. I believe that's correct.

Q. Ernst & Young hasn't prepared a balance sheet for the City of Detroit as far as you're aware, correct?

A. I -- not that I'm aware of.

Q. Why aren't you doing the property tax forecasting or the revenue sharing forecasting?

A. I supervised the property tax forecasting, the revenue forecasting, and Caroline Sallee did the heavy lifting for the modeling.

Q. Okay. And why aren't you testifying as the expert instead of Miss Sallee with respect to those matters?

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

Q. Okay. Do you know why you -- why aren't you forecasting fees and other revenues from the City?

A. We were not asked to do that.

Q. Do you have any idea why you're not -- you weren't asked to do forecasting for fees or other revenues from the City?

A. I do not.

Q. Other than the income tax, corporate tax, utility users tax, wagering tax and property tax, are there any other taxes collected by the City?

A. There is another revenue source that we were responsible for.

Q. What's that?

A. That was State revenue sharing payments, the forecast of State revenue sharing payments to the City of Detroit.

(Off the record.)

BY MR. SMITH:

Q. Do you have any idea about what fees the City collects?

A. I do not.

Q. In your view, what are the biggest sources of untapped revenue for the City?

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MR. STEWART: Objection.

THE WITNESS: I don't have an opinion on that.

BY MR. SMITH:

Q. You weren't asked to identify potentially untapped sources of revenue for the City, correct?

A. Correct.

Q. You weren't asked to identify ways in which the City could increase its revenues through taxes, correct?

A. We were not asked to do that.

Q. Do you have any idea why you weren't asked to do that?

A. I do not.

Q. Don't you think it's something the City would want to do to increase revenues through the tax mechanism?

MR. STEWART: Objection.

THE WITNESS: I have no comment on that.

BY MR. SMITH:

Q. Well, I mean, just as a matter of common sense, Detroit wants to increase its revenues, correct?

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

Q. Okay. So, nobody from the City or the

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emergency manager's office has communicated any desire to increase revenues to you, correct?

A. No one has communicated that to me personally, no.

Q. No one from the City or the emergency manager has ever sought out your expertise to try to help the City increase its revenues so it can pay more to the creditors, correct?

MR. STEWART: Objection.

THE WITNESS: No one has asked us to do tax policy analysis of alternatives for the City.

BY MR. SMITH:

Q. So that's correct? I mean, I'm just trying to get a yes or no that -- nobody from the City has reached out to you to try to get your expertise to increase revenues for the City so it can pay more to its creditors, correct?

MR. STEWART: Objection.

THE WITNESS: The analysis that we did for the City, and summarized in the expert report, is what we were asked to do for the City.

BY MR. SMITH:

Q. Okay. So, nobody from the City or the emergency manager's office has reached out to you to get

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your expertise to try to help increase revenues for the City to pay the creditors more, correct?

MR. STEWART: Objection.

MR. SMITH: That's not something you were asked to do, correct?

MR. STEWART: Objection.

THE WITNESS: No one has contacted me to ask to do that type of analysis.

BY MR. SMITH:

Q. And as far as you're aware, nobody has contacted anybody at Ernst & Young to do that type of analysis, correct?

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

Q. You can't identify anybody that's been asked to do that type of analysis to increase revenues for the City through tax policy or otherwise, correct?

A. I just don't know if EY was asked to do that.

Q. Sitting here today, you're not aware of any such request, correct?

A. I don't know of any such requests.

Q. Okay. Do you agree that the forecasts that Ernst & Young has performed rely on people with diverse expertise?

MR. STEWART: Objection.

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THE WITNESS: As I believe I've said, we relied upon a number of other people for information that we used in our modeling exercise.

BY MR. SMITH:

Q. But you're not in a position to comment on the expertise of the people you relied on for information for your model, correct?

A. No, I'm not.

Q. Do you agree that some of the assumptions that you used for your model are based on expert judgments made by other third parties?

A. Outside of the area of the population forecast, I believe we are responsible for the major assumptions in the model.

Q. As far as the population forecast, though, you had to rely on expert judgments by individuals outside of Ernst & Young, correct?

A. We relied upon the forecasts that were prepared by SEMCOG for the City of Detroit.

Q. So the answer is correct, you did do that, relied on the expert judgment of a third party for the population forecast, correct?

A. We relied upon the forecast that SEMCOG had prepared.

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Q. And just so the record is clear, could you tell me what SEMCOG stands for?

A. I believe it's the Southeast Michigan Organization of Governments? I'll have to check that to verify that.

Q. Do you know whether that's a State entity or what kind of entity that is?

A. I believe it's a regional entity that represents governments in that region of the state.

Q. Have you updated your forecasts over time?

A. We have.

Q. Have you changed assumptions in your forecast over time?

A. We have.

Q. What assumptions in your forecast have changed over time?

A. There are two areas. One, the starting points for actual revenue collections were updated continually as new information became available. So, in a sense, the starting point changed over time. Secondly, based upon actual revenue collection experience and changes in the state economic forecast, we altered some of the growth rate assumptions over time.

Q. And when you say the starting point changed

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over -- in the various iterations of your forecast, what specifically are you referring to?

A. The estimate, for example, of actual property tax collections in the city changed over time. One example was the composition of enterprise zone property. As the City updated its estimates of the dollar amounts in those buckets of property -- assessed property, we updated the model.

Q. And did that result in your model showing less revenue than it previously had?

A. There were a number of changes. Some may have increased revenue, some may have decreased revenues. I don't have a score sheet to show the change --

Q. Okay.

A. -- at each step of the way.

Q. So, since you began your work, the model has been changed multiple times, correct?

A. The model structure hasn't changed.

Q. But the inputs and assumptions to your model have changed multiple times since you started your work, correct?

A. That is correct.

Q. And multiple different inputs have been changed in your model since you began your work, correct?

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A. That is correct.

Q. 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.

Q. 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.

Q. 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.

Q. Okay. So your changes to the utility tax modeling resulted in less revenue projected to be available to the City, correct?

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A. I believe in this case, that is correct.

Q. Were there any other changes that we haven't discussed, any changes to the inputs or assumptions that we haven't discussed?

A. There may be a number of other changes.

Q. Okay. Do you agree with me that forecasting models such as you've developed in this case has to be constantly updated because, you know, numbers are changing and assumptions and inputs change?

A. I would agree that to get the most accurate estimate or forecast, you should start with the most recent, actual information in the model.

Q. And that requires updating the model over time, correct?

A. That is correct.

Q. And in order to ensure the reliability of a forecasting model, you need to continuously update it as information becomes available, correct?

A. I'm not sure I would use the word "reliability." You certainly want to get the most accurate starting point for the forecast.

Q. In order to ensure that a model is not materially wrong, you need to continuously update the model for forecasting, correct?

R. CLINE

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 actual 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.

Q. And the City wants the Court to confirm the Plan of Adjustment; you understand that, correct? So it

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can exit bankruptcy?
A. I'm not familiar with the details.
Q. Well, after the bankruptcy, is there any plans as far as you're aware, for Ernst & Young to continue doing forecasting work for the City after the plan is confirmed and the City gets out of bankruptcy?
A. No one has discussed with me providing that type of additional service.
Q. Okay. But if you were asked to perform forecasting work beyond the City's exit from bankruptcy, you would want to continuously update the model in order to ensure that it's accurate and scientifically reliable, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know what you mean by the term "scientifically reliable." It is best forecasting practice to always determine the latest actual tax collection figures before you forecast into the future, whether it's ten or two years, four years or ten years.
BY MR. SMITH:
Q. So, you wouldn't hold out the analysis you've done in this case as being scientifically reliable, correct?

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MR. STEWART: Objection.
THE WITNESS: I don't know what that means, that term.
BY MR. SMITH:
Q. And so, you wouldn't represent to the Court that your analysis is scientifically reliable, correct?
MR. STEWART: Same objection.
THE WITNESS: I don't know what that phrase means.
BY MR. SMITH:
Q. So, would you represent to the Court that your analysis is scientifically reliable? That's not something that you would say, correct?
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 authorities that would tell you whether an analysis in the area of tax forecasting is scientifically reliable,

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correct?
A. To my knowledge, there is no measure of reliability before the fact of a tax revenue forecast.
Q. And inherent in doing forecasting work, there's a certain amount of guesswork or speculation, correct?
MR. STEWART: Objection.
THE WITNESS: I wouldn't characterize it as guesswork.
BY MR. SMITH:
Q. Would you -- would it be fair to say that in order to do forecasting work, you need to make some educated guesses?
A. You need to make a number of assumptions in any forecasting model or exercise based upon your best judgment and professional knowledge of what you're forecasting.
Q. And the assumptions you make dictate what results you achieve in forecasting, correct?
A. I would not describe it that way.
Q. How do the assumptions you make impact the results of the forecast?
A. If you change the assumptions of some of the key drivers, the results would change.

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Q. Okay. And with your forecasting, if you changed the assumptions, your results could change, correct?
A. If you changed the assumptions, the results of the forecasting model exercise would change.
Q. And in your forecasting, there are numerous assumptions involved, correct?
A. As we discussed earlier, that is correct.
Q. In order to ensure accurate results, though, if you were retained after the bankruptcy was over to do forecasting for the City, in order to ensure that your forecasting was accurate, it would have to be continuously updated, correct?
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 would have to update your forecasting in order to ensure that it's accurate, correct?

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A. As I mentioned earlier, the tax rates themselves are all current law. So, they are either right or wrong. They don't change unless current law changes.

Q. Well, yeah, but now we're -- assuming that you were working for the City, say, two years after the bankruptcy was over, and the tax rate changed, you would need to revise your model to make it accurate, right; otherwise it wouldn't be accurate, correct?

A. We would revise the model to pick up any changes in tax law, whether it was tax rate or tax-based changes.

Q. And in order to ensure your model was accurate, you would have to revise the model after the bankruptcy was over, if any of the assumptions changed, correct?

A. I would not say we make those -- we make those changes in order to do the best forecast of the expected revenue streams. Whether it's accurate or not depends upon what actually happens in the future compared to the forecast.

Q. So, as a forecaster, you can't represent to the Court that your forecast is actually going to be accurate, correct?

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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, correct?

MR. STEWART: Objection.

THE WITNESS: If we knew the actuals, it wouldn't be a forecast.

BY MR. SMITH:

Q. Okay. And so, your forecast doesn't tell us what the actual revenues of the City are going to be in the 10-year period or 40-year period that you look at, correct?

A. The forecast is an attempt to find the best point estimate of what can be expected from the revenue

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collections under current law and estimated economic conditions.

Q. Okay. So, you're not providing the Court with any forecast that tells us what will happen if there are legal changes, correct?

A. That is correct.

Q. And you're not providing the Court with any forecasts that will tell it what will happen if there are changes in the economy, correct?

MR. STEWART: Objection.

THE WITNESS: Our forecast is based upon changes in the economy.

BY MR. SMITH:

Q. Your forecast, though -- you're not providing the Court with any forecast that tells us what revenues will be based on actual economic conditions because nobody can predict what those will be, correct?

A. It wouldn't be a forecast.

Q. But certainly, you've made forecasts in the past that have been wrong, correct?

A. I imagine so.

Q. And in fact, would it be fair to say that all of the forecasts that you've made in the past have been wrong to some extent, correct?

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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.

Q. And that was your experience when you were working for the State of Michigan and the State of Minnesota, correct?

A. Correct.

Q. The -- would you agree with me that the longer the period of time you're attempting to forecast, the more likely your forecast will turn out to be inaccurate.

A. I believe it would be correct to say the longer the forecast, the more events you have to consider in your forecast. Each year adds additional economics that have to be considered in the forecast.

R. CLINE

Q. And each additional year added to the length of a forecast adds increased -- an increased chance that your forecast will be wrong, correct?

A. I'm not sure I understand what you mean by "increased chance." Those are statistical terms that are difficult to apply to the forecasting arena.

Q. Okay. Well, how would you describe the difference between doing a 10-year forecast versus a one-year forecast in terms of the chances that your predictions will accurately reflect what ultimately occurs?

A. I wouldn't make it a statement to try to describe that.

Q. Okay. So, you can't offer me any expert opinion that tells me whether a 10-year forecast is more or less reliable than a one-year forecast.

A. In the case of our forecasts for the City of Detroit, we were asked to do a 10-year forecast. I have no results to compare our forecast to, so I can't make comments about reliability over a two-year, a five-year or a 10-year period in the City of Detroit.

Q. Okay. So you're offering no opinion on the reliability of your forecast over the next 10 years, correct?

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MR. STEWART: Objection.

THE WITNESS: I have no statistical statement to describe accuracy in that setting.

BY MR. SMITH:

Q. Okay. The -- when you were doing the forecast, I mean, did you develop forecast results that you could test against actual results during the last year? Were there any results that you generated that you could even test within the last year's?

MR. STEWART: Can you just reread the question?

(The record was read back by the reporter.)

MR. STEWART: Objection.

THE WITNESS: As I explained, we started our forecast with the most recent actuals, so in the year we started, they were the actual collections. All of our forecasts move forward in time from the starting point.

BY MR. SMITH:

Q. Okay. So, you never tested your forecast results against actual results, correct?

A. We started with the most recent, actual results and forecasted the unknown future.

Q. Okay. So, the answer is correct, you've never

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tested the results of your forecast against actual results, correct?

MR. STEWART: Objection.

THE WITNESS: We did not backcast.

BY MR. SMITH:

Q. Okay. So, it would have been possible to test your model by using this procedure of backcasting to see how accurately it predicted prior events; is that fair?

A. Not in this case.

Q. Why is that?

A. Because of the unique situation at the City of Detroit.

Q. And what is that unique situation that prevented you from testing your model?

A. Basically, the challenge is that those models fit over earlier periods of time were not able to pick up the structural break between Detroit and the rest of the state, and the cumulative impact of the financial crisis in Detroit.

Q. What do you mean by that?

A. I -- was there a -- part of the explanation you would like for me to --

Q. Well, maybe you could elaborate, just further explain what you are talking about.

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MR. STEWART: Objection. You have to ask a question. You just can't say please tell me more.

MR. SMITH: I did, and then he asked me a question and I'm trying to clarify.

THE WITNESS: Could you rephrase your question?

BY MR. SMITH:

Q. Well, let me ask you this: Is there any standard rule of thumb for how frequently a forecast such as you have developed here needs to be updated?

A. As revenue forecaster for the State of Michigan, we used to do monthly forecasts.

Q. So, the standard practice in Michigan was to revise forecasts each month based on new data and inputs into the model?

A. But it depended upon the purpose. That was for tracking actual tax collections against forecasts. For forecast purposes related to the budgetary cycle, we would do two-year or four-year forecasts.

Q. So, depending on the purpose, forecasts should be updated either monthly or every couple of years. Is that fair?

A. Depending upon the purpose, forecasts should be updated as often as I -- I would say, as new

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information becomes available that's relevant to the forecast.

Q. So, a forecast should be updated as frequently as new information becomes available that's relevant for the forecast, correct?

A. I think that's a reasonable statement.

Q. And in -- with respect to your forecasts you've developed in this case, how frequently have you updated those?

A. I would say there have been points in time when we looked at all of the estimates together. That might have been in the fall of 2013 and spring of 2014, and then more recently in June of 2014.

Q. So, how many times have you updated your forecast?

A. I believe that's three comprehensive updates where we have generated additional -- new spreadsheet results for each of the major tax types.

Q. And over what period of time did those three updates occur?

A. As I believe I stated, I -- the original that we did was probably June 2013, fall of 2013 another, spring of 2014 is another, and then probably June, perhaps -- I think it was June 2014.

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Q. So you've updated your -- done a comprehensive update of your forecast about four times in the last year?

A. Three times, I believe.

Q. And are there other updates that aren't comprehensive updates that have occurred in addition to those three times?

A. Not for all of those tax types.

Q. But for some of the tax types, have there been other updates that you've done in addition to the three comprehensive updates?

A. Revisiting the forecast was triggered by those major updates in the overall forecast.

Q. Okay. But were there any other updates, or just the major ones?

A. I don't recall. There may have been specific numbers for a single tax type, but I don't recall those separate estimates being done.

Q. Have you ever done any calculations using tax rates that are greater than the ones you assume in your model?

A. We did not, because we took current law as our assumption in the model.

Q. But you know the law can change, correct?

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A. The legislature or the city council could change the law.

Q. And so the legislature or the city council would increase tax rates over the 10-year period, correct?

A. Yes, that's possible.

Q. And if current law is changed over the 10-year period, that could significantly increase the amount of revenue available to the City, correct?

MR. STEWART: Objection.

THE WITNESS: I believe the changes could go in either direction.

BY MR. SMITH:

Q. So, changes in law could significantly increase revenue to the City, correct?

A. Or they could restrict the revenue available to the City. The example would be the election that is coming up to deal with the tangible personal property reduction at the local level.

Q. And so, it's possible that changes in law over the next 10 years could restrict revenue to a degree that the City has to go back into bankruptcy again, correct?

MR. STEWART: Objection.

THE WITNESS: I can't comment on that.

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BY MR. SMITH:

Q. Okay. Well, you would agree that changes in law could restrict revenue significantly over the next 10 years, correct?

A. As I believe I mentioned, I think changes in law could either increase or decrease available revenues.

Q. And changes in law can certainly significantly increase available revenues to the City over the next 10 years, correct?

A. I wouldn't speculate on what direction they're going to move in.

Q. Okay. So, attempting to predict what the revenues available to the City over the next 10 years are would require you to speculate, correct?

MR. STEWART: Objection.

THE WITNESS: That is not correct. As I mentioned, our model is based upon current law tax rates, which are known with certainty and established by current law.

BY MR. SMITH:

Q. You can't know with certainty what the tax rate will be five years from now, correct?

A. That's correct.

Q. You can't, in fact --

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A. **Unless -- unless it's in law.**

Q. Well, you don't know what the -- the law can change within five years, correct?

A. **Correct, but the point is that in current law, there may be scheduled future tax rate changes. If so, we've taken those into consideration.**

Q. Okay. I see what you are saying.

But there's no way for you to know what the tax rate is going to be within the 10-year period that you model, correct?

A. **We know with certainty what the tax rate is under current law.**

Q. Yeah. Right now, we know what the -- with certainty what the tax rate is, but there's no way for you to know what the tax rate will be two, five or 10 years from now, correct?

A. **We know with certainty what the rate will be over that period, if they do not change current law.**

Q. But you have no way to know whether current law is going to be changed with respect to tax rates within the next 10 years, correct?

A. **That is correct.**

Q. And so you have no way of knowing what the tax rate is going to be over the course of the next 10 years,

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correct?

A. **We know with certainty what the tax rate over the next 10 years is, under current law.**

Q. But I'm not asking about current law. I'm saying, you have no way of knowing what the tax rate will be within the next 10 years, correct? Because you don't know whether the tax rate will be changed or not, correct?

A. **We know with certainty what the current law tax rate is over the next 10 years.**

Q. That's not my question.

Okay, you understand I'm not asking about current law, correct? Do you understand that?

MR. STEWART: Well, now you say you're not, so now ask the rest of your question.

BY MR. SMITH:

Q. Okay. Do you understand what I just said, that I'm not asking about what current law is, correct?

A. **Would you rephrase your question, then?**

Q. You have no way to know what the actual tax rates will be that are applicable to the City of Detroit over the next 10 years, correct?

MR. STEWART: Objection.

THE WITNESS: We know with certainty under

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current law what the tax rates in the City of Detroit will be.

BY MR. SMITH:

Q. But we know -- there's no way to tell whether current law will remain unchanged over the next 10 years, correct?

A. **I agree.**

Q. And so there's no way to tell what the actual tax rates will be, whether they'll be the current law tax rates or some other tax rates over the next 10 years, correct?

A. **We know with certainty what the current law rate is; we do not know what the legislature might do in changing the rates.**

Q. And we don't know what the City might do in changing rates, correct?

A. **I do not know what the City might do.**

Q. And in fact, we don't even know who the decision-makers will be with respect to many policies in the City that could affect your forecast, correct?

A. **I wouldn't answer that question.**

Q. I mean, there's no way for you to know who's going to be doing the decisionmaking in the City over the next 10 years, correct?

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A. **As I mentioned, our forecast is based upon current law. We are not -- we did not do alternatives which considered any tax rates other than current law.**

Q. Okay. Why is that?

A. **Because standard tax forecasting always assumes current law tax rates. Otherwise, you're analyzing policy options, not making a forecast.**

Q. And standard tax forecasting does not use current law tax rates to forecast taxes over 10 years, correct? You can't give me an example where that's happened?

MR. STEWART: Objection.

THE WITNESS: As I believe I mentioned, we always use current law, and if current law doesn't change over 10 years, you know with certainty what the tax rates are.

BY MR. SMITH:

Q. But you can't give me an example of any forecast for tax revenue that's ever assumed that tax rates will remain unchanged for 10 years, correct?

A. **There may be forecasts which do assume changes in tax rates.**

Q. Okay. And so, it's possible -- it's -- it would be fair to do a tax forecast that assumes changes

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in tax rates over 10 years, correct?

A. Not in the work that I have done, either in Michigan or Minnesota or for the City of Detroit. The exercise was to come up with the best estimate of forecasted revenues over a defined period of time, assuming no change in current law.

Q. You can't identify any tax forecast that's ever assumed that the current tax rates will remain unchanged for a period as long as 10 years, correct?

A. I can't answer that question. I don't have knowledge to answer it.

Q. So you can't identify an example, correct?

A. I do not personally -- I cannot personally give you an example.

MR. STEWART: We have been on the record about 90 minutes. Is this a good time to take a break?

MR. SMITH: Yeah. Sure. We can take a break.

THE VIDEOGRAPHER: Going off the record at 10:36. This is the end of disk number one.

(RECESS, 10:36 a.m. to 10:47 a.m.)

THE VIDEOGRAPHER: The time is 10:47. This is the beginning of disk number two in the

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deposition of Robert Cline.

BY MR. SMITH:

Q. Mr. Cline, you know that there are a number of cities throughout the country that are experiencing fiscal distress or fiscal crisis, correct?

A. I have not been paying attention to what is going on in other cities.

Q. Okay. And that includes in performing your analysis in this case, you haven't sought to educate yourself about that, correct?

A. As I believe I mentioned earlier, when we were looking at population projections, that one of my staff persons looked at experience in other cities.

Q. Okay. But as an expert on tax policy, you know in general that one way cities respond to fiscal stress is to raise taxes and fees, correct?

A. Depends upon the city and the circumstances.

Q. Yeah, but there are a number of cities that have raised taxes in response to fiscal crises or fiscal stress, correct?

A. I believe a number of cities have both reduced spending and made changes on the revenue side in response to fiscal challenges.

Q. And when you say "changes on the revenue

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side," that means increasing taxes or increasing other sources of revenue, correct?

A. By increasing revenues, I mean either expansions in the tax base or perhaps changes in the tax rates.

Q. Okay. And the City of Detroit could increase income tax revenues, correct?

A. Excuse me?

Q. The City of Detroit could increase income tax revenues and rates, correct?

A. It's my understanding that the individual income tax rates in Detroit are fixed. I believe they're fixed by the State legislature.

Q. Okay. And has Detroit asked the State legislature to increase the income tax rates?

A. I don't know the answer that.

Q. Okay. So, as far as you're aware, Detroit has not asked the State to increase income tax rates, correct?

A. We were not asked to analysis alternative tax rates in the City of Detroit.

Q. Okay. And so, as far as you're aware, the City of Detroit has not asked the State to increase tax rates, correct?

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A. I haven't asked that question, if it's the case, but I'm not aware of any discussions.

Q. Okay. The City of Detroit can increase tax revenue by increasing collections, correct?

A. The City of Detroit can collect the dollar amounts that are currently owed in the existing tax system --

Q. And --

A. -- assuming they collect that revenue.

Q. And you know that currently Detroit is not collecting all of the revenue it's owed for taxes, correct?

A. I am not familiar with the specific collection policies and success in Detroit. We did, in our model, on the property tax side calculate what we called an effective collection rate. But it was based upon our calculation of two rate -- dividing one number by 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 we called the effective property tax collection rate.

Q. But you haven't investigated what percent of

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the income tax the City of Detroit is collecting, correct?

A. We have not done analysis of that issue.

Q. And nobody has provided you information about what the rate of collection of the income tax is, correct?

A. I'm not aware of that information. I don't know if someone else on the EY team may have received that information.

Q. And you haven't done any investigation into the rate of collection of utility tax?

A. I have not, as part of this project.

Q. You haven't done any investigation into the rate of collection of the corporate tax?

A. I have not.

Q. Have you done any investigation into whether there are exemptions from the various taxes you analyzed?

A. As I mentioned earlier, certainly on the property tax side, we've looked at different classifications of property because they have different assessment ratios, different features of the tax law, which we take into consideration in our revenue estimates.

Q. And there are reductions or exemptions for

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property taxes, correct?

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 investigation into the restructuring and reinvestment activities the City may perform relating to taxes?

A. We are aware of the line items in the summary financial reports that list specific activities that are related to restructuring.

Q. But do you -- you haven't done any investigation of what the City plans in terms of restructuring or reinvestment with respect to taxes, correct?

A. When we were asked to do the restructuring forecast, we took into consideration the different proposals that -- for restructuring activities.

Q. What is your understanding about what the City is planning to do with respect to taxes?

A. I am aware that there is a line item in the financial reports for increased collections due to collection activities.

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Q. Okay.

A. We did not do that estimate.

Q. Yeah. And it's not necessary to go into Chapter 9 to increase tax collections, correct?

MR. STEWART: Objection.

THE WITNESS: As I say, we did not look in detail at collections.

BY MR. SMITH:

Q. Well, that's not my question.

Cities increase tax collections all the time without going into bankruptcy, correct?

A. I can't answer that question. You'll have to rephrase it.

Q. You can't tell me whether cities increase tax collections as an expert in this case?

A. What we were asked to do by the City of Detroit was to estimate under current law the expected revenue stream over the next 10 years. And that is what we did in our analysis.

Q. Yeah, but I'm asking you -- you have a life outside of working for the City of Detroit, right?

A. I do.

Q. Okay. And you're holding yourself out as an expert on tax policy, right?

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A. I don't describe myself as an expert on tax 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?

MR. STEWART: Objection.

THE WITNESS: I am not an expert on compliance under existing law.

BY MR. SMITH:

Q. Okay. The -- you've got a baseline scenario in your forecast in the restructuring scenario, correct?

A. Correct.

Q. And the baseline scenario is a status quo scenario where none of the restructuring or reinvestment activities are undertaken, correct?

A. I believe that's a way to describe the baseline activity, the baseline scenario.

Q. And you haven't constructed any forecasts for what would happen if the bankruptcy case were dismissed and the City just went on after bankruptcy doing reform efforts, correct?

A. The baseline estimate that we did assumed no

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change of any underlying economics of the City of Detroit.

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

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

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

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

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

A. I haven't had those conversations myself.

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

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

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

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A. I do not.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. I have not.

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

(Telephone interruption.)

MR. STEWART: Just hit one. Thanks.

BY MR. SMITH:

Q. -- inappropriate or not feasible, correct?

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

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

A. We have not.

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

MR. STEWART: Objection.

MR. SMITH: Correct?

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

BY MR. SMITH:

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

MR. STEWART: Objection.

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

BY MR. SMITH:

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

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to testify that Detroit can't significantly increase revenues by increasing tax rates or increasing tax collections or by adding new taxes, correct?

MR. STEWART: Objection.

THE WITNESS: We have done no analysis -- excuse me.

MR. STEWART: Go ahead.

THE WITNESS: We have done no analysis on tax policy options in Detroit.

BY MR. SMITH:

Q. So, the answer is correct, correct?

A. I am still having --

MR. STEWART: Reread the question.

THE WITNESS: Please, reread the question, I think the double negative is still there.

(The record was read back by the reporter.)

THE WITNESS: I believe the correct answer to that question is, as I mentioned, we have looked at the collection rate of the property tax. We calculated an effective collection rate, and we did use that in our forecast.

We did not -- were not asked to and did not provide forecasts under alternative policy options, whether it's a tax rate change or adoption of a new

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tax, or change, in the base of an existing tax.

BY MR. SMITH:

Q. So, you -- Ernst & Young concluded that the City could increase property tax revenues by increasing collections, correct?

A. In our forecast of the property tax revenues, we did vary the collection rate over time.

Q. And you increased the collection rate; is that correct, or do you not know?

A. From what I remember, we may have brought the collection rate down, in the intermediate run, and then brought it back up in the longer run.

Q. Okay. But you haven't -- you haven't done any work that would allow you to testify that Detroit can't significantly increase revenues by increasing tax rates, correct?

MR. STEWART: Objection.

THE WITNESS: All of our revenue estimates are based upon current law rates.

BY MR. SMITH:

Q. So, the answer to my question is correct? You haven't done the work?

MR. STEWART: Objection.

THE WITNESS: Could you repeat the

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question, please.

(The record was read back by the reporter.)

THE WITNESS: We accepted the current law tax rates as what was available to Detroit. To the extent that Detroit is at the maximum, and I believe it may be the case for all of those tax rates, it would imply that under current law, that option is not available.

BY MR. SMITH:

Q. But current law can change, correct?

A. Correct.

Q. And you would agree with me that if current law changes, Detroit can increase tax revenue significantly by increasing tax rates, correct?

MR. STEWART: Objection.

THE WITNESS: It is true that an increased rate, with no offsetting decrease in the base, could increase revenue, but if you were going to forecast the increase of a tax rate in Detroit, you would also have to forecast the potential decrease in the tax base with mobile people and investment.

BY MR. SMITH:

Q. And so, sitting here today, you haven't done the work that would allow you to testify that increasing

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tax rates wouldn't result in significant additional revenue for the City of Detroit, correct?

MR. STEWART: Objection.

THE WITNESS: As I believe I've answered several times, we did not evaluate alternative policies. We is accepted current law as the foundation for our forecast.

BY MR. SMITH:

Q. Okay. So the answer is correct, you didn't do that work, correct?

A. Would you rephrase the question.

Q. You didn't do any work that would allow you to testify that by increasing tax rates, Detroit would not increase substantially its tax revenues?

MR. STEWART: Objection.

THE WITNESS: We did not run alternatives with our model at different tax rates.

BY MR. SMITH:

Q. That's something that you could have done, right? That's technically feasible for you to do, correct?

A. We were not asked to do that analysis.

Q. Okay. But is it technically feasible for you to do an analysis like that?

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

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

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

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

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

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

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

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

A. I have not.

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

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

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

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

A. I believe they look basically like income taxes.

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

MR. STEWART: Objection.

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

BY MR. SMITH:

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

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

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

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

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revenue options for the City of Detroit.

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

MR. STEWART: Objection.

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

BY MR. SMITH:

Q. Who asked you to do that job?

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

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

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

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

MR. STEWART: Objection.

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

BY MR. SMITH:

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

A. Correct.

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

MR. STEWART: Objection.

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

BY MR. SMITH:

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

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

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

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that it incurs are political decisions made by the people running Detroit, correct?

A. I believe they're made by the city council, and to some extent by the State legislature.

Q. Okay. And currently, the emergency manager is making the political decisions that dictate how much revenue the City has available and how much cost it's incurring; is that correct?

A. I'm not familiar with the operations of the emergency financial manager.

Q. Okay. So, you have no idea what the emergency manager does or what the emergency manager's powers are?

A. I have not inquired as to what those are.

Q. Have you inquired as to whether the City's already started undertaking any of the restructuring initiatives?

A. I have not discussed specifically what is or is not being done in Detroit on the expenditure side.

Q. And -- well, on the tax side, do you know whether the State has undertaken any of its restructuring? I mean, the City -- strike that.

Let me start the question again, okay? Is that okay?

A. Certainly.

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.

Q. Has anybody told you whether the City has undertaken efforts to increase income tax collections?

A. I am not familiar with any of the specifics of collection programs in Detroit.

Q. So, with respect to all of the taxes that you discuss in your report, you're not familiar with the specifics of collection practices; is that fair?

A. I think a more accurate statement is that other than the property tax forecast, we assumed collection rates would be unchanged, unless we had additional detailed information.

Q. Yes. But you haven't done any investigation into any of the property -- investigation into any of the collection practices regarding taxes in the City of

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Detroit, correct?

A. Let me be very clear, to be as accurate as possible. My team, which resides in the National Tax Practice, here in Washington, D.C., part of Ernst & Young, has not been involved in analysis of specific activities related to collection. Other members of the EY team may have more knowledge, but we have not been involved in the collection discussions.

Q. So, the team that did the tax forecasting at Ernst & Young has done no investigation into the tax collection practices of the City of Detroit; is that fair?

A. That's not fair. As I've clearly stated, I hope, we inquired about changes in the assessment ratios and the property tax components in terms of re-evaluation of existing property. You might call that collection related. I would call it related to the administration of current law, in order that we could do a more accurate forecast when the reassessments start to flow through the property tax system.

Q. Okay. Other than the property tax collections matters that you've discussed, the team that put together the tax forecasts for Ernst & Young didn't do any investigation into collection practices with respect to

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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 activities related to the taxes that you mentioned.

Q. The -- have you ever heard of the Financial Stability Agreement?

A. I'm not sure I have.

Q. You wouldn't know what terms are contained in it, correct?

A. That would be correct.

Q. You wouldn't know who the parties are to it, correct?

A. I don't know that.

Q. All right. Do you know who the emergency manager is?

A. I do.

Q. Who is that?

R. CLINE

A. Now you put me on the spot. Orr is his name.
Q. Do you know his first name?
A. I did at one point. Kevyn.
Q. Do you know who the treasurer for the City of Detroit is?
A. I couldn't name the treasurer.
Q. Can you name any of the officials in the City of Detroit that have involvement with taxes?
A. I could not.
Q. Do you know what the Creditor Proposal was?
A. I'm not familiar with that.
Q. So, you don't know what measures with respect to taxes were discussed in the Creditor Proposal?
A. I do not.
Q. You do know that the State has significantly cut revenue sharing over the last few years, correct?
MR. STEWART: Objection.
THE WITNESS: I know that there have been significant changes in the structure of the revenue sharing program with all local units of government in Michigan, including Detroit, and it is still under change, but -- through the last legislative session.
BY MR. SMITH:

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Q. Yeah. But you know that the revenue sharing for Detroit's decreased by hundreds of millions of dollars in the last few years, correct?
A. I personally have not gone back to look at the dollar change in revenue sharing. I believe Caroline Sallee may have paid -- may have looked more closely at the recent history. I do know in the aggregate that the discretionary portion of the program has probably been reduced about 45% over the last ten years.
Q. And you know that a number of cities in Michigan are in financial distress as a result of reduction in revenue sharing, correct?
A. I don't know that.
Q. Do you know whether other cities have emergency managers that have been appointed?
A. I don't know the answer to that.
Q. Do you know what the Disclosure Statement is?
A. The trouble I have is that I'm an economist by training, not a lawyer by training. I don't know what some of these documents or definitions are.
Q. When you revised your -- well, let me ask you this: There are cities outside of bankruptcy that are increasing tax collections, correct?
MR. STEWART: Objection.

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THE WITNESS: I don't know that.
BY MR. SMITH:
Q. So, you haven't done any investigation into that?
A. That is correct.
Q. Have you done any investigation into the steps that other cities have taken with respect to taxes in order to help address fiscal distress or crisis?
MR. STEWART: Objection.
THE WITNESS: I have not.
BY MR. SMITH:
Q. And that's not something you're aware of from your ordinary work?
A. No, it's not.
Q. You just not -- you just don't have knowledge about what cities have done with respect to taxes in responding to fiscal distress or fiscal crisis, correct?
A. I believe that's an accurate statement.
Q. Have you done any investigation into forecasting practices of other cities with respect to taxes?
A. I have worked with other cities on some of their revenue issues where I have seen their practices, but I haven't investigated practices of other cities.

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(Cline Exhibit 1 was marked for identification.)
BY MR. SMITH:
Q. I'm handing you what has been marked as Exhibit 1, and you can tell me if you have seen this document before?
MR. STEWART: Maybe for the record, you might -- for those listening or others, just say what it is.
MR. SMITH: Oh, it's the Fourth Amended Disclosure Statement with respect to Fourth Amended Plan.
THE WITNESS: I have not read this document. I have looked at some detailed tables. I don't know if they were part of this. They don't appear to be attached to this document. I have not read this particular document.
BY MR. SMITH:
Q. Okay. Let me ask you, if you could turn to page 168. Before I ask you about 168, I've got another question.
A. All right.
Q. You wouldn't recommend that the City reduce tax rates, correct?
A. We have no -- and I have no policy

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recommendation for the City.

Q. Okay. Can you identify any city in fiscal distress that's reduced tax rates?

A. There may have been, but I also don't know which cities recently increased their tax rates. I haven't been tracking individual city changes.

Q. So, you can't provide any example of a single city that's reduced tax rates that's in fiscal distress or fiscal crisis, correct?

A. I'm not familiar with recent tax changes at the municipal level.

Q. So, you can't provide any such example, correct?

A. I have not been tracking those changes.

Q. If you look down at the Section C at the bottom of the page, it says, "The City is implementing and will continue to implement initiatives designed to identify and collect taxes from individual and business non-filers, and improve the collection of past due taxes, and enhance tax collection efforts on a prospective basis."

Do you see that?

A. I'm not sure what page you are on.

Q. 168.

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A. Oh, I'm sorry.

Q. 168, Section C.

A. Well, I have multiple numbers at the bottom of each page. Which set of numbers is it?

Q. It's the one right in the middle of the page.

MR. STEWART: It's also 183 of 197.

THE WITNESS: Okay. Maybe that helps.

Okay. I have 168, 183 of 197.

BY MR. SMITH:

Q. Okay. And you see that the disclosure statement says, "The City is implementing and will continue to implement initiatives designed to identify and collect taxes from individual and business non-filers, improve the collection of past due taxes, and enhance tax collection efforts on a prospective basis."

Do you see that?

A. I see it.

Q. And before you did your analysis and provided your opinions in this case, you were unaware that the City was engaged in these tax collection efforts?

A. As I mentioned, other than our effective collection rate for property taxes, we did not look in detail at collection activities when we did our baseline forecast.

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Q. Okay. And so, you didn't take into account in your forecast the potential increase in income tax collections from the City's efforts, correct?

MR. STEWART: Objection.

THE WITNESS: We were not familiar with the specific items that are described on this page.

BY MR. SMITH:

Q. Okay. So, you did no analysis to attempt to incorporate increased revenue from increased tax collection efforts that the City was involved in previously, and continues to be involved in, correct?

A. I don't believe that's correct. It's important to understand that our starting point is current law collections. Some portion, for example, under the individual income tax -- some portion of current law reflects collection activities from prior years, which may be built into our base.

We did not add any additional adjustments for collection activities that may be described here, but if they were in existence in recent history, they are affecting our starting point.

Q. But your assumption is the income tax collections won't increase further over the 10-year period you looked at, correct?

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A. That's not correct.

Q. For the baseline scenario, your assumption is income tax collections won't increase over the 10-year period, correct?

A. I don't have the expert testimony, my expert report in front of me. I think over the entire 10-year period of time, our baseline forecast has minimal total tax collection changes for the individual income tax, whether from economics, collection efforts or otherwise.

Q. You, sitting here today, you can't tell me how the income tax minimal numbers are reported in your expert report?

A. Yes. I'm saying -- what I'm saying is that I don't remember the specific numbers that are in that report. I would be glad to look at that quickly, if you would like for me to comment on the individual income tax collection numbers.

Q. Okay. You're not aware of anything preventing the City from continuing to increase income or other tax collections if the bankruptcy case is dismissed, correct?

A. I have no information related to collection activities.

Q. Okay. So, there's no impediment as far as you're aware, correct?

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A. I'm not aware -- I don't know the answer to that question.

Q. Okay. Can you guess what the collection --

MR. STEWART: Objection. You're not going to ask a question about guessing.

MR. SMITH: Well, I can ask whatever --

MR. STEWART: No, you can't.

MR. SMITH: Are you telling me I can't ask a question -- are you directing him not to answer?

MR. STEWART: If the word "guess" is in your question, I am.

MR. SMITH: Okay. You're directing him not to answer?

MR. STEWART: If your question is, "Will you guess," yes.

MR. SMITH: Can you tell me what the income tax collection rate is presently in the City of Detroit?

THE WITNESS: For which tax type?

BY MR. SMITH:

Q. For the incomes tax, the municipal income tax.

A. Individual income tax or corporate income tax?

Q. For the individual income tax.

A. I don't know the current rate.

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Q. Do you know the current collection rate for the corporate income tax in the City of Detroit?

A. I do not.

Q. Do you know the current collection rate for the utility users' tax in the City of Detroit?

A. I do not.

Q. Do you know the current collection rate for the wage earning tax in the City of Detroit?

A. I do not.

Q. Do you know the current collection rate for the property tax in the City of Detroit?

A. As I mentioned, we have estimated an effective collection rate for the property tax.

Q. Do you know historically at any point in time what the collection rate was in the City of Detroit for the income tax, corporate tax, wage earning tax or utility user taxes?

A. I have not looked at that.

Q. And none of those numbers figure into your forecast, correct?

A. That is not correct.

Q. There's no place in your forecast where you take the collection tax -- the collection rate for the income tax, wagering tax, users -- utility user tax, and

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plug it into your analysis, correct?

A. That is not correct.

Q. What do you -- can you even tell me a -- like in the ballpark what the collection rate is for the income tax in the City of Detroit today?

A. I don't know the rate.

Q. So, you can't even give me a ballpark figure?

MR. STEWART: Objection.

THE WITNESS: As I mentioned, I don't know the current rate.

BY MR. SMITH:

Q. Can you tell me whether the collection -- the income tax collection rate is greater or lesser than 50% in the City of Detroit?

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

Q. Do you know whether the collection rate for the corporate tax is greater or lesser than 50% in the City of Detroit?

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

Q. And you don't know the answer to the forecast -- the collection rate questions about what the rates actually are, because you never investigated it, correct?

MR. STEWART: Objection.

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THE WITNESS: That is not correct. As I mentioned, we started with actual tax collections in the City of Detroit. To the extent that the current tax collections reflect a degree of non-collection of legally owned taxes, they are in our numbers. I simply can't tell you what the specific percentages are.

BY MR. SMITH:

Q. And if you -- if the percentages increase significantly in terms of the collection rate, then the revenue in your model would increase, correct?

A. That is correct.

Q. And you haven't been asked to look at what would happen if the City materially increased collection rates for the various taxes that you analyzed, correct?

MR. STEWART: Objection.

THE WITNESS: That's not correct. As I mentioned, we did build in to our forecast of the property tax a change in the effective collection rate for the property tax.

BY MR. SMITH:

Q. Okay. For the income tax, wagering tax, utility users' tax and corporate tax, you haven't done any analysis that would allow you to say how much

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additional revenue would be generated by a significant increase in the collection rates for those taxes, correct?

A. We have not done a separate adjustment for a change in the collection rate for those other taxes that you identified.

Q. Is the collection rate essentially fixed in your model for those taxes?

MR. STEWART: Objection.

THE WITNESS: As I said, the collection rate is embedded in the starting point. We have not made a specific adjustment going forward for a collection rate change.

BY MR. SMITH:

Q. And so, there's -- the collection rate remains constant in your model for the income, wagering rate, utility users' tax, and corporate tax, correct?

A. We have not dealt with a change in that collection rate as a separate adjustment to our revenue forecast.

Q. Okay. And is it possible for you to do that kind of analysis, to look at what would happen if collection rates increased for those taxes?

A. At this point, we do not have information

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necessary to analyze that question.

Q. Okay. And you haven't been asked to analyze that question, correct?

A. We have not, but as I mentioned, it is an important part of our property tax forecast.

Q. Okay. So, even though you have been asked to analyze changes in collection rate for the property tax, you haven't been asked to analyze changes in the collection rate for the other taxes that you analyzed, correct?

A. We were not asked separately to consider the collection rate issue for the property tax. We did it as part of our analysis of the property tax.

Q. So, even though you weren't asked to do it, you looked at collection rates for the property tax, correct?

A. We were asked to estimate over a 10-year period what we thought the collection of the property taxes will be under current law. We did understand the issues of falling property values, the mismatch between assessed values and market values and the other features that were affecting the property tax system, which did include the collection rate.

Q. Okay. So, even though you analyzed the

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collection rate for property taxes, you didn't analyze the collection rate for the other taxes, that you examined?

A. That is correct.

Q. And is that because you weren't asked to do that analysis?

A. No.

Q. You just didn't do it, but you could have done it?

A. We did not do it.

Q. I mean, do you have any explanation for why you did it with respect to one tax but not the other taxes? Was it just a lack of information or what was it?

MR. STEWART: Objection.

THE WITNESS: Also involved is understanding what difference a change might make. Some of those smaller taxes like the utility user tax, corporate income tax are collecting 3% of the total that we looked at. We did not feel that at the margin a collection rate change was large enough to consider in the revenue estimate.

So, it's partly an understanding of the relative size of the taxes, and the importance of compliance, adjustments, collection rate

R. CLINE

differences going forward.

BY MR. SMITH:

Q. And --

A. Not all taxes are equal in that evaluation.

Q. The income tax is a significant source of revenue for the City, correct?

A. It's about a third.

Q. Okay. And so, increasing the collection rate could significantly increase revenue from the income tax to the City, correct?

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

Q. And you don't know the answer because you didn't look into it, correct?

A. I don't know the answer because we did not do an analysis of the impact of changing collection rates in our analysis of the 10-year forecast.

Q. And so -- but with respect to the income tax, so you would agree with me that changing the collection rate could result in significant increased revenue to the City, correct?

MR. STEWART: Objection.

THE WITNESS: I don't know if it would be significant.

BY MR. SMITH:

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Q. And --

A. I'm not sure -- I can't define the term "significant."

Q. Okay. So, do you know whether there are differences in collection rates for the income tax between the different categories of individuals that you identified in your report?

A. I do not.

Q. As part of your analysis, did you look at population data for the City of Detroit?

A. As part of our analysis, we did look at the SEMCOG population projections as recorded, I believe it was the Detroit Future City project.

Q. Are there periods of time you looked at where Detroit's population increased?

A. In the past, I believe that's correct.

Q. And there were periods of time where Detroit's population increased in the past where there was no restructuring or reinvestment activity, correct?

A. I would assume so.

Q. And were there times where Detroit's population has increased after a recession?

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

Q. Just haven't looked into it?

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A. No, I have not.

Q. You haven't looked into the causes of population increase or decrease in the City of Detroit, correct?

A. We did not do a separate population forecast for Detroit.

Q. You just took the numbers from SEMCOG; is that correct?

A. I think the more accurate statement is we started with the numbers from SEMCOG. We may have made adjustments over time.

Q. Have you investigated at all what potential changes in the law relating to taxes the City may be planning?

A. We did no analysis of tax policy options for 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?

A. I have not looked at the composition of City revenue sources.

R. CLINE

Q. You're not offering any opinion that the City is unable to give creditors more than they're planning under the plan, correct?

A. I'm only commenting on the forecast that we did of available State -- City revenues for the major taxes that we looked at.

Q. But you're not offering any opinion that the City is unable to give creditors more money, correct?

A. I am simply commenting on the revenue forecasts that we did.

Q. So, is the answer "no" to that question?

A. The answer is -- I'm not sure I understand the question.

Q. Okay. Well, you understand that the creditors and the bankruptcy aren't getting all the money they're owed, right? That's the City's plan --

A. I believe I'm --

MR. STEWART: Objection. That's okay. It's on the record. It's a legal objection. Go ahead and answer it.

THE WITNESS: I have not been following the discussion of creditors for the City of Detroit.

BY MR. SMITH:

Q. I mean, do you have any understanding about

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what the allegations of the bankruptcy are at all or not really?

A. I would say not really.

Q. Okay. Do you agree that it's reasonable and appropriate policy for a City to adopt in facing fiscal crisis to raise taxes?

A. I'm not commenting on nor did we do work on policy options for the City of Detroit.

Q. So you're refusing to answer that question?

MR. STEWART: Objection.

THE WITNESS: Not at all. I'm simply stating we did not evaluate policy options for the City of Detroit.

BY MR. SMITH:

Q. Okay. The cities that you have worked with, 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 economic impact of alternative policies that they developed.

R. CLINE

Q. And what policies did Cincinnati develop that you were looking at?

A. I don't remember all of the specifics, but I think there were several tax changes.

Q. Including what?

A. I think they were looking at all of the tax sources available to the City.

Q. Okay. And was the City of Cincinnati looking at increasing revenue through taxes?

A. I think the objective was restructuring the existing tax system to be more competitive economically.

Q. Did the City want to increase revenues, or decrease revenues?

A. I believe it could have been a revenue neutral exercise.

Q. Was the City of Detroit in fiscal distress at all -- I mean, the City of Cincinnati, were they in fiscal distress?

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

Q. Can you identify any city with as many different sources of tax revenue as Detroit has?

A. I don't know the answer to that. I haven't done an in-depth evaluation of alternative cities.

Q. So, you can't provide any example of a city

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that has more potential revenue sources from taxes than Detroit, correct?

A. I'm not aware of the revenue structure of specific cities, and whether or not under current law they have the ability to change the tax collections.

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 cities in raising revenue is it has the municipal income tax, correct?

MR. STEWART: Objection.

THE WITNESS: Excuse me.

MR. STEWART: Go ahead.

THE WITNESS: I don't know if I would describe it as an advantage. I do know that Detroit has an individual income tax.

BY MR. SMITH:

Q. One source of revenue that Detroit has that other cities lack is the individual income tax, correct?

A. There are a number of governments in other states, including Maryland and Ohio, that use local individual income taxes.

Q. And there are a number of governments that

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don't have an individual income tax?

A. I think that is correct.

Q. And so, one source of revenue that Detroit has that other cities lack is the individual income tax, correct?

A. We did not analyze revenue raising options for the City of Detroit. We estimated what revenue we thought --

Q. That's got knowing to do with --

MR. STEWART: Please, don't interrupt his answer.

MR. SMITH: This is really getting obstructive.

MR. STEWART: Well, you have to let him --

MR. SMITH: No. We can take the transcript to the judge later on.

MR. STEWART: You can do that. You must let him finish his answer, even if you don't like it. Then ask your next question and do whatever you want to do, but don't interrupt the witness's answer.

MR. SMITH: You interrupted my question and told him he couldn't answer it, so how is that any different?

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MR. STEWART: Finish your answer.

THE WITNESS: What I -- what the expert report that you have in front of you reports are the results of our estimating expected revenue 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:

Q. That had nothing to do with my question. Here's my question.

A. Oh, I'm sorry. I must have misunderstood.

Q. Okay. You know there are cities that don't have an income tax, right?

A. Correct.

Q. And Detroit has an income tax, right?

A. Correct.

Q. And so, Detroit has a source of revenue, i.e., the income tax, that other cities do not have, correct?

A. My interpretation as a public finance economist is that there's tremendous variation in the system of taxes used at any level of government. Counting the number of taxes is not sufficient to tell you how they compare in revenue raising ability. You

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have to look at the combination of all of the tax sources, not one tax source in isolation.

Q. Okay. You would agree that Detroit has many tax sources that other cities do not have, correct?

A. I'm not sure that's correct.

Q. Detroit has an income tax which other cities do not have, correct?

A. Correct.

Q. Detroit has a wagering tax which other cities do not have, correct?

A. Many do.

Q. But there are plenty of cities that don't have wagering taxes, right?

A. Correct.

Q. And the corporate tax is a tax that Detroit has that other cities don't have, correct?

A. Correct. It raises 3% of their revenue.

Q. Okay. And so, there are a number of tax sources that Detroit has that you don't find in other cities, correct?

A. Correct. And a number of tax sources other cities have that Detroit does not.

Q. Okay. And so, there are a number of sources that other cities have that Detroit could contemplate

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adding to its taxes, correct?

A. I don't know if that's correct because I don't know the full legal constraints the State imposes on the City of Detroit on revenue raising options.

Q. Okay. Well, you -- the City could work with the State -- there are a number of sources that the City could consider working with the State to add to the different taxes that are available to raise revenue for Detroit, correct?

A. I won't speculate on that. I'm not -- and did not analyze options available to the City of Detroit.

Q. Do you know if tax collections for the income tax, wagering tax or utility tax or corporate tax were increasing or decreasing before Detroit went into Chapter 9?

A. I do believe we looked at the recent history, let's say going back to 2009, 2010, and certainly the deep recession had a major impact on Detroit, as it did on the rest of the state of Michigan.

Q. But do you know what the -- whether collection rates were increasing or decreasing for taxes before Detroit went into bankruptcy?

A. No, I don't.

Q. Have you been party to any discussions about

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what will happen with Detroit if the bankruptcy plan is not confirmed and the case is dismissed?

A. No, I have not.

Q. Is it fair to say that the City has not engaged your services for any purposes after -- for the period after the bankruptcy is over?

A. My understanding is that the EY team in Washington is still part of the overall EY project working in Detroit. As far as I know, there's no discussion about the team in D.C. stopping or starting another aspect of the project.

Q. Okay. But as far as you're aware -- you're not aware of any work that the City would retain you to do after the bankruptcy is contained, and when I say "you," I mean Mr. Cline?

A. I will shortly be leaving Ernst & Young as an employee. I have committed to be available to provide testimony at the upcoming hearing and be available through that point in time.

Q. Why are you leaving?

A. Because I am retiring.

Q. Okay. Congratulations.

A. Thank you.

Q. Are you planning to do any work after you

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retire, or not really?

A. I am planning on retiring by taking a full-time position at the OECD in Paris.

Q. Okay. When is your retirement scheduled for?

A. I believe today it's scheduled for August -- probably August the 2nd.

Q. Are you going to have any association with Ernst & Young after that time or --

A. I will not.

Q. Is that prohibited by your next position, or not?

A. The OECD does not allow its employees to be employed by other associations unless they give permission, and they have not given me permission.

Q. So, as far as you're aware, the City hasn't asked the State to cooperate in raising income tax rates?

A. I have no idea what conversations are taking place between the City and the State.

Q. And the City hasn't -- would it be fair to say you're offering no testimony about tax policy with respect to Detroit?

A. That is correct.

Q. The City, is it fair to say -- you're not aware of the City ever asking the State to cooperate in

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raising any of the other taxes that you discussed in your report?

A. I am not aware of the -- of any conversations.

Q. The -- as far as you're aware, the City hasn't asked the State to cooperate in implementing new taxes?

A. I'm not aware of any discussions.

Q. As far as you're aware, the City hasn't asked the State to cooperate in eliminating exemptions or reductions in applicable taxes?

A. I'm not aware of any conversations.

Q. Do you agree that in performing forecasting, it's important to follow generally accepted standards and procedures?

A. I believe in forecasting State or local revenues, you want to use the best available tools that you have, starting with the most complete information on actual collections that you have.

Q. So, in doing forecasts, it's important to assemble the most complete and comprehensive set of information in order to accurately perform your forecast, correct?

A. That is correct, although different types of information are of different value, and when we did our forecast, I believe we incorporated what we thought were

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the key drivers in determining the baseline forecast.

Q. Okay. But as a general matter, in conducting forecasts, you want to assemble the most comprehensive set of information, correct?

A. That is relevant to the forecast itself.

Q. All right. You agree that somebody could perform a reasonable forecast that includes the effective changes in collection rates over time on the income tax, correct?

A. It could be possible.

Q. And you agree that people -- experts could conduct forecasts that come to reasonable outcomes that differ from yours in terms of your forecasting?

A. There could be different results, certainly, depending upon the key assumptions and the approach that's used in doing the estimates.

Q. And would it be fair to say that you haven't looked into the law regarding, you know, what the City's authority is respect to taxes?

A. That is correct, in that we have not evaluated alternative revenue sources for the City of Detroit. We wanted certainly to make sure we understood current law in doing our revenue forecast.

Q. Then how did you get an understanding of

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current law?

A. Some cases looking at tax returns and looking at tax statutes to see whether or not, for example, there was a scheduled rate change in current law.

Q. You haven't done any investigation into what policy choices Detroit's leaders are contemplating that might affect your tax forecasts; is that fair?

A. No.

Q. Is that correct?

A. We have not evaluated any alternative policy options for the City of Detroit.

Q. And so, you haven't evaluated policy options that the City may currently be evaluating, correct?

A. I believe I've answered that question clearly.

Q. And the answer is correct, right?

A. The answer is that we have not done any evaluation of policy options for the City of Detroit.

Q. Do you agree with me that if, for example, tax rates change or collection rates materially go up, your forecast could turn out to be off by hundreds of millions of dollars?

A. If current law changes, you would need a new forecast of what the expected revenues are.

Q. And you agree that it's possible that your

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forecast, depending on changes in the assumptions that may occur in the future, could be off by hundreds of millions of dollars, correct?

A. I don't know what the magnitude would be. A very small change in the tax rate may change our numbers by 1 percent, so it depends upon the magnitude of the law change.

Q. You agree that if there's significant changes in the assumptions, your forecast could be off by hundreds of millions of dollars, correct?

A. I wouldn't agree to that general statement, no.

Q. Well, I mean if the tax rate were increased by 1 percent on the income tax or property tax or something like that, that could change your forecast by hundreds of millions of dollars, correct?

A. One example I could respond to, because we did look at it in -- as part of the revenue forecast, we do know that the corporate income tax rate under current law doubled recently. It's only collecting $26 million in total, that would be a $12 million change in tax collections.

Q. But if the income tax rate or the property tax rate doubled, the City would have significantly more

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money, hundreds of millions of dollars more, correct?
A. I couldn't tell you what the magnitude of the change would be.
Q. And --
A. I'd have to run the model to see that.
Q. So, you're incapable of offering any opinion regarding what would happen in terms of the amounts available to the City if the assumptions in your model significantly change, correct?
A. We did not simulate different revenue forecasts based upon alternative tax rates. We did not do that.
Q. Okay. But in general, for any of the assumptions, if the assumptions significantly change, you're not in a position to offer an expert opinion regarding what the revenues would be to the City of Detroit, correct?
A. Not without re-running the model.
Q. Do you know who the mayor of the City of Detroit is?
A. I do remember I have been mispronouncing his last name. I don't recall.
Q. Do you know what the role of the mayor or the city council is with respect to taxes?

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A. I do not know the details in Detroit.
Q. And the emergency manager or his assistants haven't shared with you any plans or policies relating to taxes; is that fair?
A. I believe that's accurate. We have not discussed alternative tax policy options for Detroit.
Q. You're not offering any guarantee regarding the accuracy of your forecast, correct?
A. That is correct.
Q. I mean -- and there's a standard disclaimer that everybody, including Ernst & Young, uses that these kind of forecasts, you can't guarantee that they're accurate inherently, correct?
MR. STEWART: Objection.
THE WITNESS: The objective is using the existing information and your understanding of the underlying economics to get as solid an estimate of the expected revenue stream as you can get. That's the objective.
BY MR. SMITH:
Q. Yeah.
A. We won't know until after the fact how accurate the revenue estimates are.
Q. So, you wouldn't guarantee to the Court that

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your revenue estimates are accurate, correct?
MR. STEWART: Objection.
THE WITNESS: I'm not sure what "guarantee" means in this situation.
BY MR. SMITH:
Q. Well, I mean, you wouldn't vouch for the -- there's no way to vouch for the accuracy of your revenue forecast, correct?
MR. STEWART: Objection.
THE WITNESS: We accept the responsibility for our revenue forecast. We believe we did it using the best information available, appropriate modeling approach, and we were very careful in what we were doing. That's what we can assert.
BY MR. SMITH:
Q. Did anybody from the City ask you to change some of the assumptions in your models?
A. Not me personally, no.
Q. And do you agree that there's no scientific literature or data available that quantifies any increase in tax revenue or revenue in general from restructuring or reinvestment proposals by the City?
A. I am not familiar with any analysis related to Detroit's current situation that directly links spending

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initiatives to specific revenue changes -- tax changes, which is what we looked at, just the tax changes.
Q. Yeah. Do you which department of the City collects the various taxes?
A. I have been to the website to look for tax return information. I don't recall what -- might have been the finance agency. Don't recall exactly what the name of the agency is.
Q. Do you know if different agencies collect different taxes in Detroit?
A. I am not familiar with the mechanics of who's responsible for depositing the money in the bank.
Q. So, you don't know the -- which department actually collects each of the taxes you analyze; is that fair?
A. For our revenue forecast, it was not one of the elements we thought was significant.
Q. Yeah. So, you don't know that information, correct?
A. I don't think I know it off the top of my head, no.
Q. Do you know who does the forecasting for the City?
A. I do know that the City has a consensus

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forecasting approach, which I believe they borrowed from the State or adapted after the State model. I think there may be three separate groups of people that do the forecast, they reach a consensus, and it's published in the spring each year.

Q. Before this consensus group was put together, do you know whether the City -- I mean, as far as you know, did the City ever do any kind of forecasting for taxes or other purposes?

A. I don't know what the mechanism was in the City for preparing the budget.

Q. The only forecasting you're aware that the City has ever conducted is this consensus forecast that's done; is that correct?

A. No. What is correct is that since I have been involved in this project, my understanding of the forecasting process is based on my understanding there is a consensus forecasting process.

Q. And your forecast does not agree with the consensus forecast, correct?

A. I'm not sure how it differs.

Q. Okay.

A. I do know that we did not adopt the consensus forecast back in 2013.

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Q. Okay. I mean, but you know that there are differences between your forecast and the consensus forecast; is that fair?

MR. STEWART: Objection.

THE WITNESS: If there are differences, I don't know what the magnitudes are.

BY MR. SMITH:

Q. Have you done any investigation to look at the consensus forecast to see whether you're consistent or inconsistent with the consensus forecast?

A. I've read the latest consensus forecast and we did not make any changes in our forecast based upon what I read.

Q. Okay. Having read it, though, you know that there are differences between your forecast and the consensus forecast, correct?

A. I'm not aware of what the magnitude of those differences are.

Q. But you know there are differences between your --

A. I would assume --

Q. -- forecast and the consensus forecast?

A. I would assume there are differences.

Q. And I think we already mentioned it, but the

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consensus forecasts do not try to forecast revenues or expenditures beyond two or three years, correct?

A. What is correct is that they are geared to the budgetary cycle. If the city council considers four-year budget horizons, that's what the tax forecast will be. If it's a two-year horizon, it will be a two-year forecast.

Q. You're not aware of anybody at the City ever suggesting that there should be a forecast for as long as 10 years, correct?

A. I'm not aware of any of the procedures the City has used in the past.

Q. You didn't do any sensitivity analyses to figure out which are the most important drivers of your numbers, or did you?

A. We selected the drivers based upon what we believed were important determinants of the tax base and its growth over time. We did not perform specific exercises where we increased a parameter by 10 percent or lowered it by 10 percent.

Q. Okay. So, you don't know which parameters have the most impact on your forecasts?

A. Based upon my professional experience, I have a -- an idea of what matters.

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Q. But you haven't done any testing or analysis to figure out which parameters have the most impact on your analysis and what effect changing them would be -- would have on your outcomes, correct?

A. We have a wide range of assumptions from statutory tax rates to changes in employment. They have different effects on the dollar amounts of the revenue estimates for specific taxes. All of that was considered in preparing our revenue estimate.

Q. Yeah. But you didn't do any analysis where you changed parameters to figure out what the impact would be on your outcomes, correct?

A. As I say, we did not do specific simulations where we increased one of 50 parameters by 10 percent, holding others constant, or reduced it by 10 percent holding others constant, or changing all 50 by 10 percent. We did not do that.

Q. Is that something that you've done in prior forecasts?

A. In deriving point estimates for revenues related to budget preparation, that tends not to be done. You do your best point forecast of your revenue figure based upon your knowledge of what is most significant, what is less significant, and your best estimate of what

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the values of those parameters should be.

It's not an exercise of creating a band of possible outcomes around the point estimate. That's not how it operates.

Q. Have you ever forecast tax revenues where you have created a band of possible outcomes?

A. Not that I remember.

MR. SMITH: You want to take a quick break, if you don't mind?

MR. STEWART: Sure. For how long?

MR. SMITH: I don't know, five minutes?

MR. STEWART: Yeah. Five minutes is fine.

THE VIDEOGRAPHER: We're off the record at 12:14.

(RECESS, 12:14 p.m. - 12:22 p.m.)

THE VIDEOGRAPHER: On the record at 12:22.

(Cline Exhibit 2 was marked for identification.)

BY MR. SMITH:

Q. I've handed you Exhibit 2, which is an article from the Detroit News, entitled "Reverse Commute May Hike Tax Bill."

Do you see that? Have you got that?

A. I have the document.

Q. Okay. And you see that this article discusses

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how the emergency manager's restructuring plan includes a proposal to try to collect income taxes from Detroit residents who work outside the city limits? Do you see that?

A. Just glancing at it, I'm not sure what mechanism they're discussing for increasing tax collections.

Q. It's withholding. It talks about withholding. If you look at the third paragraph, it says, "The City is considering the enactment of a local ordinance that would require employers to withhold City income taxes of reverse commuters. The disclosure statement reads, 'It's not a new strategy, but one likely to draw opposition in some circles.'"

Do you see that?

A. I do see that, yes.

Q. Okay. Nobody ever disclosed to you that there were proposals to increase tax collections by withholding taxes from reverse commuters, correct?

A. I was aware that that was an issue that had been raised.

Q. Okay. How were you aware of that?

A. I think it was reading descriptions of considerations.

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Q. Okay. And then this article goes on to say in the fifth paragraph, "A study released by consultants MacKenzie & Company, estimated that uncollected income taxes from Detroit residents working outside the city, or reverse commuters, totaled more than 140 million in 2009. That means the City took in slightly less than half of what it should."

Do you see that?

A. I do.

Q. Were you aware of the MacKenzie study that showed that the City was failing to collect as much as $140 million?

A. No, I was not. I'm sorry.

Q. Okay. Nobody shared that with you from the City?

A. I was not aware of that study.

Q. Okay. Would it be fair to say that there's a significant amount of income tax that's not being collected from reverse commuters?

MR. STEWART: Objection.

THE WITNESS: I can't comment. I'm not familiar with the estimates.

BY MR. SMITH:

Q. Before you did your forecasting in this case,

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would you have liked to know about this MacKenzie study that showed that there were potentially $140 million in income tax not being collected?

A. In answering your question, I think it's important to note that in the plan -- I believe the correct phrase is "Plan of Adjustment," there is a number for increased compliance collections. It is independent and separate from our revenue estimate based upon current law and what we think the underlying economics is. I believe you see both of those numbers in the Plan of Adjustment.

If you had that document, I could point that out to you, but it's important in answering your question to note that we were responsible for the economics, tax -- economics related under current law tax collections, I believe there's a separate line item which identifies the potential increase from collection activities. I believe we've avoided double counting those numbers, but I do believe they're separate exercises.

Q. Okay. So your forecast doesn't attempt to quantify the total amount of money that's potentially available from tax revenue to the City of Detroit, correct?

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A. **Our revenue forecast of the major taxes we were asked to look at under the baseline scenario includes current law tax parameters, recent history, including collection experience under current law that we have included in our revenue estimates.**

Q. But to get to the total amount of revenue that the City could collect from taxes, you would need to add on to your revenue estimates amounts from measures such as this proposed withholding measure that would be in addition to what you've calculated, correct?

A. **We were only responsible for a portion of the total revenue available to the cities -- to the City, and that was the taxes that you mentioned earlier in when you listed which taxes were involved; not all City taxes and not all sources of City revenue.**

Q. Okay. So, to get to the total tax revenue, you would have to add sums from measures such as this withholding measure.

A. **Correct.**

Q. Correct?

A. **Excuse me.**

Q. And then you would also, in order to get to the total tax revenue available, add sums attributable to other taxes and things that you didn't consider, correct?

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A. **Correct.**

Q. But sitting here today, you don't have any basis to dispute MacKenzie's conclusion that there could be $140 million in additional revenue from withholding taxes from reverse commuters, correct?

A. **I have no opinion. I'm not familiar with the analysis.**

Q. So, you have no basis to dispute it or criticize it, correct?

A. **I'm not aware of the information that it's based on.**

Q. So, that would be correct, you're not -- you don't -- you're not disputing or criticizing it or offering any opinion about it, correct? It's just not something you looked at, correct?

A. **It is correct that I have no opinion on that number.**

Q. Okay. What other additions to your tax revenue estimates are you aware of or have you heard about other than, you know, the taxes you didn't consider, and you know, potential increases in collections through withholding and things like that? What other additions are you aware of to your revenue-from-taxes number that would have to be done to

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get up to the total tax number?

MR. STEWART: Objection.

THE WITNESS: I'm not familiar with revenue sources outside of the major taxes that we were asked to estimate.

BY MR. SMITH:

Q. Okay. So, you just haven't done any investigation to figure out what would be needed to be added to your forecast in order to get to the total revenue from taxes, correct?

MR. STEWART: Objection.

THE WITNESS: We were not asked to do that analysis.

BY MR. SMITH:

Q. Okay. I mean, do you know if anybody has been asked to do that analysis?

A. **I don't know the specifics.**

Q. Does this sound like a good proposal for increasing revenue to the City, doing withholding?

A. **I have no comment on policy options at the City of Detroit.**

Q. You're not criticizing the policy of withholding the reverse commuter taxes, correct?

A. **I'm not commenting on the policy proposal.**

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Q. Okay. Have you heard of policies to piggyback tax collection for the City of New York -- I mean, the City of Detroit, on the State income tax?

A. **Not specifically for the City of Detroit. It has been discussed in other states.**

Q. I mean, other -- other cities do that in other states, they piggyback tax collection with the State. Are you aware of that?

A. **I believe in Ohio that may be the case.**

Q. And is that a successful method for tax collection?

A. **I do not know.**

Q. You're not offering an opinion on that one --

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

Q. Would it be fair to say that you're offering no opinions outside the narrow four corners of your expert report?

A. **As you saw in the expert report, using the legal term, "expert," I've tried to answer in great detail about the methodology and the results of what we were asked to do, and I'd be glad to discuss that in whatever detail is necessary.**

Q. We'll probably do that after lunch, but would

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it be fair to say you're not offering any expert opinions that aren't contained in your expert report?

A. I'm not offering any comments about what Detroit should do in changing their tax policy.

Q. Are you qualified to offer opinions about what Detroit should do in changing its tax policy?

A. Not being a lawyer, I have to be very careful. I don't know what "qualified" means in this context.

Q. Well, I mean, you have some experience, right, in your job, and in your positions in state government, right?

A. I have a number of years in, in working at the State level in terms of taxation.

Q. Do you feel like you're qualified in the sense of, you have the requisite expertise or experience to offer opinions about what Detroit should or shouldn't do in terms of tax policies it might adopt to increase revenues.

A. I have no recommendations for Detroit in terms of policy options they should consider or adopt.

Q. Yeah. But if you -- if Detroit came to you and wanted to hire you for -- to provide some policy options, would you accept that or do you feel that you don't have the background to be able to provide that

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advice to the City?

A. Our approach to the business that I'm in at Ernst & Young is to be very clear with any client that approaches us, we will not make recommendations for policy changes for any entity -- governmental entity. That is a rule we follow very stringently.

Q. And that's because at the end of the day, the amount of revenue or -- revenue available to a City or cost that it incurs is a political decision for the political actors, correct?

A. It has that dimension, correct.

Q. The -- do you know if the City audits the business tax returns?

A. I assume they do. I do not know. I'm not familiar with the collection practices for the City of Detroit.

Q. You agree it's important to audit tax returns in order to make sure that you're collecting the tax that's owed, right?

A. I believe every unit of government that collects an income tax has an auditing function attached to it.

Q. And failing to audit tax returns could be basically a significant problem because you may not be

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collecting all of the tax that's due if you don't audit people, right?

MR. STEWART: Objection.

THE WITNESS: I have no comment on the collection activities in Detroit. I simply am not familiar with what Detroit does in auditing the separate taxes.

BY MR. SMITH:

Q. But you would expect a competent City that's doing its job to audit all of the tax returns, correct?

A. No. Not audit all of the -- not -- no. No government entity audits all of the tax returns.

Q. Well, I mean, audit -- you would expect a competent government entity to audit all of the categories of tax returns and not exclude certain categories, correct?

A. I expect in terms of modern administration of the income taxes, governmental entities use statistical procedures to determine who will be audited, and it certainly is not every tax return.

Q. Do you have any idea of what auditing procedures Detroit uses?

A. Not at all.

Q. Do you agree that there's a number of factors

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that determine whether people pay their taxes?

A. Could you rephrase that? I'm not sure what you're asking.

Q. Well, how about in context of the property tax, people may fail to pay their property tax because they believe their assessment is wrong or because they don't believe they're getting good services or for a variety of factors; is that fair?

MR. STEWART: Objection.

THE WITNESS: I think -- I believe what you are describing is a question of voluntary compliance, and I'm just not familiar with any studies in Detroit of the factors that are currently affecting voluntary compliance.

BY MR. SMITH:

Q. Okay. So, you have no opinion on factors that might affect voluntary compliance with any of the Detroit taxes, correct?

A. I haven't looked at those issues in Detroit, so I can't comment on them.

Q. You know in your expert report there's a list of documents that you considered. Do you recall that?

A. I do.

Q. Are those all the documents that you've

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considered in formulating your opinions?

A. I assume so.

Q. Can you explain to me what this situation is with the Public Lighting Authority and how you account for that in your forecast?

A. No, I can't, because that was a number that was given to us by the E&Y team in Detroit. We plugged it into our spreadsheet. Our responsibility was to do the gross tax collection forecast. They provided the subtraction for the PLA, Public Lighting Authority transfer, and we accepted the numbers that they gave us for that.

Q. Okay. So, you don't know how the numbers that you were provided for the subtraction to the public utility revenues were calculated?

A. I do not know how they were calculated, but we did ask questions, detailed questions, about the timing, and received explanations about the timing from year to year, of the fluctuation in the transfer.

Q. Do you know what those -- what the subtractions to the utility user tax were for?

A. I do not.

Q. And you don't know how the subtractions you plugged in for the utility user tax were calculated,

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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?

A. That would be a place where I would start.

Q. Okay. I know you don't want to volunteer him for any questions, but my basic question is you don't know how the numbers that you subtracted from the utility user taxes were calculated, correct?

A. That's correct.

Q. You agree that the economy is improving, correct?

A. I am aware of the fact that in our revenue forecast, we have been bringing back employment growth in Detroit. I believe it accurately reflects where Detroit is at this point in time.

Q. Okay. And so, there -- do you agree that the

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economy in Detroit is improving?

A. I don't know the answer to that. I don't know what metric you might be thinking about as a measure. What was most important for our forecast was changes in employment in Detroit.

Q. Okay. And do you agree that the employment in Detroit has been improving?

A. I'll have to go back and look at the recent time span to see exactly what's happening. What does the consensus forecast say?

Q. Well, I'm looking at this for another purpose?

A. Okay.

Q. I don't mean to confuse you.

A. I believe it might be in that report.

Q. Okay. That's a fair -- that's a fair point.

I might as well mark the consensus forecast while you see that I've got it in my hand. I've got a question about it.

A. Okay.

Q. It wasn't about the employment, but you can feel free to take a look at it if you want; on the issue of employment, unless it's going to be hard for you to find. It's attached to this Exhibit 3, which is some emails and attaching documents from the consensus

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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 asking me for my opinion about the employment numbers in this report.

Q. Okay. Well, I was -- you had mentioned that you thought it might be in there, but it sounds like it's not. Is that...

A. I don't see a specific table that lists the economic drivers.

Q. Okay. I did have another question about the consensus report. If you turn to the Bates number that's POA00537609, there's a section on wagering taxes there. Do you see that?

A. I see that.

Q. Okay. And the last sentence there talks about

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the consensus estimates for the growth in wagering tax revenue. Do you see that?
A. **Yes.**
Q. And the consensus statement says, "Fiscal year 2014, consensus estimate remains flat with an additional decline of 1.2 percent projected by fiscal year 2015."
Do you see that?
A. **Yes.**
Q. And then it says "A turnaround is expected in fiscal year 2016 with a consensus projecting 1.5 percent growth."
Do you see that?
A. **Yes.**
Q. So, the consensus estimate is for 1.5 percent growth in wagering tax going forward from the fiscal year 2016, correct?
A. **Yes.**
Q. And that's not -- that's inconsistent with the rate of growth that you used, correct?
A. **If I could correct my prior answer.**
Q. Okay.
A. **It doesn't talk about going forward. The last year that's mentioned is FY 2016.**
Q. Okay. So then --

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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?
A. **I believe we're not far off. We might be at a .5 percent rate of growth instead of a 1.5 percent growth, but we do have them, I believe, growing at some point in that interval of the forecast.**
Q. But you don't use the same numbers for wagering tax revenue as the consensus estimate, correct?
A. **If I understand your question, in 2013, when we made the original revenue estimates, we did not use the consensus forecast numbers, nor have we changed our current forecast based upon the -- this new 2014 consensus forecast.**
Q. Okay. So, as a result, the numbers you used for forecasting wagering tax revenue are different than the numbers in the consensus forecast, correct?
A. **It appears to be the case.**
Q. And the consensus forecast notes that there's expected to be a turnaround in wagering tax revenue in fiscal year 2016, correct?

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A. **I read that, yes.**
Q. And did you -- in your forecast, you don't model a turnaround in wagering tax revenue in fiscal year 2016, do you?
A. **Specifically what we've done in our forecast is we had, back in 2013, correctly picked up the fall in wagering collections in Detroit. We got that pretty close back in 2013. And we had it pretty close for 2014. We knew they were falling because of the opening of the new casinos in Ohio.**
We are not bringing it back as quickly in our forecast as the Detroit consensus forecast.
Q. Okay. So, the Detroit consensus forecast has a higher wagering tax revenue growth figure than you use, correct?
A. **Certainly in FY 2016, that's the case.**
Q. Okay. And you don't use any mathematical formula to generate your wagering tax rate growth figure, do you?
A. **I wouldn't say that we had a mathematical formula. We have mathematical calculations within the Excel spreadsheet.**
Q. What is the mathematical calculations that generate the wagering tax growth rate?

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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 that a number that you --
A. **That's an assumption --**
Q. -- input?
A. **-- that we input into the model.**
Q. Okay. And the number you use for the wagering rate growth -- the growth rate for wagering taxes is an assumption that you personally made?
A. **I, in a sense, was responsible for all of the assumptions that are in the model.**
Q. Yeah.
A. **I'm not sure what you mean by am I personally responsible for the number.**
Q. Well, who picked the wagering tax rate growth rate that you use to calculate wagering tax revenue?
A. **I signed off on that assumption.**
Q. And that's an assumption that was made, correct?
A. **Correct.**

R. CLINE

Q. And do you know how that assumption was generated?

A. I do.

Q. Okay. How was it generated?

A. It was looking at what is going on around the states in the collection of wagering income -- taxes from gross receipts based upon wagering. A number of states are quite disappointed in the revenue they're now receiving because of the rapid expansion of gambling in competitive, close-by states.

We felt that based upon that experience that a relatively low positive rate of growth, somewhere between .5 and 1 percent, was a reasonable assumption for Detroit, given the increasing competition in a relatively close geographic area.

Q. You didn't use any body of data to generate the wagering tax growth rate, correct?

A. As I mentioned, we did look at the actual collection figures --

Q. Okay.

A. -- reported by the states. We had some idea of what was going on nationwide.

Q. But you didn't calculate the wagering tax growth rate, correct? You picked that number?

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A. It's an assumption that we plugged into the model.

Q. Okay. And that's an assumption that you made, correct?

A. I was responsible for that assumption.

Q. And the assumption that you use for the wagering tax rate growth is different from the number that the consensus report uses, correct?

A. It looks like certainly for FY 2016 they're at a higher rate of growth.

Q. Okay. And do you recall what number you were using?

A. At that point, it was either 0.5 or a plus 1 percent -- plus 0.5 or plus 1 percent.

Q. Okay. Can you tell me why you used 1 percent rather than 1.2 percent or 1.3 percent?

A. Because we thought at the time that that was a reasonable estimate given the arrival of the new competition, which should have had an even more negative effect on the revenue numbers and could in fact, by itself, have driven this into a negative .5 percent.

Q. Okay. But there is --

A. But there is an economic recovery occurring throughout Michigan, some signs of slightly more positive

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economics in Detroit, which would, as separate factors, contribute to positive growth in the wagering gross receipts. We felt that the balance of those two forces would lead to a slight increase in revenue.

Q. But there's no scientific study or formula that tells you whether you should pick 1.2 percent or 1.3 percent for the wagering tax growth rate, correct?

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.

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Q. Okay. And there are a number of inputs to your model that are basically numbers that you picked, correct?

A. They're assumptions that I was responsible for.

Q. And you could use different assumptions in your modeling, and they would be reasonable assumptions, correct, because they're just numbers that you picked?

MR. STEWART: Objection.

THE WITNESS: Not all assumptions would be reasonable.

BY MR. SMITH:

Q. Well, I mean, for any of the numbers that you picked to use in your model, you could have different numbers that would be reasonable, correct? Like, for example, with the wagering tax rate growth, it would be reasonable to use the City's number, right?

MR. STEWART: Objection.

THE WITNESS: I don't agree. We did not use the City numbers in 2013.

BY MR. SMITH:

Q. Do you think it would be unreasonable to use the numbers that the consensus forecast used for the City?

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A. I believe it depends upon which tax type you're looking at and how long out they're going.

Q. So, some of the numbers used in the consensus forecast in your view are unreasonable?

A. Some of the numbers used in the consensus forecast are not the same as the assumptions that we made.

Q. Yeah. And my question is whether some of the numbers in the consensus forecast are unreasonable to use.

A. I don't have a definition for "unreasonable." I can simply tell you how we derived the number that we plugged in as our assumption. We did not plug in the consensus forecast number.

Q. Okay. But you agree that your -- the numbers that you picked to plug into your model that are just based on your picking the numbers are numbers that you could substitute with other numbers that would also be reasonable, correct?

MR. STEWART: Objection.

BY MR. SMITH:

Q. Or are your numbers the only ones that could be used?

MR. STEWART: Objection.

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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 to put into a revenue forecasting model for Detroit, and it could lead to perfectly reasonable results, correct?

MR. STEWART: Objection.

THE WITNESS: Would lead to different results, but they're not the ones that we chose.

BY MR. SMITH:

Q. I know. And I'm asking -- is your position that your forecast is the only reasonable forecast of revenues from the taxes you looked at for Detroit?

A. That's not my position.

Q. Okay. So --

THE VIDEOGRAPHER: Counsel, I'm sorry. We're at about an hour. We have to switch.

MR. SMITH: Okay. Why don't we break for lunch.

MR. STEWART: Why don't we break for lunch. What time is it?

THE VIDEOGRAPHER: Off the record at 12:55,

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this is disk number two.

(RECESS, 12:55- - 1:50 p.m.)

THE VIDEOGRAPHER: On the record at 1:50. This is the beginning of disk number three in the deposition of Robert Cline.

BY MR. SMITH:

Q. Good afternoon, Mr. Cline. How did you become involved in this case?

A. I became involved in the case when the EY team approached my practice, the QUEST practice in Washington, D.C., to ask for assistance in estimating tax revenues for the City.

Q. And the EY team in Detroit lacked the expertise to estimate taxes themselves; is that correct?

A. I don't know if that was the case. I think we were recognized as having more extensive experience in doing that.

Q. Is it fair to say that in performing your forecasting, you take data that's existing and then -- at the current point in time, and then you project that data into the future, essentially assuming that the status quo doesn't change?

A. The forecast itself is a forecast of the key drivers in the future, all of which are changing. So,

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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 time to accurately account for events as they unfold?

A. That's not correct. The policies in the form of tax parameters under current law remain consistent -- constant over the forecast period. It was the economics that changed.

Q. Okay. Are there activities by the City that change over time, or do you assume that all activities by the City remain fixed and constant?

A. What do you mean by "activities" of the City?

Q. Well, one activity is collection -- you know, collection practices. You know, there are other activities that the City engages in that might affect revenue -- tax revenue, correct? Other than the legal framework, there are activities the City engages in that can impact tax revenue, correct?

A. Are you talking specifically about collection activities?

Q. Well, my question is broader. I'm just trying

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to give you an example so you get an idea of what I'm talking about. Why don't we take it one at a time, okay?

A. Okay.

Q. Collection activities certainly can impact tax revenues over time, correct?

A. Correct.

Q. There are other activities that the City can engage in that may impact tax revenues, correct?

A. You will have to be more specific. What type of activities are you describing?

Q. Well, if the City, for example, banned businesses from the City, that would certainly impact tax revenues, correct?

A. The local economy will be affected by the provision of City services, by the overall economic outlook for the city, all of those are factors that affect -- will affect our economic forecast, if they affect the private sector economy.

Q. Okay. So, there are many activities, including the activities by the City that can impact the economics that you use in forecasting into the future, correct?

A. I think that's correct.

Q. And what are some of those things that can

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impact the economics?

A. I believe I may have just mentioned a few of those examples. Anything that affects land use, that affects general perception of the viability of the private sector in Detroit. Anything that affects the private sector economy would in theory have an influence on our tax forecast for the City.

Q. Okay. Did you look at historical data regarding utility users' tax collections?

A. We were aware of the most recent data on actual collections in the City of Detroit.

Q. Has the City successfully increased utility user tax collections in recent years?

A. I believe in the last few years, just prior to our forecast period, we were seeing decreases in utility tax collections.

Q. You're not offering an opinion on the causes of Detroit's fiscal problems, correct?

A. I'm not.

Q. You're not offering an opinion that Detroit can increase taxes, correct?

A. I am not offering an opinion about tax policy changes in the City of Detroit.

Q. And you're not offering an opinion that

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Detroit can't pay its creditors more, correct?

A. I have no comment on that issue.

Q. I'm going to hand you a copy of your report that I'll mark as Exhibit 4, just so you have it in front of you, okay?

A. Okay.

(Cline Exhibit 4 was marked for identification.)

BY MR. SMITH:

Q. You've got a copy of your report in front of you?

A. Thank you. I do.

Q. Okay. And I just wanted to get that to you so you would have it in case you need to refer to it, okay?

A. Thank you.

Q. Can you tell me what the assumptions of your forecasts are?

A. For all tax types?

Q. Why don't we go tax by tax. For the income tax, what are the assumptions that you make?

A. It may be helpful just to reiterate what is in the report in terms of our approach. Total individual income tax revenues mathematically equal number of taxpayers times average taxable income times the tax rate.

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And our estimating methodology was to look at each three of those components separately. Because Detroit has differential tax rates depending upon whether you are a resident or a non-resident, we actually estimate individual income tax bases and taxpayers for those who are residents of Detroit and work in Detroit, residents of Detroit who work outside of the city, and non-residents who work in the city.

Then we made assumptions about total employment in Detroit, the growth rate of employment in the suburbs, population growth in the city, general increases in the average taxable base. Those were, on the individual income tax side, some of our key assumptions.

Q. Okay. And then for the corporate tax, what are the key assumptions?

A. I believe our corporate income tax forecast is more -- was -- began with the State forecast for the years that were available. The State information is more limited because the State of Michigan did not have a corporate income tax prior to two or three years ago. They returned to that tax, so there's too short a time series to use the State experience as a foundation for the Detroit forecast.

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So, we used recent experience in Detroit and we used for the longer run forecast information about the expected overall growth of the U.S. economy, because of the limitation on data from the State of Michigan, not having a time series for the corporate income tax.

Q. Okay. So, what are the assumptions for the corporate income tax?

A. All right.

All right. As we outlined in the report, I'm looking for the specific percentage changes. Let's see where that -- where they are. What we did on the corporate income tax is that we began with the State forecast three-year, I believe, period, and we took the percentage growth for the corporate income tax forecast from the State. If I recall, that may have been running at 3 or 3.5 percent.

Then we recognized that the corporate income taxes in Detroit were growing at a lower, slower rate of growth than for the State, and that had been going on for some time. We called that our structural adjustment, and we subtracted that from the State forecast to get our forecast for the City of Detroit.

And that adjustment was about a negative 3 percent, tapering down to a negative 2 percent. And that

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gave us our growth rates for the corporate income tax, and then we extrapolated that into the future, over the 10-year period of time.

Q. Okay. So, can you list for me the key assumptions for your corporate tax forecast?

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 have been close to a 2 percent rate of growth.

Q. And all of those are assumptions of your corporate income tax calculation?

A. In a sense, the entire model is an assumption. All of these are inputs like the rate of growth of the State corporate income tax, the relationship between the Detroit tax and the State base; all of those were based upon information in the recent past or a snapshot at a point in time, and we did use those parameters and ratios in forming our future forecast for the City of Detroit.

Q. But all the -- the future forecast is based on a series of assumptions that you made regarding the

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corporate income tax; is that correct?

A. It's based upon information on actual tax collections as the starting point, and assumed rate of increases in the tax base in the City of Detroit.

Q. How about the wagering tax; what are the key assumptions there?

A. As I believe I did discuss earlier, the wagering tax recently had very negative percentage changes from year to year. That was a result of increased competition from Ohio, and a result of the deep recession in Detroit as well as the rest of Michigan.

In our forecast, we had to decide when that negative impact would start to reverse and perhaps lead to a small, positive growth in wagering taxes. Based upon what we were seeing around the U.S., we returned the rate of growth to the positive area, .5 percent, and then in a few years, we moved it back up -- we pushed it up to a 1 percent annual rate of growth, which I think is a reasonable expectation for what will happen, because the competition hasn't gone away. In fact, it probably will increase. Although the economy is recovering, we think the net effect is about a 0.5 to 1 percent increase in the wagering tax.

Q. And all of those were assumptions of your

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wagering tax forecast, correct?

A. Again, they're all inputs in the wagering tax forecast.

Q. I know. My question is, I just want a list of the assumptions for the wagering tax forecast.

A. Yes. Those -- that -- I've explained where the rate of growth assumptions came from.

Q. Okay. So that you're assuming the rate of growth for purposes of your wagering tax calculation, correct?

A. We're forecasting the rate of growth in wagering tax collections based upon the numbers that we put into the model.

Q. Okay. And are those assumptions?

A. I'm not sure how you distinguish between assumptions --

Q. Okay. Well, in your report, don't you list assumptions?

A. We do have a section that says assumptions.

Q. Okay. And can you give me a straightforward answer about what the assumptions are?

MR. STEWART: Hold on. Objection.

THE WITNESS: What page would that be on?

MR. STEWART: He will tell you what page

R. CLINE

he'd like you to look at.

THE WITNESS: What page do you see the assumption discussion? If you would --

BY MR. SMITH:

Q. Okay. Without referring to your report, you can't give me the assumptions for any of your analysis, correct? Is that correct?

A. That is not correct.

Q. Okay. Well, can you give the assumptions for the wagering tax analysis? I just want a list of the assumptions.

A. Our starting point is that we knew over the past five years, revenues grew an average of 0.6 percent. That's solid history that we knew as the starting point.

MR. STEWART: Objection.

THE WITNESS: Then the question was, what percentage increase do we expect in the foreseeable future over the 10-year forecasting period.

The additional information we had is that those collections dropped 4.3 percent in FY 2014. Our history told us that there was about one-half of one percent increase followed by a 4.3% decrease in FY 2014, and the question was do we turn the corner in the forecast, or do we extrapolate a

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continued significant negative growth rate.

Our decision was that the industry was stabilizing and that we'd have another year of a negative 1.0 percent change in FY 2015. We'd pick up the growth then slightly into the positive area, 0.5 percent for two years, followed by a transition to a slightly higher growth rate of 1 percent. I don't believe we have an annual growth rate above 1 percent in the 10-year forecast period.

BY MR. SMITH:

Q. Okay. Why don't we go to page one of your report.

A. Page one?

Q. One, yeah.

A. All right.

Q. Okay. Do you see at the last sentence? You say, "The information in this report is presented as of the date of this report and is based upon projections within the fourth amended disclosure statement with respect to the fourth amended plan for the restructuring of debts for the City of Detroit, and such projections were updated as of July 2, 2014."

Do you see that?

A. I do.

R. CLINE

Q. Okay. So, are you relying on the projections that have been put together that are referenced there?

A. I believe the numbers that are in the report are consistent with the projections dated July the 2nd, 2014.

Q. Okay. And I'm just asking you, are you relying on those projections, or -- here you say that -- you say, "The information in this report is presented as of the date of this report, and is based upon projections contained within those documents."

What does that mean? Can you explain to me?

A. Are you asking if these assumptions are from our report -- our forecast?

Q. No. I'm asking you -- you said in your report on pages one to two that the information in this report is presented as of the date of this report, and is based upon projections contained within certain documents.

Can you explain to me what that means?

A. I believe that means that we updated the forecast for the major Detroit revenues on July the 2nd, 2014, and the discussion in the report is drawing upon the results of that exercise.

Q. Okay. Are you relying on other aspects of the forecast dated July 2, 2014, or just your own work there

R. CLINE

that you're pointing to?

A. The forecast of tax revenues that we were responsible for completed on July 2nd, 2014, are our revenue estimates.

Q. Okay. And so that's what you are relying on or you're pointing to?

A. We are reporting the results of our estimates at that point in time.

Q. Okay. Then on page two, you have a series of paragraphs where you go through and say how all of your projections are reasonable projections; do you see that?

A. I do.

Q. Okay. Do you agree that they're reasonable projections of the various taxes that you look at, that could differ from yours?

A. I would describe what we did based upon our starting point, our understanding of the underlying economics, to be reasonable projections of what we expect the revenue streams will look like over the next ten years in Detroit.

Q. Okay. But that wasn't my question.

A. Could you repeat your question?

Q. My question is are there other projections that could be made regarding the revenue streams you

R. CLINE

addressed that would also be reasonable projections?

A. There are other projections that you could make if you changed the assumptions. I would have to see the rationale for the assumptions to kind of judge reasonableness in that sense.

Q. Okay. But there's some that could be reasonable?

A. It would depend upon what those assumptions are.

Q. Okay. So, basically, the reasonableness -- basically, your determination about the reasonableness of a projection is based upon the reasonableness of the assumptions?

A. I believe that is fundamentally the foundation for doing tax forecasting.

Q. Okay. And so, in doing your work in tax forecasting, you tried to use your discretion to pick reasonable assumptions so that you could come up with reasonable projections; is that correct?

A. The way I would describe it is that we had to make those assumptions. There was no choice. It wasn't discretionary. We wouldn't have been able to do the forecast without making those key assumptions. We made those key assumptions based upon the best available

R. CLINE

information we had and our perspective on future economic developments in Detroit.

We think they are reasonable given what I just described as inputs. Other people may have different assumptions and come up with different forecasts.

Q. Yeah. There was no requirement that you use the precise numbers that you picked for your assumptions, correct?

A. We controlled the assumptions that we used in the forecasting model.

Q. Okay. And in picking the precise numbers for your assumptions, you used your discretion as a tax forecaster to pick assumptions you believe were reasonable, correct?

A. I wouldn't use the word "discretion," no.

Q. Okay. What would you -- you used your -- what did you do to pick the assumptions; how would you characterize your exercise of your function?

A. I would characterize it as developing a set of assumptions based upon our experience in revenue forecasting, and based upon our understanding of the current status of the City of Detroit from an economic perspective. We use that information to guide the selection of the forecasting assumptions.

R. CLINE

Q. You don't have any experience doing revenue forecasting for a City, correct?

A. I do not.

Q. And you don't have any experience doing economic forecasting for Detroit, correct?

A. Not prior to this study.

Q. Are there any economic forecasts for Detroit?

A. In the past, I have used forecasts for the City of Detroit. When we started looking at this in 2013, we could not find updated forecasts for the City of Detroit.

Q. Okay. So, there are no updated forecasts for the City of Detroit that would -- that could be used in doing a forecast such as you're doing here, correct?

A. There may be, but we did not find them or use them in our analysis.

Q. Okay. So, because you didn't have Detroit data, you had to use Michigan data; is that correct?

A. I think the correct answer is we had a lot of Detroit data. We have all there is to know about tax collections in the City of Detroit we had very detailed information on the flow of commuters across the border in Detroit. We had detailed information on the labor market conditions in the City of Detroit.

R. CLINE

What we did not have was an economic forecast of the future in Detroit.

Q. Okay. So, because you didn't have an economic forecast for the future for Detroit, you had to look at information for the State of Michigan; is that correct?

A. We did use as a starting point, in addition to the data that we had for the City of Detroit, we used the most recent consensus forecasts for the state economy, and then related that to the City of Detroit.

Q. So, is part of what you are doing in your forecast extrapolating statewide data for Michigan and trying to use it to do some forecasting for Detroit?

A. That was one of the steps in the process.

Q. Okay. And who are the people that had done the prior Detroit forecasts that were not updated, if you can recall, or what were they?

A. I believe in the past, I had used economic forecasts for the City of Detroit from one of the banks in the City of Detroit. I believe they stopped doing that revenue forecast -- systematic revenue forecast.

Q. Do you recall which bank it was?

A. I don't recall which bank it was.

Q. When you say in the past you had used a revenue forecast for Detroit by one of these banks, what

R. CLINE

do you mean "in the past"?

A. I don't believe I said that. I said we used a forecast of the economy of Detroit from a bank.

Q. Yeah. When? I'm just trying to figure out in what context.

A. It may have been ten years ago.

Q. Was that when you were at the State of Michigan?

A. Began when I was at the State of Michigan.

Q. Okay. So, when you did economic forecasting at the State of Michigan, you used economic forecasts for Detroit that were available at the time, but they're no longer available today, so you can't use them, correct?

A. Part of your statement is not correct.

Q. Okay. Why don't you explain what is correct.

A. When we were doing the State revenue forecast, the State economic forecast that then was led into the State revenue forecast, we did not use a forecast of the City of Detroit economy.

It is what you would call block recursive. We start at the top with Michigan, and then we would have gone down to Detroit, but we did not do separate forecasts for the Detroit economy when I was tax research director in Michigan.

R. CLINE

Q. Okay. So, you didn't personally do forecasting for the Detroit economy, but you had -- but other people in the past have done --

A. Correct.

Q. -- Detroit economic forecasts, correct?

A. Correct. And I was aware of at least one of those forecasts.

Q. And you had hoped to use the forecasting -- the economic forecasting for Detroit when you started out your -- this project here of doing forecasting; is that correct?

A. No, that's not correct.

Q. Well, maybe explain what -- you just knew about it, but you were going to ignore it or why even mention it? What were you planning to do with it?

A. I was fairly confident it didn't exist.

Q. Oh, okay. I see what you are saying.

So nobody currently, outside of this litigation, tries to do economic forecasting for Detroit; is that fair?

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

Q. As far as you know, though, there's nobody outside of this litigation that tries to do economic forecasting for Detroit, correct?

R. CLINE

A. There may be people doing economic forecasting for Detroit. We did not use or could not find those specific forecasts that we incorporated into our revenue estimating.

Q. Okay. You searched for, but couldn't identify any economic forecasting for Detroit outside of what's being done in this litigation; is that correct?

A. I think the correct answer to the question is that you have to distinguish between the revenue forecast and the economic forecast. We did not find a separate economic forecast of the City that we used in our revenue forecast for the City.

Q. Okay. But you didn't find any economic forecast for Detroit, you couldn't identify one; is that correct?

A. We did not find one that we used in the report, and I'm not sure if I saw one from any source, but I wouldn't say I did a thorough search of every possible source of modeling in Detroit.

Q. Okay. That's fair.

Sitting here today, though, you can't identify any economic forecast for Detroit outside of what's being done in this litigation; is that fair?

A. No, that's not correct.

R. CLINE

Q. Okay.

A. The City of Detroit had its ongoing annual consensus forecast. We were aware of that forecast.

Q. But you didn't use that forecast?

A. We looked at that, but it was not the basis for our revenue forecast.

Q. But in terms of economic forecast, though, there's no economic forecast that you can identify other than what's being attempted in this litigation; is that fair?

A. We were very familiar with the RSQE modeling at the University of Michigan of the state economy. We spent some time trying to discover if they had a separate Detroit forecast. They did not. That would probably be recognized as the single most respectable source of economic forecast in the state, and we did not find an RSQE economic forecast.

And so, we were, in a sense, on our own in terms of having to do not only the revenue forecast, but to build it up from a separate economic forecast.

Q. Okay. And whether it's Michigan State or any other source, you can't identify even today any -- any economic forecasting that's been done for Detroit outside of what's being done in the litigation; is that correct?

R. CLINE

A. Do you have a time period attached to that?

Q. Well, I thought you had said that there is no Detroit economic forecast that's current, is that true, that you can identify?

A. We could not find a current forecast, a current being in 2013, when we began the exercise. We did not find a current forecast for the City of Detroit, an economic forecast, that we could base -- use as the starting point for our analysis.

Q. Okay. Over on page six of your report, you have a figure at the bottom of the page for the ratio of Detroit employment as a share of Michigan employment, and you say that it's declining at an average rate of minus .85 percent; do you see that?

A. I do.

Q. What mathematical formula was used to calculate the negative .85 percent?

A. You see that on page seven, the straight line regression equation is summarizing that relationship.

Q. Okay. So, you just did a straight-line through data from 1990 through 2012?

A. I believe that time period is correct. As you note in the diagram, that's a fairly tight fit for a straight-line relationship because that decline in the

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ratio of Detroit employment to state employment had been going on for that entire length of time, and it was fairly close to a straight-line relationship.

Q. And -- but the number for the ratio of Michigan to -- or Detroit employment to Michigan employment would change depending on what time period you used, correct?

A. That is correct.

Q. And in fact, during the period that you looked at, there's some periods where that ratio would be positive, if you looked at them, correct?

A. That is correct, but the purpose of this calculation was to derive what we describe as a long run structural relationship, a long run decline of the relative size of employment in Detroit versus the state. We needed a long period of time to understand how that was unfolding and what the relationship looked like.

So, we couldn't fit it to isolated segments of that total period of time. We would have had a different concept if we did. We were after the long run structural change.

Q. And do you agree that 20 years is a long period of time?

A. I do.

R. CLINE

Q. And if you had looked at the period from 1999 to 2012, the number that you came up with would be much different for Detroit employment as a share of Michigan employment, correct?

A. It would have been a different number, but it would have only been half of a trend that I believe we've identified in this diagram.

Q. Okay. And so, the number that you obtained for the ratio of Detroit employment to share of Michigan employment could change dependent on what decade you look at and the length of the particular time frame you look at, correct?

A. It would.

Q. And it could be positive during some periods of time, correct?

A. It is difficult looking at Figure 1 to identify what period of time subset to this time span would give you a positive number. I don't see it.

Q. Well, if you looked at a period during the 2000s, you probably could get a positive number; is that fair?

MR. STEWART: Objection.

THE WITNESS: I wouldn't read that into the data.

R. CLINE

BY MR. SMITH:

Q. At any rate, is there any particular basis for picking 1990 to 2012 as opposed to 1980 to 2012, or 1970 to 2012 or 2000 to 2012?

A. In revenue forecasting, you want to pick the period of time that you think is most relevant to your forecasting effort going forward. There's been a significant recession about every ten years in Michigan.

Using this period of time, we have picked up probably at least two, if not three recessions, and the positive economic growth that has occurred after the recessions. We thought that all of those years and that information was relevant for talking about the longer run structural decline of Detroit versus Michigan.

Q. Yeah, what years did the recessions occur?

A. Certainly, 2007 to 2009, 2000 to 2002, and I believe in the early '90s, we may have had a slight recession in Michigan.

Q. And after each of the recessions, Detroit employment as a share of total state of Michigan employment, did better than the historical trend; is that correct?

A. Certainly appears to be the case from the graph. I would add that 2010 -- 2011, 2012 were periods

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before the full impact of the fiscal crisis in Detroit.

Q. And there -- I mean somebody could reasonably pick a different time period when they're doing this analysis of Detroit's share -- total state of Michigan employment, correct?

A. Others could certainly choose different time periods. We felt that this time span was most relevant for the forecast that we were doing.

Q. Okay. But other people could make different judgments about what time period was most relevant and get different numbers for this figure, correct?

A. That is correct.

Q. The -- did you consider any alternative numbers or time periods when you were doing your forecasting for this number?

A. I believe the person who did the revenue -- did the estimates, the regression analysis, may have looked at different time periods. I don't remember what the results looked like under the alternatives. It was my decision that this was the range of years that was most relevant for the analysis that we're doing.

Q. Do you know what the actual mathematical formula is for this linear regression relationship?

A. I do.

R. CLINE

Q. What is it?

A. I don't know it off the top of my head, but we could provide that. In fact, I believe it might be in the spreadsheets that we provided.

Q. Okay. If it's not, where would we -- I mean, do you have other documentation that lays out the mathematical formulas you used to calculate some of these?

A. I believe it is in some of the documents that are related to the trial.

Q. Okay. So, you believe that there are physical documents that contain the mathematical formula?

A. I do believe that.

Q. Okay. The -- over this time period, you looked at the ratio of Detroit share of total state of Michigan employment as not constant, correct?

A. Correct.

Q. Your forecast assumes that that ratio will remain constant for the next 10 years, correct?

A. Would you repeat the question? Which ratio are you referring to?

Q. Does your forecast assume that the City of Detroit's share of total state of Michigan employment will remain constant throughout the forecast period?

R. CLINE

A. No. I believe our forecast implies a continuous decrease in the ratio of employment in Detroit to employment in the state.

Q. And historically there hasn't been a continuous decrease in the ratio of Detroit's share of total state of Michigan employment, correct?

A. I believe Figure 1 would refute that statement.

Q. The numbers for Detroit -- Detroit's share of total state of Michigan employment, they vary by year, correct, in Figure 1?

A. Figure 1 shows that in 1990, the ratio was 8.66 percent.

Q. Yep.

A. In 2012, it's 6.97 percent.

Q. And so it changes by year, correct?

A. Correct.

Q. But in your forecast, the ratio declines at a constant rate; is that correct?

A. I believe that's a more accurate statement.

Q. Okay. And historically, the ratio has not declined at a constant rate, correct?

A. That's correct.

Q. It's varied by year, correct?

R. CLINE

A. That is correct.

Q. In projecting the -- or in ascertaining the various numbers that you used in your report, did you look at different periods of time for historical data, or was it a uniform period of time from 1990 to 2012?

A. In doing all of our revenue forecasts, we were continuously searching over history as well as history of economics, history of actual tax collections, to find what we thought was the best information that was most relevant for our current revenue forecast.

So, we certainly have in our various Excel spreadsheets much longer time series of data, for example, the relationship between employment in Detroit and employment in the state.

Q. Okay. Depending on the particular number in your report, it would be based on different historical time periods; is that fair?

A. The background information we looked at to do our revenue forecast may have used different time periods for different taxes, different histories of actual collections, for example.

Q. And did you also use different time periods for different numbers used to generate, for example, the income tax?

R. CLINE

MR. STEWART: Objection.

THE WITNESS: As I mentioned, our tax revenue forecast for the individual income tax begins with the actual tax collections. I think it was 2013 preliminary. We didn't have to use history or pick a time period for the actual starting point of our revenue estimate. What we had to choose was expected rates of growth in the future over the next 10 years. To provide us with information to choose those growth rates going forward, we looked back in time at history to the extent that it helped us.

BY MR. SMITH:

Q. Okay. But like, for example, look at Figure 1 compared to Figure 2. You look at different time periods for the growth rates of the City of Detroit and Michigan employment compared to the Detroit share of total state of Michigan employment, correct?

A. That's correct, because the time period was determined by the question we were trying to answer.

Q. Okay. So, for the various inputs in your model, you look at different time periods; is that fair?

A. We chose time periods that we thought were most relevant for the parameter or the question we were

R. CLINE

trying to answer.

Q. Okay. And so, there are a number of parameters in your model that -- on which you base your assumptions or calculations upon different time periods; is that fair?

A. I would say that is correct, and you see here two of the types of information that we use in determining our key assumptions.

Q. Okay. On that chart at Figure 1, would it be fair to say that at various points in time, the City of Detroit's share of total state of Michigan employment is higher than you've assumed in your forecast?

A. It is true in 1990, the share was 8.66 percent. In 2012, it's 6.97 percent.

Q. Okay. And in between those two periods of time, it went up and down, correct?

A. Trend is pretty clearly down.

Q. But there are periods of time that it was trending upward, correct?

A. Given what I see in the diagram, I'd have to go to the underlying percentage changes. I see maybe one or two years where they may have been positive, but I'd have to look at the specific numbers to determine what was positive and what was negative.

R. CLINE

Q. Okay. And as an expert in this case, are you able to explain why the share of Detroit -- Detroit's share of total state of Michigan employment went up or down in particular years?

A. No. I did not do a detailed examination of the percentage change in each year. The exercise was to determine the long run trend over, say, a 20-year period of time. Focus was not on individual year fluctuations; it was attempting to measure a long run structural change that we believe still applies to the City of Detroit.

Q. Okay. Why would Detroit's share of total state of Michigan employment increase during certain portions of time that you looked at?

A. They may have -- it may have happened because some of the economic activities in Detroit were growing faster than they were -- than other activities were throughout the state.

Q. You haven't done any analysis to figure out what activities there were during those historical periods when Detroit was successfully growing its share of employment compared to the state, correct?

A. No, we did not.

Q. On page seven, you say, "A comparison of more recent changes in employment in Detroit and Michigan

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indicates that Detroit employment has not recovered at the same rate as Michigan employment coming out of the last two recessions."

Do you see that?

A. I do.

Q. Did you calculate any relationship regarding the rate of recovery in Detroit versus Michigan.

A. We did, and the results are in Figure 2.

Q. I mean, did you calculate it or did you -- you didn't calculate some number, did you, or did you calculate a number? Or did you do an assumption? I'm trying to figure out if it's a calculated value versus an assumed value.

A. All of the values in Figure 2 were calculated from actual data.

Q. And you would agree with me that there's no data or study showing a reinvestment and restructuring initiative like the City is proposing impacts the rate of recovery as you've be assumed in your model; correct?

A. I don't know if there are or are not other studies. We did not use or look for those studies in our analysis.

Q. Okay. And so, sitting here today, you can't identify any studies showing a reinvestment and

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restructuring initiative like Detroit's proposing will impact the rate of recovery, correct?

A. I don't have a specific study.

Q. Okay. Can you tell me what mathematical formula was used to calculate the values in Figure 2?

A. The formula was X divided by Y.

Q. What is X --

A. It's the percentage change from year to year.

Q. How did you calculate the reduction in the rate of lag under the restructuring scenario? Was that a calculation, or was that an assumption?

A. I'm not sure what you mean by the lag.

Q. Okay. You say that there's a delay in recovery in Detroit that you are depicting in Figure 2, correct?

A. I believe the accurate description in Figure 2 is that the recovery in Detroit coming out of the trough of the recession was slower than it was in the state.

Q. Okay. Did you -- you say that there were other prior recessions. Did you do any testing or analysis to determine whether the rate of recovery in Detroit was slower in recessions before 2001?

A. It was my knowledge of Michigan and Detroit suggested that they tended to move fairly close together

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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.

Q. Okay. Do you know what the causes in the rate of recovery that you say exist between Detroit and the

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state of Michigan are?

A. I don't have a detailed explanation of this break. It certainly has something to do with the overall structure of the Detroit economy as well as the effects of the fiscal crisis in Detroit.

Q. There's no study or analysis that would explain or support your theory that there's a more delayed recovery in Detroit than in the state of Michigan for structural reasons, correct?

A. I think Figure 2 provides a pretty solid foundation for reaching that conclusion.

Q. But there's no study that says there's any causal relationship between anything in Detroit and a delay in recovery compared to the rest of the state?

A. I don't know of any specific studies.

Q. And the only person that's claiming that there's anything -- any kind of structural difference that's leading to a delay in recovery in Detroit compared to the state of Michigan is you, correct?

A. I don't know that's the case, no.

Q. Can you identify anybody else other than yourself --

A. I have not.

Q. -- that's saying that there's some kind of a

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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.

Q. But you haven't identified the cause of a break between Detroit and the rest of the state, correct?

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A. **We have not tried to analyze the Detroit economy in detail compared to the Michigan economy in detail.**

Q. So, you can't tell me whether this unidentified cause will continue into the future or not with respect to the break between Detroit and the state of Michigan, right?

A. **I can tell you we have two very significant observations of the existence of the break. I believe the 10-year horizon covered in this diagram is a fairly solid foundation to assume that something fundamentally has changed, and I believe that's a solid foundation for the revenue forecast for a 10-year period.**

Q. So, you're assuming in your forecast that the break between Detroit and Michigan with respect to the rate of recovery will continue, correct?

A. **In our forecast, we have this structural break continuing, but I believe we taper it down near the end of the forecast period.**

Q. Okay. And that's an assumption you're making for your forecast, right?

A. **It is an assumption.**

Q. And -- but you haven't identified the actual cause to figure out whether the cause is going to

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continue during the 10-year period, correct?

A. **We have not done a detailed study of the cause.**

Q. And in fact, nobody has done any detailed study of any cause of this alleged break between Detroit and the state of Michigan in terms of rate of recovery, correct?

MR. STEWART: Objection.

THE WITNESS: I don't know if that's correct.

BY MR. SMITH:

Q. You can't identify any study like that sitting here today, correct?

A. **I haven't identified any study.**

Q. Okay. When we look at page -- based on the data that you're talking about in Figure 2, do you calculate a -- some kind of value that you use to project the delay in the rate of recovery?

A. **Correct.**

Q. And how -- what's the mathematical formula you used to calculate that value?

A. **It's partly based on the numbers you see lying behind the graph in Figure 2. You can tell that the -- if you look at the vertical difference between those two**

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lines, you've got a rough estimate of what that differential looks like. We used the relationship, actual relationships between these two lines to try to come up with an estimate of what that gap looks like.

Q. What's the mathematical formula or technique to get that estimate?

A. **It's Y minus X. You look at two percentage changes, look at the difference in those two.**

Q. But did you do that throughout the period or at one point in time or what?

A. **I believe at that -- for that calculation, we were focusing on this time period covered between 2001 and 2012.**

Q. But I'm still trying to get what the mathematical calculation was. Obviously, throughout that period there were differences in the degree to which there was a delay in recovery, right?

A. **Correct.**

Q. Okay. And so, I'm trying to figure out how you calculated a single number based on data underlying Figure 2 for the delay in recovery.

A. **I'll have to check the exact mathematics, but I believe what you can see is that we looked at the two periods of time from an expansion, from a recession. We**

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may have averaged those gaps during the expansionary periods.

Q. Okay. But right now, you don't know the exact mathematical --

A. **I'll have to --**

Q. -- technique used to calculate the delay in recovery, correct?

A. **I know the exact mathematics used to calculate it. I don't remember precisely which years went into that averaging.**

Q. Okay. Is it possible that not all the years depicted in Figure 2 went into that calculation?

A. **As I mentioned, I believe we were focusing on the recovery periods, not the recession. You notice that in the recession, '8, '9, they moved closely together. The break is in the expansion, the recovery from recession, not in going down into the recession.**

Q. Okay. So, you don't know which recovering years you used in generating the value for the delay in rate of recovery, correct?

A. **I'm pretty certain we used the recovery years.**

Q. But you don't know which years those are?

A. **I believe they were the years that you see here in the graph.**

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Q. Which are what years?

A. From 2001 through 2008, from 2010 through 2012.

Q. Are there written documents that lay out the mathematical formula in the calculation of the recovery rate?

A. I believe there are Excel spreadsheets that have the data in them.

Q. But as far as the mathematical formula that was used to calculate the numbers, is that laid out anywhere in written documents?

A. I don't know the answer to that. I'm not sure if it was identified separately or not.

Q. Who did the actual calculation of the recovery rate; was that you or somebody else?

A. I supervised the calculation of that rate.

Q. Who calculated the recovery rate?

A. One of my staff members.

Q. Do you know which one?

A. I believe I do.

Q. And who was that?

A. Katie Ballard.

Q. Okay. But certainly, you don't lay out the mathematical formula in your report that was used to

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calculate the recovery rate, correct?

A. We calculated the gap --

Q. Well --

A. -- between those two lines.

MR. STEWART: Don't interrupt his answer.

THE WITNESS: I'm sorry.

MR. STEWART: No, no. Finish your answer.

MR. SMITH: It's the mathematical formula --

MR. STEWART: No, no, no, no. He finishes his answer first.

MR. SMITH: I think he did finish.

MR. STEWART: No, you interrupted him. Please finish.

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 we built that into our 10-year revenue forecast.

BY MR. SMITH:

Q. Okay. Can you write down the mathematical

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formula for me that you used to calculate the recovery rate?

A. In fact, I can tell you what the formula is. X equals the percentage change in Detroit employment -- Michigan employment minus the percentage change in Detroit employment. That is the formula.

Q. Okay. For which years?

A. For the years of economic expansion coming up out of a recession.

Q. Which are which specific years?

MR. STEWART: Objection.

THE WITNESS: As I indicated, I believe they're the gaps that you see --

BY MR. SMITH:

Q. Well --

A. -- in Figure 2.

Q. Can you give me years? Is it 2000 to 2008 or is it some other period of time? Can you tell me what the period of time is?

A. I can check for you to see the specific period of time.

Q. Okay. So, right now, sitting here today, you don't know the period of time that was used in calculating the recovery rate, correct?

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MR. STEWART: Objection.

THE WITNESS: I do -- I do not know the exact years. I know the period of time that was covered in the comparison.

BY MR. SMITH:

Q. Okay. Sitting here today, you don't know the exact years used to calculate the recovery rate, correct?

A. I can find those years for you.

Q. But sitting here today, can you tell me what they are?

A. I do not remember each of the years that were included in that comparison. I do know the data and have looked at the detailed data that lies behind these two graphs.

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.

Q. But you don't know one way or the other?

A. I don't know everything that's in those very detailed, complex Excel spreadsheets.

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Q. Okay. So, you don't know everything that's in the spreadsheets that serves as the basis for your projections, correct?

A. Not off the top of my head, I do not.

Q. Would it be fair to say that the years that are used to calculate the recovery rate and the mathematical formula aren't set forth in your expert report, correct?

A. I believe that's accurate.

Q. The -- now, for the restructuring scenario, you use a different value for the recovery rate, correct?

A. I believe that is correct.

Q. And how was that -- was that an assumed value or was that a calculated value?

A. That was a calculated value that adjusted that long run historical ratio that we have been discussing, adjusted it to be less negative than we did under the baseline, because our assumption is the economy in Detroit under the restructuring scenario will be stronger than it is under the baseline.

Q. But can you give me -- was there a mathematical formula that was used to calculate the recovery rate in the restructuring scenario -- or was --

A. No. It was our assumption about how the

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relationship changed.

Q. Okay. So, the recovery rate in the restructuring scenario is an assumed number, not based on a mathematical calculation, correct?

A. It is an important assumption in the estimate that we made.

Q. Okay. And there's no scientific study that you can point to to support the rate of recovery in the restructuring scenario, correct?

A. Let me perhaps be clear about what I'm describing. On page 12 in the report, I had switched to the longer run forecast. Going back to -- all right. It looks like it's listed under point C on page 12. You can see that we did bring down that longer run structural decline in Detroit versus Michigan to a smaller negative number.

I believe in the restructuring forecast we have eliminated this cyclical adjustment that you saw in Figure 2. We are assuming that the impact of restructuring would overcome what that negative adjustment was that we saw in Figure 2. So we have removed it in the restructuring scenario.

Q. There's no study or data you can point to showing that restructuring would remove that -- the

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effect of that cyclical adjustment, correct?

A. Our assumption is that that cyclical adjustment reflected all of the conditions that led to the fiscal crisis in Detroit, that the restructuring activities of the City of Detroit would reverse that negative additional factor, and the City would return to the longer run relationship with state growth in employment, but with a slightly negative and less negative structural -- long run structural adjustment.

Q. But there's no study or data that supports or demonstrates that the cyclical adjustment should be eliminated and you should decrease the restructuring value from .85 to .5, correct?

A. I think it's correct to say that that cyclical adjustment factor is one that we estimated on our own based upon recent history in the relationship between Detroit and Michigan, and we removed the adjustment that we created when we went to the restructuring scenario.

Q. But there's no study or data showing that restructuring will remove the cyclical adjustment, correct?

A. We have no additional or independent study that quantifies the overall impact on the city economy from all of the activities that are under the umbrella of

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restructuring.

Q. Okay. So, the answer is yes, you have no study or data supporting removal of the cyclical adjustment in the restructuring scenario, correct?

A. That's not quite correct. We have history which we have relied upon, we have history of the break between Michigan and the state -- state of Michigan and Detroit from 2001 to 2012. We have the history of the longer run structural decline of Detroit relative to the city -- to the state, and we made the assumption that that cyclical adjustment we made in the baseline forecast was not going to continue under the restructuring scenario.

It's not as though there was no basis for our assumption. It is based upon what we have seen in recent history. It is our assumption that that negative -- second negative impact would be reduced, if not eliminated, under the restructuring scenario.

Q. The City of Detroit has never undertaken a restructuring and reinvestment like it's proposing in the bankruptcy, correct?

A. I don't know about prior discussions in Detroit. I haven't been following those.

Q. So, you have no idea -- I mean, you can't

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point to any previous instance where the State engaged in restructuring or reinvestment, correct?

A. For the City of Detroit?

Q. Yeah.

A. I am not aware of any, and that's why there's no study we can rely upon to determine the factors.

Q. Precisely. There's no study or data that shows that the cyclical adjustment that you assume is going to go away in the restructuring scenario actually will go away, correct?

A. I believe it is a reasonable -- thinking about what's unfolding in Detroit, I believe that that cyclical adjustment we saw in Figure 2 is related to the economic weaknesses and the fiscal crisis in Detroit. I believe it is reasonable to assume that if those issues are addressed, that the private sector could respond in a strong -- with a stronger rates of growth. I think it is a reasonable scenario over the next 10 years with restructuring.

Q. Okay. I'm asking about studies or data. There's no studies or data showing that the cyclical adjustments related to the fiscal crisis in Detroit, correct?

A. This is a unique situation that isn't in

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history, so there are no studies that would answer your question.

Q. And so, there's no study or data showing that engaging in restructuring or reinvestment to alleviate the fiscal crisis will eliminate the fiscal adjustment, correct?

A. You're correct that I do not know of any study that deals specifically with that issue.

Q. Okay. Page eight, population growth rate.

You've got -- can you tell me what mathematical formula was used to calculate the population growth rate referenced on page eight?

A. I cannot tell you what methodology SEMCOG used for its population projections.

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

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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.

Q. Can you tell me what the add factors were that you used?

A. Well, I believe you see on page nine we have got forecast the number of residents employed in Detroit will decline at 1 percent a year, less negative 20 to 21, and then 0 percent in the last two years.

Q. Okay. And --

A. So -- yes.

Q. Go ahead.

A. No, I was just -- those are the numbers that would describe our growth in the number of the taxpayer population for residents working in the city.

Q. Those growth rates referenced on page nine, are those assumed values or were they generated by mathematical formula?

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A. They were our assumptions that went into the model.

Q. Okay. So, the negative 1 percent decline per year and then the growth rate increase of minus .5 percent from 2020 to 2021 and 0 percent in the last two forecast years, those were all assumed and not calculated values, correct?

A. They are assumptions that we used in the estimates.

Q. Did you look at different assumptions for those numbers?

A. I believe we may have iterated to the final numbers, but I don't have specific runs of all the variations that we might have used along the way.

Q. Would it be fair to say for all of the assumed values you used, you tested out different assumed values?

A. I don't think it's accurate to say we tested out. I think it's accurate to say that we -- based upon additional information we received, we made adjustments in these assumptions that we thought align more closely with the most recent information available.

Q. Okay. So, for all of the assumed values that form the basis for your forecast, you had used other assumed values at different points in time; is that fair?

A. I don't think that's accurate for all of the key assumptions, but there may have been some --

Q. Okay.

A. -- key assumptions that changed over time.

Q. Okay. For some of the key assumptions that underlie your forecast, you did use different numbers at different points in time when you were generating your forecast, correct?

A. I would say that is correct, and as I had mentioned before, we certainly changed the starting point for each of our revenue forecasts as we updated the actuals to reflect the most recent information. That changed continuously throughout this entire period.

Q. In terms of the recovery rate, did you -- either under the baseline or restructuring scenario, did you use other recovery rates other than the minus .85 and minus .5 percent?

A. I don't remember specifically. I do remember, though, that at one point, we may have talked about whether to round the number off to one decimal place instead of using two, but I don't remember specific runs with different values.

Q. Were there other methodologies you considered for trying to generate the restructuring scenario other

than using this recovery rate methodology?

A. Well, I wouldn't say that what we did was only using that recovery rate methodology. That only came into play in getting the total -- the total job number for the City of Detroit, and that was just the beginning point. And then we had to divide the total jobs into those held by residents, those held by non-residents, and then we had to determine the number of jobs residents held in the suburbs. All of those involved key assumptions about the rates of growth of those components.

Q. Were there any analyses, though, where you didn't use the cyclical adjustment in your calculations?

A. I believe it was used in the calculation of the total employment rate -- the total job number for the City of Detroit I can certainly check to see if it was used somewhere else.

Q. Well, no, I'm wondering if there was a point in time where you didn't try to do this calculation with the cyclical adjustment rate.

A. I believe I did mention that, as you see in the report, that we went -- when we went to the restructuring scenario, we removed the cyclical -- additional cyclical adjustment. So, yes, we did run a

scenario without that, and we -- it is described and included in the restructuring scenario.

Q. Did you ever run the restructuring scenario without removing the cyclical adjustment?

A. I don't -- let me see if I can -- I believe I have to correct your -- to answer your question, I believe you -- would you repeat your question, please.

Q. Did you ever run the restructuring scenario without removing the cyclical adjustment?

A. I believe the right answer is, we did remove the cyclical adjustment.

Q. And I'm asking in the various iterations of your model, did you ever run the restructuring scenario without removing the cyclical adjustment?

A. I don't recall doing that exercise.

Q. Okay. Back to the figures on page nine. I mean, there's -- is there any rhyme or reason about why you use minus -- minus .5 as opposed to minus .4 or some other value there?

A. I believe there is a structure here that provided us guidance on the likely magnitude of these numbers. That information included the forecast percentage change in population. The number of people living and working in Detroit is a function of the number

of people who live in Detroit, and it's also a function of the overall rate of growth of employment.

Our forecast of those values determine, in a sense, what I would call a reasonable range of values that we plugged in as our key forecasting assumptions. So, these numbers are, in a sense, bound by other parameters that are in our forecast.

Q. So, for each of the assumptions that you plug in your model, there's actually a range of values that you could have plugged into your model; is that fair?

A. It's not an accurate description of the process we used. We were going for the most accurate point estimate of our revenue. We did not try to construct a band confidence interval or otherwise around our point estimate, so we did not go through a simulation changing every parameter up by 10 percent or down by 10 percent.

Q. For the numbers, though, on page nine, can you tell me why the growth rate increases to minus .5 percent in the specific years, fiscal year 2020 and 2021?

A. That was our assumption about, in a sense, the time it would take before the private sector started to respond.

Q. Okay. So, that's an assumption and not a

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calculation, correct?

A. That is correct, but I would just add that the entire forecast is a forecast based upon assumptions.

Q. Yeah.

A. If we --

Q. All of your forecasts in your report are forecasts based on assumptions, correct?

A. All economic forecasts are forecasts based upon assumptions.

Q. Yeah. And essentially what you are doing is you're trying to base all of your assumptions on your experience, correct?

A. I don't believe that is correct.

Q. Okay. So there's no mathematical formula for population growth rate that's generating the numbers on page nine, correct?

A. It is my assumption that the total population numbers from SEMCOG have a pretty elaborate underlying structure that provided that population forecast.

Q. But the growth rates that are -- the minus 1 percent per year and then minus .5 in fiscal year 2020 and 2021 and 0 percent in the last two forecast years, those aren't numbers generated by a mathematical formula, correct? They're assumptions.

R. CLINE

A. Could you explain what you mean by a mathematical formula?

Q. Okay. So, as an expert in this case, can you tell me what a mathematical formula is?

A. What I'm having trouble with is understanding your juxtaposition of the word "assumptions" with the phrase "mathematical equations." I would describe our entire Excel model as a model that involves mathematica equations.

We have plugged key assumptions into those mathematical equations, and the forecast is a result of the combination of all of those factors and all of those equations, and all of those assumptions.

Q. My only question is those figures on page nine, for the growth rate, are not calculated values, correct?

A. Those values began with history in Detroit, recent history. Actual numbers. We used those actual numbers to calculate ratios that then provided a guide to us on possible, probable numbers that would provide us with a forecast of the rate of growth of the number of residents employed in Detroit. We then determined what those values would be --

Q. This is really --

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MR. STEWART: Don't interrupt the witness.

MR. SMITH: Yeah, but it's blatant --

MR. STEWART: Don't interrupt the witness. He has to finish his answer.

MR. SMITH: Well, this is really delaying and non-responsiveness.

MR. STEWART: It's because you're asking very poor questions. Let him finish his answer.

MR. SMITH: What's so poor about asking him whether the three numbers --

MR. STEWART: Answer the question.

MR. SMITH: -- on the page are calculated, can you tell me that?

MR. STEWART: Finish -- finish your answer.

MR. SMITH: Geoff, Geoff, tell me -- you just said that my question was objectionable and I want you to tell me why it's objectionable to ask him if he calculated three numbers in his report.

MR. STEWART: Because he told you your question was ambiguous in the use of mathematical formulas. He explained to you why. He explained where they came from. He explained how he was going about it.

MR. SMITH: Okay. Where did they come

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from, Geoff?

MR. STEWART: You are not allowed --

MR. SMITH: Where did they come from?

MR. STEWART: -- to interrupt his answer.

MR. SMITH: Geoff, you are sitting here. Where did those three numbers come from?

MR. STEWART: Finish your answer.

MR. SMITH: Can you tell me --

MR. STEWART: Finish your answer.

MR. SMITH: -- on the record from what he said today? Can you tell me where those numbers came from?

MR. STEWART: Are you trying to pick a fight with me?

MR. SMITH: I'm just asking you --

MR. STEWART: Are you trying to pick a fight with me?

MR. SMITH: There's no fight, but you -- your witness has obstructed the deposition, and it's wasting time for everybody here unnecessarily.

MR. STEWART: The witness is doing an excellent job. The problem is the way you've gone about examining him.

Now, you can finish your answer.

R. CLINE

MR. SMITH: Okay. What's wrong with asking if a witness has calculated three numbers?

MR. STEWART: Finish your answer. Finish your answer.

THE WITNESS: Based upon ratios that we had calculated mathematically from the recent history, we had to choose the values, specific values that are reported in nine. We made assumptions about what those values are based upon all of this groundwork that we did, that it did involve mathematical equations, and the entire Excel spreadsheet is in fact a set of mathematical equations.

But this was a -- these were key assumptions based upon our best professional judgment of what was likely to happen.

BY MR. SMITH:

Q. Okay. The minus 1 percent, the minus .5 percent, and the 0 percent for the employment growth are all key assumptions, correct?

A. Correct.

Q. And those specific numbers were not calculated by a mathematical formula, correct?

A. There is no separate regression equation that

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you could use to generate those numbers.

Q. Okay. Did you ever -- are any of the numbers that you generate based -- generated by time series analysis or not?

A. I have given you several illustrations of numbers that were generated by the use of historical data. I'm not sure what you mean by time series analysis.

Q. Okay. You know that there's a specific statistical technique called time series analysis, don't you?

A. I do.

Q. Do you know whether any of the numbers in your report were generated using time series analysis?

A. Time series analysis is basically regressing a variable on itself. We did not use that simplistic approach to doing the revenue estimates.

Q. Okay. On page ten, you've got a number for the average wage growth of 1 percent --

A. Yes.

Q. -- for Detroit?

That is an assumed number, correct?

A. It's a number. It's an assumption that we developed based upon our understanding of the

R. CLINE

relationship between the economy, in particular labor markets in Detroit, versus the state of Michigan. We believe that the excess -- that there is excess capacity in Detroit holding down wage growth compared to the rest of the state of Michigan. We built that differential into our -- the assumptions about our revenue forecast.

Q. Okay. But the 1 percent wage growth rate is not a calculated number, correct?

MR. STEWART: Objection.

THE WITNESS: It may have been based upon history, recent history in Detroit that involved some calculations. We do not have a regression equation that would predict the value of that percentage.

BY MR. SMITH:

Q. Okay. So, the wage growth rate is not the result of a mathematical computation, correct?

A. I wouldn't describe it that way. We started with the Michigan state forecast for wage and salary growth, which in a sense, bounded on the upper end what our assumption could be.

Q. Mm-hmm.

A. And back in 2013, that state rate may have been between 2 percent and 3 percent. Upper limit, we

R. CLINE

knew Detroit couldn't go higher than that. So, we then reduced it to reflect that relative slack in labor markets, which brought it down below the state rate.

Q. But there's no mathematical formula you used to reduce the wage growth rate so that it was 1 percent, correct?

A. It's our assumption of what that rate is going to be.

Q. Okay. And so, there's no mathematical formula you used, correct?

A. There's no regression equation that would have generated that number independently of what we did in the forecast.

Q. Or any other mathematical formula?

A. There is math in the background, and the entire Excel spreadsheet is a mathematical set.

Q. Where is the mathematical formula, or why don't you write down the mathematical formula that you used to get 1 percent? Can you do that for me?

A. All of the calculations, I believe, are in the Excel spreadsheets that you folks have had access to.

Q. But sitting here today, you can't write down the mathematical formula you can't claim was used to generate the 1 percent wage growth rate?

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A. **I think I've explained the process we went through in choosing that assumption.**

Q. That's not my question. Here's a pen. Can you write it down on the page? What's the mathematical formula you used to generate the 1 percent wage growth rate?

A. **I believe all of those formulas are sitting in the Excel spreadsheet. I would have to go back and look at each of those cells to determine what was math in the model and what was the key assumption. I believe the 1 percent was a key assumption that we're responsible for and we had to choose the profile for tapering it down.**

Or in this case, I guess, to be tapered up or down, but we had -- we controlled the timing of when we altered that rate. It is a key assumption that we used in the model.

Q. When you say something is a key assumption, that means that it's not being generated by a mathematical formula, correct?

A. **No. It doesn't follow that that's the case.**

Q. All right. But the wage growth rate, that was not generated by a mathematical model, is it?

A. **That is correct.**

MR. BARNOWSKI: Is it possible to take a

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five-minute break?

MR. STEWART: Sure.

MR. SMITH: Sure.

THE VIDEOGRAPHER: Going off the record at 3:27. This is the end of disk number three.

(RECESS, 3:27 p.m. - 3:39 p.m.)

THE VIDEOGRAPHER: On the record at 3:39, this is the beginning of disk number four in the deposition of Robert Cline.

BY MR. SMITH:

Q. Okay. Mr. Cline, the 1 percent wage growth rate that you used, you believe is a reasonable rate for City of Detroit, correct?

A. **It is the one that we thought was reasonable given the recent economic challenges in Detroit.**

Q. And it's the best estimate in your view?

A. **It's the estimate that we think is most accurate over the 10-year time period, but as I mentioned, it -- I believe it -- it is, and that's the baseline forecast, 1 percent.**

Q. The 1 percent value for wage growth that you used is less than the inflation rate, correct?

A. **We don't have a separate inflation rate forecast, so it very is likely to be about or a little**

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below the rate of inflation, but we don't have a separate inflation forecast.

Q. Okay. So, it's likely that you're projecting a real wage rate that is either zero or negative growth?

A. **I believe that's the implication of the numbers.**

Q. Okay. Page 12 of your report, you mention under the heading, C, the first paragraph there, you say that "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."

Do you see that?

A. **I do.**

Q. And would you agree with me that the 10-year forecast also should be considered a simulation of what would happen under the same growth rates and not a forecast of what is expected to happen?

A. **No, I would not agree with that statement.**

Q. Why is there a difference between the 10-year and the 40-year forecast? Is it just the length of time of the forecast?

A. **No, it's not.**

Q. What's the difference?

A. **The difference has to do, I believe, with the**

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starting point. As I've emphasized, our entire forecast for the 10-year period of time is solidly grounded in actual tax collections probably through FY '13 for most of the taxes. We got -- we have the right starting point, and we know what it is. We then forecasted the expected changes over the next 10-year time period. It's not really a 40-year additional forecast, it's 30 more years beyond the first 10, is I believe the accurate way to describe it.

Going out beyond the first 10, we don't have the actuals as our foundation, and we have moved into a period of time which is outside of anyone's economic forecasting model that I'm familiar with. Therefore, I think it is accurate to characterize that more as a simulation based upon those assumptions.

Q. And so, would it be fair to say the methodology you used for the 40-year forecast is different from the 10-year forecast?

A. **I would interpret the methodology we use for the next 30 years to be different from the first 10-year forecast.**

Q. Did you have actual data regarding the wage rates in the City of Detroit?

A. **Did -- we had some information, I believe, on**

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wages and salaries in the Detroit metropolitan area. I believe it may have included Detroit. I don't know if Detroit was stated separately. But remember, what we were trying to get at is the growth in taxable income, not the growth in wages. We're using it as a proxy or as a number to suggest what is happening to the tax base. It's the tax base, not the wages, that are key here.

Q. But you needed to get an accurate measure of wages in order to even be able to use it as a proxy for taxes, correct?

A. Well, I wouldn't overemphasize that length. The tax base itself is a complex combination of earnings which are wages and salaries of employees, earnings of the self-employed, interest dividends and other sources of income. It's the combined influence of all of those factors, all of those components that make up the forecast of the tax -- the tax base, and the change in that tax base over time.

So that we were no -- we were not trying to get -- we were not limited to trying to get a forecast of wages specifically; we were trying to forecast the expected growth rate in tax- -- taxable income under the individual income tax.

Q. Page 14, you've got some numbers here for

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Detroit employment growth at the bottom.

Do you see those? The last paragraph?

A. I do. Yes, I do.

Q. Okay. And you say, "Over this period the assumed structural decline in Detroit employment also wanes, falling in magnitude from negative 1 percent from fiscal year 2014 to fiscal year 2020 to minus .7 percent at fiscal year 2021, and minus .5 percent in the last years."

Are those all assumed values?

A. They are assumptions that are some of the key inputs in the model.

Q. When we go over to page 15, "The share of Detroit employment attributable to income tax base A."

Do you see that?

A. I do.

Q. Those numbers are assumed numbers as well; is that correct?

A. I believe it is accurate to say that when we were doing these different components of the income tax base, we had actual data from the City on the amount of income for the different groups of taxpayers; residents and non-residents. So, once again, we started with the actual amount in that base, and then we grew it by these

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assumed rates of growth.

Q. Okay. So, the rates of growth that you used for the income tax bases in your model were assumed rates; correct?

A. They are our assumptions about what we believe is a reasonable forecast over this period of time.

Q. And the -- at the bottom, you mention that you've assumed the tax rates remain constant, correct?

A. Yes. And we didn't assume that. That is in fact current law. It's not an assumption.

Q. Well, you assume that current law will remain unchanged throughout the forecast period, correct?

A. It's not an assumption we made. It's standard revenue forecasting procedures. You do the forecast under current law.

Q. Okay. You're aware, though, that in the past the income tax rate has been higher than it is under current law, correct?

A. I assume so. It probably was also lower --

Q. Well --

A. -- in the past.

Q. Do you know what it has been?

A. No, I do not. All I know is what current law is, and that's what we used in our model.

R. CLINE

Q. So, you didn't investigate what the income tax rate has been in the past?

A. It's not an issue that was relevant to our forecasting exercise.

Q. Okay. So you didn't investigate it, correct?

A. We didn't address the issue because it wasn't relevant for our revenue estimate.

Q. Page 15, "Wage Growth." You have a 1 percent wage growth rate there again. And then page 16, you have the -- you assume that, in Paragraph 2, that "The restructuring scenario assumes that the number of residents working in Detroit will grow at 50 percent of the rate of total job growth."

Do you see that?

A. I do see that.

Q. Your rate of the growth in Detroit residents under the restructuring scenario is an assumption; is that correct?

A. That is an assumption. The assumption is based on the reasoning that with a stabilized City of Detroit, that you will see that all residents of Detroit will benefit from a stronger overall economy, but we have residents working in Detroit growing at a slower rate than the total job growth rate in the city.

R. CLINE

Q. But there's no data supporting your assumed job growth rates, correct?

A. It's a forecast of the future, and there is no specific data that tells us what the future will look like.

Q. You also assume that wage growth will be constant in the future; is that correct?

A. I believe we were holding the rate of growth to a constant rate.

Q. And you acknowledge, though, that it's likely that the rate of wage growth will not be constant over the 10-year period you forecast; correct?

A. I would say that is correct.

Q. The page 17 of your report, down at the bottom, you have got zero population growth from 2029 to 2033, 22 percent from 2034 to 2043, and then .3 percent annually thereafter. Are those all assumptions?

A. I will have to check at what year -- I believe it was fiscal year 2029 when we had the -- we followed SEMCOG up through FY 2028, and then we overrode those growth rates and chose the rates that you see in this summary.

Q. Okay. So, are the rates that we see in the summary of pages 17 to 18 assumed growth rates for those

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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 very short period of observations there. I don't know whether it was two or three years. I would guess maybe it was a three-year period.

Q. And what value of data was that that you were looking at?

A. That was the reported tax collection data, reported by I believe it was the Michigan Treasury Department.

Q. And where did you get that from?

A. I got that from the treasury department.

Q. Is it something that's publicly available?

A. Oh, yes.

Q. Page 18 to page 19, you applied a structural adjustment of minus 3.2 percent in fiscal year 2015 to

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minus 2 percent in fiscal year 2020.

Do you see that?

A. Yes, I do.

Q. Were those also assumed numbers?

A. Those were assumed numbers, but we have a very solid basis for understanding the dynamics of the net operating losses. It's received extensive evaluation at the national level. We know that the legacy of the deep recession is there may be a number of years going forward when firms will be making positive economic profits -- positive profits, but not paying taxes because they're carrying forward unused operating losses from the recession.

We had to take that into consideration in doing our revenue estimate.

Q. What -- but there's no study or anything like that that gives you the structural adjustments of minus 3.2 in fiscal year 2015 to minus 2.0 by fiscal year 2020, correct?

A. I don't have any studies that estimate those particular numbers.

Q. Okay. The -- if we go back over to page 14, I just want to -- I forgot to raise something. Detroit employment growth, if we look at the last paragraph there

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 the data that I talked to you earlier about, from Figure 2, for example, that showed that Detroit was lagging behind Michigan in economic recoveries. We built that lag -- our estimate of that lag into the forecast. We tapered the lag down assuming that after a period of expansion that differential would be smaller and smaller, and we built that into the forecast.

Q. But were any of those numbers actually calculated numbers? I mean, the tapering was not a result of calculation. That was an assumption you made, correct?

A. Again, what do you mean by "calculation"?

Q. Well, there's no calculation that you plug some numbers into a formula and you got minus .5 percent

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from fiscal year 2016 to 2020, correct?

A. We decided on what the time pattern would look like for that adjustment factor. It did not come from an econometric equation, which we did not have a time series on which to base such an equation. So, many of our assumptions are due to the fact not from the absence of an economic model for Detroit; they're based on the lack of a time series long enough to fit the equations that I believe you're referring to as mathematical equations.

Q. Okay. So, you had to assume what the numbers would be in terms of the cyclical adjustment over the time period you examined; correct?

A. We had no choice because the time series was too short to do a mathematical equation or a regression equation to estimate that relationship.

Q. And is that also true of the initial cyclical adjustment of minus .7 percent that you had to assume that?

A. That is correct.

Q. Okay. What was the rationale for the tapering that you did, that you assumed in your model?

A. I may have already referred to that, and that is that we saw the opening up of this gap between Detroit and Michigan as the economic recoveries came, started

R. CLINE

coming up out of the recessions. Over time, with continued economic expansion, the gap tended to close. We used that insight from recent history to close the gap further out in the forecast period.

Q. Okay. But the data you had available didn't tell you how to conduct the tapering or pick the precise numbers that you assumed in your analysis for the cyclical adjustment, correct?

A. Again, the time series was too short to fit a regression equation that would have predicted automatically from running the regression what the gap closing rate would be.

Q. Okay.

A. That was, by necessity, an assumption that we used in the model.

Q. Okay. So you were forced to pick some numbers to fill in here because you lacked enough data to actually do a mathematical computation; is that fair?

A. No. I wouldn't agree with that statement.

Q. Well, you did -- you personally picked these numbers for the cyclical adjustment during various periods, correct?

A. That is correct.

Q. Okay. And you picked -- you used -- you

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picked the numbers because you didn't have enough data to do a time series analysis to do a mathematical computation to calculate numbers that you could use, correct?

A. I would agree that we did not fit a regression equation to that relatively short period of time. If you had done that exercise, you still couldn't use the equation with confidence because you weren't sure -- you wouldn't be sure if you picked up the factors that are most relevant. You can always fit an equation to any number of observations. It doesn't mean because you did that, it is useful in a revenue forecasting exercise.

Q. Okay. And so, as a general principle, just because you can fit some sort of regression analysis on a body of data doesn't mean that it's meaningful in terms of conducting a forecast, correct?

A. That is correct, and in this particular situation, the lack of historic experience with what is going on in Detroit, what data that is available has a relatively short time horizon number of observations, but in addition to that, there is no regression equation that I could imagine fitting that would pick up the institutional details that I think are most significant in our revenue forecast.

R. CLINE

You see it in the property tax area. You see it in the wagering area. You see it in the utility area. There are too many institutional parameters changing, or conditions changing for a regression equation to incorporate all of that information.

So, you're left with a couple of options. One, you do a regression analysis, and you add dummy variables and add factors by the dozens, which are like our assumptions. Or you take the approach we did, and that is, we wanted to disaggregate all of these complex components into their individual pieces, and deal with each piece separately so we had the ability to incorporate this very specific Detroit institutional information into the calculation.

So, it wasn't simply the lack of data or the lack of regressions; it was the inability of that approach, we felt, to give you accurate forecasts. We believe our disaggregated approach in the spreadsheet model gave us a better handle on what the near term looks like in Detroit.

Q. Okay. And you said "disaggregated approach in the spreadsheet model." Are there written documents that reflect how you came about getting those numbers?

A. The entire model has the structure of all of

R. CLINE

the steps we went through in our forecast. Every -- to my knowledge, every line item is identified in those spreadsheets.

Q. Okay. The -- would it be fair to say that one limitation of your forecasting analysis is that you have limited data with respect to some of these numbers that you're assuming?

A. I agree with that. That's the basic challenge in this forecasting exercise.

Q. Okay. Is another limitation of your model that you have limited data regarding the economy specifically in Detroit?

A. It is true that we did not have a specific -- what I would describe as independent economic forecast for the City of Detroit available to us back in 2013 when we created the spreadsheet model.

Q. And is that a limitation of your forecast?

A. It's a reality of the situation we found in 2013.

Q. Now, I'm just wondering if it's a limitation of your forecast that you don't have that Detroit economic data?

A. It might have been easier if we had a detailed forecast, but it wasn't available, so it wasn't an

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option.

Q. Okay. Well, I'm not -- my question isn't whether it made life easier or not. I'm asking whether you consider it a limitation of your forecast that you don't have Detroit-specific economic data?

MR. STEWART: Objection.

THE WITNESS: I don't -- personally, I would not describe it as a limitation.

BY MR. SMITH:

Q. Okay. What are some of the limitations of your forecasting, other than the data limitations that we've discussed?

A. There's the normal set of limitations on any forecasting exercise. For example, determining turning points, understanding these longer runs' structural shifts between a state and a local region; the uncertainties about the long run structural change in the composition of the Detroit economy. I don't believe there's anyone that would have predicted 10 years ago what Detroit looks like today. It would be very difficult to predict 10 years from now what Detroit will look like.

But those are limitations that I don't believe can be overcome by any statistical analysis that I am

R. CLINE

aware of. They're constraints we would all deal with in doing this type of tax forecast.

Q. So, one limitation of doing forecasting for Detroit is the fact that there's so many factors that can influence the forecast over time?

A. I would just qualify that by saying there's so many factors that are changing, that's what provides the challenges to forecasting. If all of the factors were constant and unchanged, it's not a problem. It is the changing nature of the structure, the institutions, the expectations, and the reality that current data perhaps in Detroit is not as up-to-date and clean as we would like it to be, but it is the best that's available.

Q. And another factor that's -- another limitation of forecasting in Detroit is the fact there's -- the data is not as good as you might like it to be, or as complete?

A. I believe that our starting point for our forecast, which is actual revenue collections, I believe the numbers that the City have are solid numbers. They're going to change between preliminary estimates and book closing at the end of the fiscal year. But I believe that we were given fairly good numbers for the actual tax collections in Detroit.

R. CLINE

Q. Are there other numbers that you were given, though, that you believe might be somewhat questionable or there might be more of a question about?

A. Well, we have spent a little bit of time talking about the SEMCOG population projections. Those are not on the same solid basis as the actual revenue, most recent revenue collection numbers from the City of Detroit. So, yes, the data varies in terms of completeness.

Q. And so, another limitation of your forecast is that you had to rely on the SEMCOG population projections, correct?

A. I wouldn't describe it as a limitation.

Q. How would -- what would you describe it as?

A. I would describe it as the best available population forecast that we had access to. We could not have done a better job than they do.

Q. Have you ever -- in doing tax forecasting for a city, have you ever relied on state data instead of city-level data?

A. Prior to the Detroit project, I haven't done forecasting for a city.

Q. Going back to page 16, at the bottom, you say that -- in the last sentence of the page, you say your

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forecast, "Assumes for the restructuring scenario a slower rate of decline in the population of this group than under the baseline scenario."

Do you see that?

A. Yes, I do.

Q. What was the difference in the population rate of decline that you assumed?

A. This is, I believe, the restructuring scenario, and consistent with our overall perspective on the restructuring scenario, we feel that the economy will start to strengthen, there will be positive growth in total employment, and we believe that those people who are residents of Detroit but working outside of Detroit, will still be declining, but at a slower rate as they perceive that the job opportunities in the suburbs are there, and that the city, as a place to live, is more attractive.

So, the outward migration or flow of the people who are most mobile would be reduced under this alternative, which is residents of Detroit working outside of the city.

Q. And the slower rate of population decline is an assumption that you made, correct?

A. Yes, it is.

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Q. And do you know what the assumed difference is in the rate of population decline for the restructuring scenario?

A. I don't recall what the specific differential is. I could check the Excel spreadsheet and let you know.

Q. There's no body of data, though, that tells you what the assumed rate of population decline is in the restructuring scenario as compared to the baseline scenario, correct?

A. There's no body of literature that I know of that deals with the forecast for the situation that Detroit faces, so I'm not aware of any studies that would have given us insight into this issue.

Q. Okay. The page 19, you assume that -- if you look at that paragraph, number three, the one that's --

A. Okay.

Q. -- got a 3 in front of it on page 19 --

A. All right.

Q. -- it says that you "assume that the State corporate income tax revenues return to a long run growth rate of 3.0 percent".

Do you see that?

A. I do.

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Q. That's an assumption, correct?

A. That is an assumption.

Q. And there's no body of data that tells you that the State corporate income tax revenue will return to a long run growth rate of 3.0 percent as opposed to some other rate, correct?

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

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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.

Q. But there's no body of data that tells you to pick 3.0 percent rather than 3.1 percent or 3.2 percent,

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correct?

A. **I believe I have stated that one body of information we looked at was what is happening across the states in corporate income tax collections. It, in a sense, said start with zero, and think about whether or not Detroit and Michigan would deviate from zero, and that's what we did.**

Q. What body of data is that called?

A. **That is U.S. Census of Government State Tax Collections by state by fiscal year.**

Q. But that doesn't tell you what to pick for the corporate income tax revenue rate in Detroit, correct? That's not any kind of Detroit data?

A. **Detroit is not operating in isolation from the rest of the world. You need to use the best available information in order to do this forecasting. Michigan's experience as a state is too short. It is logical, then, to turn to the experience of all of the states to help guide your choice of that growth assumption, and I think we used the right database for that.**

Q. Okay. So, for the corporate growth rate of 3.0 percent, you weren't looking at Michigan or Detroit data, you were looking at some other data regarding other states; is that correct?

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A. **We did look at Detroit data. We did look at Michigan data. We then went to national data, and based upon all three of those data sets, we made our choice of the assumption.**

Q. Okay. It's an assumption but not a calculated value of 3.0 corporate growth rate, correct?

A. **For that statewide number, we calculated the total State corporate income tax collections by year. We formed an index number with the last year of the recession as the first year. We calculated that ratio for every year hence for all of the states, and based upon that calculation, we know it is 0.0 percent. There's been no growth in the aggregate in the U.S., at any -- of corporate income taxes since the recovery.**

It seemed like a pretty firm insight or number for us to have as a starting point, and then we based our estimate on all of that information, but it is our assumption, we think a reasonable one, about the expected growth rate.

Q. So, you calculated a zero rate and then you used 3 percent, correct?

A. **We did, correct.**

Q. The wage rate tax, page 23, up at the top of the page, you say "Based on the most recent wage rate tax

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collection data, these taxes are anticipated to drop minus 4.3 percent in fiscal year 2014," correct?

A. **Correct.**

Q. And then there would be another year decline and minus 1.0 percent in the two years of growth at .5 percent, correct?

A. **Correct.**

Q. All of those numbers are assumed numbers, correct?

A. **All of those numbers are the growth rates that we have plugged into our forecasting model.**

Q. That are assumed, correct?

A. **All of the inputs that are parameters in the model are a combination of current law parameters like the tax rate and assumed rates of growth like this growth in wagering in Detroit.**

Q. Okay. And those assumed numbers you use are different than the consensus revenue numbers, correct?

A. **It appears that they are, but remember, that in deriving those numbers, we didn't look only at the City of Detroit. We recognized that gambling revenues in any particular location or state are being influenced heavily by what's going on in neighboring locations.**

We know that the new gambling is coming

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onboard in Ohio. That's a fact. We know there's perhaps an expansion in gambling across the river from Detroit. The real question is how negative is the temporary impact from those changes. There's no regression equation that I know of that could answer that question because there's no experience in the City of Detroit in that situation.

We think a reasonable way to look at it, and we had actually identified the negative 4 to 4.5 percent decrease in 2014 back in 2013. We got that right. And then we allow it to go down one more year, and then start to turn back into the positive range. There's a real disagreement of analysts out there, whether it will continue down as a significant negative or bounce back to a slightly positive number.

Q. Okay. So, there's no study or analysis that can tell you what the growth in the wagering tax collection data will be given the potential for competition from these other casinos, correct?

A. **I don't know of any study specific to the City of Detroit that has tried to estimate empirically or with a regression equation what that differential impact looks like. There are a number of articles that are talking about what they think might happen, but they're -- as I mentioned, there's real disagreement about what the**

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future, near term, looks like.

Q. Can you tell me what period of time of recent wagering tax collection data you looked at?

A. We went back in time to look at wagering tax collections. I think we looked at the numbers that are reported in the CAFR for the City of Detroit, looked at that change. We saw some positives, rates of growth, when Detroit was operating, in a sense, in isolation, without direct competition, defined by geographical limits.

More recently, we see the decline in Detroit wagering due to the economy and the deep recession, and we know we're looking at an impact from the competition. In our forecasts, we had to separate out the deep recession that ended from the ongoing competitive impact, and this is our best estimate of what that net effect is.

Q. Okay. But why does it go to .5 percent at some years and it's minus 1 percent in some years and minus 4.3 percent at another year?

A. I believe the correct way to describe this is that we are moving in the same direction over the entire 10-year period of time. We're not bouncing up positive, down to negative, up to positive. We are bringing the industry back to what we think is a more stable, long run

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growth rate, appreciating the impact of increased competition, allowing it to grow somewhat, perhaps with the level of general spending on wagering. It's a stabilized world where the competition is there but doesn't continuously eat into the Detroit share.

Q. And you never have done any study of casino competition yourself, correct?

A. Not of competition.

Q. And there's no mathematical formula you're using that governs the change in the rate for the wagering tax revenue over time, is there?

A. No, there's not.

Q. The -- page 25, you use utility users' tax rate -- growth rate of 1.5 percent from 2019 through the rest of the period.

Do you see that? It's in the middle of the page.

A. I do. I'm trying to remember if we are into restructuring are or we baseline at this point?

Q. I believe it's baseline.

A. Baseline. I believe you're correct.

Q. Okay. Is that an assumed number?

A. That's our forecast of the rate of growth.

Q. Okay. I'm just wondering if it's an assumed

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number.

A. Well, again, I know we're using different terminology. It's our forecasted rate of growth that we used to forecast the revenue collections.

Q. But is it a calculated number based on a body of data, or is it an assumed number?

A. It's a calculated number based upon recent collection experience in Detroit modified by the fact that recent experience in Detroit shows a continuing decrease in these revenue collections, which suggests that there may be challenges to the number that we put in here, but it's the best available information we had at the time we made the revenue estimate.

Q. Okay. What was the -- what was the mathematical formula you used to calculate the 1.5 percent figure?

A. We don't have a mathematical formula that calculated that figure.

Q. Okay. So that 1.5 percent utility growth rate figure was an assumed number; is that correct?

A. Again, I believe I would use the word forecasted. You --

Q. I know what terminology I'd use --

A. Right.

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Q. -- but I can't say it on the record.

I mean, I'm just trying to get at if there's -- what I'm trying to get at is if there are mathematical formulas generating the number, I want to know what they are. Isn't that fair?

A. All of the mathematical formulas that we used in the model are contained in the model and visible in the model.

Q. Okay. When you say visible in the model, you're saying the Excel spreadsheet that's been produced to us?

A. I believe that's correct.

Q. Okay. So, your understanding is all of the mathematical formulas that are used to generate numbers in your forecast contained in the Excel spreadsheet that's been produced to us; is that your understanding?

A. That's my understanding.

Q. And where did you get that understanding from; did you personally inspect the Excel spreadsheet or is somebody telling you that?

A. I personally reviewed every element in the Excel spreadsheet. I know when we last touched it that information was embedded in the spreadsheet.

Q. Okay. When you say "embedded in the

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spreadsheet," how is it embedded in the spreadsheet?

A. When I saw "embedded," I mean, you can -- it's there, and you can see it when you look for it.

Q. Okay. So, the exact mathematical formulas used to calculate all of the numbers that you use are in the Excel spreadsheet that you produced; correct?

A. I would answer your question yes, but I would qualify it by saying I don't know. I hope so, but I don't know if the analysis behind Figure 2 and the analysis behind Figure 1 is located in those master spreadsheets.

Q. Okay.

A. I'll have to check their location.

Q. Were there other spreadsheets or written documents that might contain the analysis underlying Figure 1 and Figure 2?

A. There may be other spreadsheets that I believe you have -- you had access to that contain some of the elements.

Q. Well --

A. I don't know the -- I haven't gone -- I haven't gone through an inventory to link each of the spreadsheets to determine whether calculation X is only in spreadsheet one or flows into spreadsheet one from

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spreadsheet two. I do believe we've turned over all of those spreadsheets to you folks.

Q. Was there a separate spreadsheet, though, for the analysis underlying Figure 1 in a separate spreadsheet for analysis underlying Figure 2?

A. I'll have to check that.

Q. I mean, who did those analyses?

A. My staff did those analyses.

Q. You mentioned one of them, but I just want to get the names of the people that did those analyses.

A. I don't know who was responsible for each of those pieces. I could try to get the answer to that for you.

Q. Page 26 of your report, you say at the bottom, under Materials Considered, "Mr. Cline also had available to him City officials, advisers and consultants, as well as the expertise of Gaurav Malhotra, Caroline Sallee and the materials they considered."

Do you see that?

A. I do.

Q. Are there any City officials that you can identify that you had available to you?

A. As I mentioned, I believe, earlier, there were several conference calls that I was on that involved

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different City officials. I don't have a listing of the names of those people.

Q. And so, you can't identify the City officials or advisers that you relied on for your opinions, by name, sitting here today?

A. I believe the accurate description is, Caroline Sallee, for example, had a number of contacts with different City officials dealing with the property tax forecast. While I reviewed the Excel spreadsheets for that forecast, I was not involved in each of those phone calls, so that I don't know who those specific individuals were at the City level that were providing her with assistance, for example.

Q. Okay. So, you don't know the identity of the City officials you relied on because you're relying on Miss Sallee, who in turn relied on those City officials?

A. Correct.

Q. The -- over on page 27, it mentions your compensation. You're being compensated at a rate of $754 for actual time you incurred as well as reasonable out-of-pocket expenses.

Do you see that?

A. I do.

Q. And then it says "The fees are subject to a 10

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percent hold-back contingent upon plan confirmation by the summer of 2014."

Do you see that?

A. I do.

Q. And as far as you're aware, all of the fees that you are charging are subject to the 10 percent hold-back contingency?

A. I don't know what the details of those arrangements are. I submit my time sheets to Ernst & Young. What happens after that, I don't know.

Q. Okay. That's fair enough.

The -- I think you made it clear several times today that you are not prepared to talk about tax policy as it relates to the City of Detroit, correct?

A. I believe the accurate statement is that I was not asked to nor did I do analysis of alternative tax policies for the City of Detroit, and therefore, I don't have anything to comment on, because we didn't do that work.

Q. Okay. So, you're not offering testimony about the City's tax policy, correct?

A. I think it's pretty clear that I am not doing that.

Q. You're not offering testimony about the City's

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taxing capabilities?

A. What do you mean by "taxing capabilities"?

Q. I guess, what their ability to tax -- you're not offering opinions about whether -- how able the City is to tax or raise taxes or do anything like that?

A. What we did was estimate the amount of revenue we expect the City to collect from the current tax system. If that's capacity, we did that. What we did not do was estimate how much higher or lower the taxes would be if the City or the State changed current tax law.

Q. Okay. So, in order to figure out what the total tax revenue available to the City would be potentially over a 10-year period, somebody would have to do an additional analysis to determine whether there's additional sums that could be raised through taxation by changing the assumptions in your model and then add it on to your forecast; is that fair?

MR. STEWART: Objection.

THE WITNESS: No, I don't think it's an accurate description.

BY MR. SMITH:

Q. Why is that? How would you describe...

A. I believe you talked about changing

R. CLINE

parameters. We have to use the language carefully. Our assumption that our entire revenue forecasting exercise was based on current law means we held current law tax parameters constant. They're specified in law, and we held them constant.

We did not analyze changes in the constants that are under current tax law. It's not an exercise we did. It's not an exercise we were asked to do.

Q. No. It's an exercise that somebody could do if they want to get an idea of the total tax revenue that might be available to the City in the future, correct?

A. It sounds to me like it would be an entirely different exercise from what we were asked to do.

Q. And you're not prepared to testify about what studies might have been done about the City's tax policy or taxing capabilities; is that fair to say?

A. I wouldn't use the word "prepare." We simply didn't look at the issue, so I can't answer questions applicable to that issue.

Q. Okay. Well, let me -- here, I'm going to mark a document as Exhibit 5, and you can tell me if you have ever seen this before.

(Cline Exhibit 5 was marked for identification.)

THE WITNESS: I am familiar. Excuse me.

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Is there a question there?

BY MR. SMITH:

Q. Have you seen this document before?

A. I have seen this document before.

Q. And so before your deposition, you were aware that you had been designated for Deposition Topic No. 2, which is the City's tax policy, taxing capabilities, tax revenue assumptions, projections and any studies regarding the foregoing?

MR. STEWART: You're aware -- I don't mean to interrupt your question. You're aware of the email we sent to Steve Hackney saying that we designated another witness for that?

MR. SMITH: Who have you designated for that?

MR. DiPOMPEO: John Hill.

MR. SMITH: John Hill?

MR. STEWART: John Hill.

MR. SMITH: When was that?

MR. DiPOMPEO: Two weeks ago.

MR. SMITH: Okay.

BY MR. SMITH:

Q. So, you didn't do any investigation. Do you know why you were de-designated from that topic?

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A. I do not.

Q. Let me hand you what I'm going to mark as Exhibit No. 6.

(Cline Exhibit 6 was marked for identification.)

BY MR. SMITH:

Q. Let me know if you have seen this document before.

MR. STEWART: I'm sorry. Is this being marked?

BY MR. SMITH:

Q. Have you seen that document?

A. I don't remember seeing this document.

Q. Okay. Did anybody ever inform you that the City had approximately 42 million in outstanding income tax receivables?

A. As I mentioned earlier, we did not address nor try to evaluate current collection activities for the individual income tax. I'm assuming -- well, yes. These are individual assessments. We did not examine issues surrounding current assessment practices, if this is the individual income tax. We did not deal with this information. We did not use this information in our revenue forecasts.

Q. Okay.

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(Cline Exhibit 7 was marked for identification.)

BY MR. SMITH:

Q. I'm going to hand you what's been marked as Exhibit 7, which is another memorandum. I just wanted to find out if you've seen this before.

A. I don't know if I've seen this memo. It looks like it was dated October 2013 which would have been about the time or later than that when we did a revision in our forecast, but I don't remember seeing this particular memo when we did that reestimation of our forecast.

Q. You see that there's some data for income tax -- some forecast for income tax, wagering tax, state shared revenue and utility users' tax?

A. I do see those.

Q. And are the forecasts from Michigan State that are reflected in this memorandum different than your forecasts that you've done?

A. Just glancing at the income tax numbers, the -- before I comment, can you tell me if the income tax figure includes both individual and corporate or only individual?

Q. Well, my assumption is it's only individual, but I didn't write the document, so I don't want to tell

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you -- put words in the author's mouth here.

A. I would guess it must be the sum of the two --

Q. Okay.

A. -- given those rates of increase.

Q. Okay. Do you have any idea whether your forecasts are different? The wagering forecast we know is different, correct?

A. The income tax forecast I would have to know the disaggregation between the individual income tax piece and the corporate income tax piece to understand how it compares to our two components.

Q. And how about the utility users' tax?

A. Those negatives, I have seen in recent tax collection figures. I believe that's more negative than our numbers.

Q. Okay. The -- if you look at the notes on the last page.

A. Yes.

Q. It says that "Wagering tax growth is based on continued improvement in local and national economy."

Do you see that?

A. I do.

Q. And do you agree that there's a relationship between the economy and wagering tax growth?

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A. I would agree if all other things were constant, you would see that direct relationship. The presence of the new competition for gambling in Detroit is not holding all other factors constant. In fact, it might be the biggest factor determining the future growth rate.

So, if that -- that bullet would have to be expanded to say they had also considered wagering tax growth as it would be affected by the increased competition coming from across the border.

Q. And do you agree that as a general matter, as the economy improves, tax revenues should improve in the City of Detroit?

A. Depends upon what the improvement is and where it occurs.

Q. Okay. I mean, in your model, don't you assume that if the economy improves, that there's going to be an increase in tax revenue?

A. We don't have a simplistic relationship that you're describing, for example, in the individual income tax forecast. We have three buckets: Residents who live in the city and work in the city; residents who live in the city and work in Detroit; people who live in the suburbs and work in Detroit. They pay taxes at different

R. CLINE

tax rates, and they're influenced by different economic rates of growth depending upon the geographic location.

It's too simplistic a statement to say that things are improving, and therefore, those revenues will increase. It depends upon where they're improving and the relative change, for example, between the suburbs and the city. Until I know those relatives, I can't answer that type of simple question.

Q. Do you agree that a significant portion of the revenue from the wagering taxes is derived from people who don't live in the City of Detroit?

A. I haven't looked into the composition of who is wagering in the Detroit casinos.

Q. Okay. But you would expect that there would be people who live outside the City of Detroit who wager in the Detroit casinos, correct?

A. I expect so.

Q. So, a portion of the wagering tax revenue would be from non-residents of Detroit, correct?

A. That may be the case. I'm not familiar with any data. I have not had access to data that would break it down that way.

Q. You have had access that shows that a significant portion of the income tax revenue is derived

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from people who aren't residents of Detroit, correct?

A. And there's a reason for that. That is correct. The reason is that I believe the City has to report to the State that composition of resident and non-resident individual income tax collections. Because of that, we have a time series that identifies those two components.

Q. Yeah.

(Cline Exhibit 8 was marked for identification.)

BY MR. SMITH:

Q. Let me hand you what I have marked as Exhibit 8, which is a document that I believe you have listed in your report. Have you seen this document before?

A. I believe -- you stated that this was in my report?

Q. I think it's one of the -- you know, you list documents that you considered. I believe this is one of the documents you list, but I'm just asking you if you have seen it before.

A. I certainly was aware of the fact that there was a Brookings report that included Detroit in a broader study. I think there were multiple cities involved. Oh, yeah, it says, Chicago, Philadelphia. I was aware of the fact that Detroit was included.

R. CLINE

Q. Okay. And I believe in your report, you cite this 10-year population growth figure of .5 percent from 1990 to 2000; do you recall that?

A. I would --

MR. STEWART: Do you want it?

THE WITNESS: I'll have to look it up.

MR. SMITH: You can look in your report or just say you don't remember. Either way is fine.

THE WITNESS: No, I don't -- I don't keep all of those numbers in my head. Was there a page number where you --

MR. SMITH: I don't know what the page number was.

THE WITNESS: -- were referring to?

MR. SMITH: If you don't remember, that's okay, too.

THE WITNESS: I wouldn't want to agree if I didn't see the specific number in there.

BY MR. SMITH:

Q. Okay. Is it fair to say that there are periods of time where Detroit's population growth actually exceeded that of comparable cities?

A. I see quite a mixed picture on this table, if that's what we're referring to.

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Q. Well, for example, in 1990 to 2000, Detroit -- Philadelphia's population growth went down by .4 percent, Scranton went down by .3 percent, Syracuse down by .2 percent, but Detroit increased population growth.

Do you see that?

A. Yeah. I see the 4.8 percent for Detroit, is that the number, from 1990 to 2000?

Q. Well, there's a 10-year growth of .5 percent.

A. Oh, I see. The -- what are -- excuse me. What numbers, then, are listed in the table in the first line for Detroit?

Q. Okay. Well, you gave us this document, right? Can you tell me what this document shows?

A. I am not familiar with the details of what the numbers are.

Q. Okay.

A. Personally, I'm not.

Q. Okay. Looking at the document, can you tell that Detroit's population growth is -- is exceeding that of comparable cities during certain points in time, whatever numbers you look at in the table?

A. Looks to me like it's a fairly mixed story. I'd have to look at it in more detail. Some cities, some years, higher or lower. It varies significantly by

R. CLINE

period of time.

Q. Okay. And so, there's some periods during which Detroit's population growth exceeds that of comparable cities, correct?

A. In the past, going back to 1980, it looks like the numbers are indicating that.

Q. And Detroit actually grew its population during periods of time where other cities lost population, correct?

A. I would say it's a mixed picture. It's true for some cities relative to Detroit, not true for other cities. I'm not sure you can generalize with the statement that -- to document the statement you just made.

Q. Well, I mean, if we look at 1990 to 2000, Detroit had positive population growth, correct?

A. Yes, as did a number of other cities.

Q. And during that same period of time, there were cities that had negative population growth that are comparable, correct?

A. It looks like that is correct, but it's not relevant for our forecast that we did.

Q. Okay. Well, my question is there were periods of time, decades in which Detroit had positive population

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growth where other cities had negative population growth, correct?

A. I think it's correct to say that our economic forecast is not based on a 30-year comparison of multiple cities from a different world of economics. Our forecast is based upon the most recent information about the City of Detroit, independent of any of these other cities, but related directly to the forecast for the state of Michigan. I don't see the relevance for these numbers in our revenue forecast over the next 10 years, in the City of Detroit.

Q. Okay. I'm -- that has nothing to do with my question. My question is, during a decade of 1990 to 2000, Detroit grew population whereas other comparable cities lost population, correct? That's all I'm asking.

A. As I mentioned earlier, I don't fully understand these numbers, so I can't comment on what story they tell. I did not use these numbers in the forecast for the City of Detroit. I did not study the Brookings report. I know they were not used in the forecast that we did. They may have been used in the extra 30-year forecast to try to understand how a city can recover from a period of time when there were negative growth rates in population.

R. CLINE

I believe that may have been the context for gathering this information, but I'm not familiar with that comparison going forward over the next 30 years using this particular table.

Q. Okay. So, even though this table is in your list of materials considered, you can't tell me anything about it or explain it at all?

MR. STEWART: Objection.

THE WITNESS: I believe we listed there the information that was considered. It's not true that all of this information had the same weight and was used in all dimensions of our estimates. I believe we were trying to identify sources that we gathered as part of our exercise.

BY MR. SMITH:

Q. If you look at page 13 of your report, your report says, "The Detroit metropolitan area grew an average of 0.5 percent annually between 1990 and 2000 after experiencing decline in population in the previous decade."

Do you see that?

A. I do see that.

Q. Okay. So, you're specifically relying on this data in this table in your expert report, correct?

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MR. STEWART: Objection.

THE WITNESS: I don't know if that's correct.

BY MR. SMITH:

Q. Okay. You got no idea what it is you're relying on in your expert report, correct?

A. Our ex- -- my expert report provides a summary of the assumptions and the results from our tax forecast exercise.

I, at this moment, cannot explain how we used each piece of this background information in deriving these assumptions and the final results. I believe we've identified information that we considered. It is not -- does not follow that it influenced our choice of assumptions in our model.

Q. Okay. So, you don't -- you can't explain to me sitting here today how all of the materials that you cite and quote from in your report were used in your analysis; is that fair?

A. I would say it's fair to say that this afternoon I could not step through with you a discussion how each of these tables or documents that you see were used in each step of our estimating process. I believe it is accurate to say that we have shared with you

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information that we considered in doing our revenue forecast.

MR. SMITH: Okay. Why don't we take a quick break.

THE VIDEOGRAPHER: Off the record at 4:53.

(RECESS, 4:53 p.m. -5:08 p.m.)

THE VIDEOGRAPHER: On the record at 5:08.

(Cline Exhibit 9 was marked for identification.)

BY MR. SMITH:

Q. Mr. Cline, I'm handing you what's been marked as Exhibit 9. Could you let me know whether you've seen this document?

A. I believe I have seen this document. I'm not sure what the source is.

Q. Okay. Is it your understanding that there are differences between the assumptions and numbers in the Consensus Revenue Forecast by the City and numbers in the Plan of Adjustment?

A. Was this a table that was included in the consensus revenue forecasting materials.

Q. Well, I can tell you where I got it, not that that will help, but it's listed on Mr. Hill's list of documents considered.

A. I believe -- yeah, I believe it says at the

R. CLINE

top, "Revenue Consensus and Plan of Adjustment." I did notice when I was looking at the new consensus forecast that they had a discussion of a comparison of E&Y's numbers to their numbers. I believe that's what this is.

Q. Well, I'm -- this is -- to me, it's the document that Mr. Hill cites.

A. I didn't prepare it and I must admit, I haven't read it, but I think I did see that they had put together a table in their materials talking about the forecast.

Q. Have you done any investigation to determine whether the assumptions and numbers that the Plan of Adjustment uses are different from the Consensus Revenue Forecast the City put together?

A. No, I have not.

Q. Have you done any analysis to determine whether the numbers and assumptions in the Plan of Adjustment are different than the analysis that you put together?

A. I have carefully reviewed the various tables in the Plan of Adjustment to make sure I could form a crosswalk back to our underlying Excel models. There are some differences from aggregation. I think some of the lines on the Plan of Adjustment have aggregated several

R. CLINE

different revenue sources, so they might differ from the underlying numbers in our Excel spreadsheets.

But I believe the Plan of Adjustment has picked up the underlying numbers that are in our latest revenue forecast.

Q. Okay. Do you -- but sitting here today, you haven't done any analysis to figure out what all of the differences are between the Consensus Revenue Forecast and your analysis; correct?

A. I have not looked at the consensus, the new consensus forecast, in detail.

Q. Okay.

A. I know it exists. I haven't read it nor studied it.

Q. And is there any reason for that?

A. No, other than at the time we were doing our revenue revisions, we were looking at any changes we knew about from our forecasts and the underlying assumptions that we thought should be updated.

Other folks on my team were interacting with the City of Detroit, like Caroline Sallee. She may have picked up some of the new information from this analysis relative to the property tax, but I did not personally make that comparison.

R. CLINE

Q. Do you know whether people from Ernst & Young were attempting to influence the consensus forecast and its conclusions while Ernst & Young was doing litigation work for the City?

A. No.

Q. Do you think it would be appropriate for Ernst & Young to influence the consensus forecast while it's doing litigation work for the City?

A. I have no comment.

Q. You're certainly not willing to say it would be appropriate for Ernst & Young to influence the consensus forecast while it's doing litigation work for the City, correct?

A. I'm not aware of the hypothetical that you're positing. I'm not sure what you're describing. I am not familiar with anything relative to that.

Q. And that's not my question. My question is, would it be appropriate for Ernst & Young to influence the consensus forecast while it's doing litigation work for the City?

MR. STEWART: Objection.

THE WITNESS: I'm not a lawyer. I'm not -- I'm talking about the revenue forecasting information that we provided and the analysis

R. CLINE

that's covered by my expert report. I don't want to speculate on other developments and other interactions among any other folks involved in this exercise.

BY MR. SMITH:

Q. Okay. Have you had any involvement with the exit financing that the city is trying to get from the Chapter 11 -- I mean, Chapter 9?

A. I don't know what that concept is. I believe it's fair to say I'm not familiar with it.

Q. Okay. Would it be fair to say that there's a lot of aspects of the bankruptcy and the Plan of Adjustment that you're just not -- don't have a familiarity with and can't comment on?

A. I believe I've answered the specific questions that you have posed on the work that we were asked and did for the City of Detroit. I can't comment or speculate on things I am not familiar with.

Q. Okay. I understand that, but I'm asking you, it would be fair to say there's a lot of the aspects of the plan that you're just not familiar with, correct?

A. Our responsibility in the QUEST practice of Ernst & Young was to deal with a specific portion of the larger picture, and that's all I'm familiar with.

R. CLINE

Q. Would it be fair to say that your analysis here and role in the case is a narrow one?

A. I'm not sure I understand the term "narrow" in this context. I believe this is an important part of the discussion.

Q. Okay. Do you have any publications on tax forecasting?

A. Not recently, that I remember. There may have been papers that I did back as tax research director in either Michigan or Minnesota where I talked about different aspects of the forecasting process. I used to attend annually the revenue forecasting section -- the revenue section of the Federation of Tax Administrators, FTA. I made a number of presentations to those meetings which were meetings of my counterparts in other states responsible for revenue estimation. I'm sure there are PowerPoint presentations that I made in those settings.

Q. Okay. But you haven't published any peer-reviewed studies or other literature on tax forecasting, correct?

A. I don't remember any publications I have in peer-reviewed journals dealing specifically with a forecast issue. I could go back in the records, but I'm not sure I have any of those.

R. CLINE

Q. Okay. The -- we talked about how you don't have any idea of what percent of the corporate income tax is collected by the City, correct?

A. 100 percent of the corporate income tax, money in the city, is collected by the City.

Q. You're saying the collection rate for the corporate income tax is 100 percent?

A. No. I'm saying the City collects the corporate income tax for the City.

Q. Okay. Well, my -- the question is, you have no idea what the collection rate is for the corporate income tax, correct?

A. Consistent with my answers earlier, we did not analyze separately the collection rates of any of the taxes we looked at in our forecast, other than an average collection rate for the property tax forecast.

Q. Okay. And so, an increase in -- a significant increase in the -- an additional revenue from a significant increase in the collection of the corporate tax rate, the income tax rate, the wagering tax rate, and utilities users' tax rate, that's an analysis that you haven't been asked to perform?

A. Nor did we do an analysis of changes in the collection rates for any tax other than the property tax.

R. CLINE

Q. Okay. So, if somebody wanted to get an idea of the magnitude of the additional revenue from significant increases in collection rates on the various taxes you look at, they would have to do a separate analysis and then add that number on to your forecast?

A. Or they would have to go to someone else who has done that analysis. We did not do that analysis.

Q. Okay. But it's an analysis that could be done and then you would just -- that would be additional revenue to the City, correct?

A. I would imagine it would depend upon what specific changes were made in the collection procedures and processes.

Q. Okay. But that would be an additional analysis that would have to be done to see what impact an increase in collections would have on the tax revenue available to the City, correct?

A. I believe as I've answered, we have estimated the effect under current law of a forecast of the taxes expected under current law given our assumptions about the economics. Other than the property tax revenue estimate, we have not built in any separate adjustments for collection procedures and processes in our numbers.

Q. Okay. So, somebody wanting to get a number

R. CLINE

for additional revenue from changes in collection processes or procedures would have to perform a separate analysis that you haven't performed, correct?

A. Or they would have to go to someone who has done that analysis.

Q. Okay. And then they would take those sums and they would add them to your forecast to get a total forecast of additional revenue including collections plus the numbers you forecast for taxes?

A. That could be, but as I've indicated, there are a number of revenue sources we were not asked to forecast. So, all -- I believe your statement would apply to any tax forecast that we did not do and were not asked to do in this -- this analysis; so there would be a number of dollars falling into that bucket that you would have to go elsewhere to get revenue estimates for.

Q. Okay. So, somebody would have to do a number of different analyses that included analyses for increased collection rates and analysis for other taxes you didn't consider, and other factors in order to get at the total potential revenue available from taxes for the City, correct?

A. I believe that analysis has already been done. I'm not -- we were not responsible for it.

R. CLINE

Q. Who did that analysis?

A. I believe the Plan of Adjustment has the numbers that you're describing in it.

Q. Okay. So, do you think the Plan of Adjustment has numbers for an increase in collection rate?

A. I believe there's a specific line in one of the tables that identifies that.

Q. And are there numbers in the Plan of Adjustment for taxes that you didn't consider?

A. I believe there are summary categories that do include other sources of tax revenue.

Q. And all of that would be additive to your analysis, correct?

A. We did not do those numbers.

Q. Okay. Can you give me an explanation for why the -- no one asked you to look at increases in collection rates or other taxes other than the ones you looked at?

A. I believe it might have been a logical division of labor that we were asked to do what we do best and have experience in doing.

Q. Do you have any idea of who did the analysis of collection rates?

A. No, I don't.

R. CLINE

Q. Do you have any idea of who did any analysis of taxes other than the ones you looked at?

A. No, I do not.

MR. SMITH: Why don't we take a quick break.

MR. STEWART: Here's the document, and you were right, we did not change it to correct the fact that it's going to be Mr. Hill instead of Mr. Cline. But Mr. Hill is later in the week, and you --

MR. SMITH: So, Mr. Cline is not prepared to testify on topic 2?

MR. STEWART: Not on 2, no. We thought we corrected it, but we did not. Anyway, it will be Mr. Hill.

MR. SMITH: Okay. So, you want to change it to Mr. Hill now, is that what you are saying?

MR. STEWART: Well, we'll file things formally, but we will just want to make sure you know that's an oversight. We thought we had fixed it, but it will be Mr. Hill. We'll put it in an amended document so it's clear in terms of filings what we're doing, but it will be Mr. Hill. We thought we had disclosed that sometime earlier.

R. CLINE

MR. SMITH: And the other item is we have received some additional documents. We haven't had a chance to upload that deal with Mr. Cline and Mr. Malhotra, I believe on Friday.

MR. STEWART: All right.

MR. SMITH: So, I just wanted to put that on the record.

BY MR. SMITH:

Q. Mr. Cline, are there any areas that you plan to testify about that we haven't discussed?

A. I believe we have been discussing the area that I was responsible for, and that's the preparation of the tax forecast for the tax -- major tax components that you identified earlier in your questioning.

Q. Okay. And I just want to find out if there's any other area we haven't talked about that you might be planning to testify about at trial? Or have we covered all of the bases? That's basically what I want to find out.

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

Q. Okay. Why don't -- why don't you know the answer to that question?

A. Because I'm not clear what other areas that you might question me about.

R. CLINE

Q. Okay. But you do know what you're planning to testify about, correct?

A. It's summarized and presented in the report that we have been discussing.

Q. All right. And that's it, right, what's in the report?

A. I believe that's correct.

Q. Okay. The -- are you preparing to do any other work to revise your analysis or anything like that before trial?

A. We are not looking at any revisions at this point that I am -- that I am aware of, and I assume we will not be making changes.

Q. Okay. There was, I think, a plan to have the -- the next CAFR, I think, is about to come out. Does that figure in your analysis at all or not?

A. Well, we would certainly look at it if we were asked to do another round of revisions. At this point, I am not considering doing that.

Q. I mean, does the -- do you rely on the CAFR for part of your analysis?

A. I think I mentioned in answering earlier questions that the CAFRs have been one source of information, after the fact, as the best estimates of

R. CLINE

actual tax collections.

Q. Okay. So, you would kind of test the tax collections against the CAFR and update the -- your analysis with actual values if you were going to update it, which it sounds like you're not going to update it?

A. We have not been asked at this point in time to do new estimates. If we were, that would be one source of information that we would consider.

Q. Okay. Okay. Thank you.

MR. STEWART: Thanks. Does anyone else have questions? Anyone on the phone?

MR. DiPOMPEO: Does anyone on the phone have questions? Is there anyone on the phone?

(No response.)

MR. STEWART: We're off.

THE VIDEOGRAPHER: Okay. Off the record at 5:26. This is the end of disk four, and the end of today's testimony.

(CONCLUDED, 5:26 p.m.)

CERTIFICATE OF COURT REPORTER

I, Marjorie Peters, Registered Merit Reporter and Certified Realtime Reporter do certify that the foregoing is a true and accurate transcript of the foregoing deposition, that the witness was first sworn by me at the time, place and on the date herein before set forth.

I further certify that I am neither attorney nor counsel for, not related to nor employed by any of the parties to the action in which this deposition was taken; further, that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in this action.

____

Marjorie Peters

Registered Merit Reporter

Certified Realtime Reporter

P

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V

W

EXHIBIT 6

Sallee Deposition Transcript

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

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

The videotaped deposition of CAROLINE SALLEE, called for examination pursuant to the Rules of Civil Procedure for the United States District Courts pertaining to the taking of depositions, taken before GINA M. LUORDO, a notary public within and for the County of Cook and State of Illinois, at 77 West Wacker Drive, Suite 3500, Chicago, Illinois, on the 24th day of July, 2014, at the hour of 9:04 a.m.

Reported by: Gina M. Luordo, CSR, RPR, CRR
License No.: 084-004143

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Also Present: Ms. Marguerette Hosbach
General Counsel - Ernst & Young
(via telephone)

Mr. Thomas Scheckel - Videographer

I N D E X

E X H I B I T S

THE VIDEOGRAPHER: My name is Thomas Scheckel, certified legal video specialist in association with Elisa Dreier Reporting Corp. located at 950 Third Avenue, New York, New York. I'm the videographer on July 24, 2014 for the recording of the deposition of Caroline Sallee being taken at 77 West Wacker, Chicago, Illinois at the time of 9:04 a.m. In re City of Detroit, debtor, filed in the U.S. Bankruptcy Court, Eastern District of Michigan, Case No. 13-53846

Will counsel please identify themselves for the record beginning with plaintiff's counsel.

MR. SMITH: Doug Smith for Syncora.

MR. STEWART: Jeffrey Stewart, Chris DiPompeo and Sarah Hunger of Jones Day for the City of Detroit and for the witness.

MR. ALBERTS: Sam J. Alberts from Dentons on behalf of the Official Committee of Retirees.

THE VIDEOGRAPHER: Will counsel on the phone please identify themselves.

MR. HOSLER: William E. Hosler from Williams, Williams, Rattner & Plunkett on behalf of FGIC.

THE VIDEOGRAPHER: Will the reporter please identify herself and swear in the witness.

THE COURT REPORTER: Gina Luordo.

(Whereupon, the witness was sworn.)

MR. SMITH: Good morning, Ms. Sallee. Have you ever been deposed?

THE WITNESS: No.

MR. SMITH: You know that I'm going to ask you a series of questions today, correct?

THE WITNESS: Correct.

MR. SMITH: And you know that if you don't understand any of my questions, you'll feel free to ask me to clarify them, correct?

THE WITNESS: Correct.

CAROLINE SALLEE,

having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. SMITH:

Q. Mr. Stewart said, I think, in the opening that he was here on behalf of the City and on behalf of you. Do you recall that?

A. Yes.

Q. Do you understand that you have an attorney-client relationship with Mr. Stewart?

A. Yes.

Q. And has Ernst & Young retained Mr. Stewart

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on your behalf to represent you today, if you know?
A. I don't know.
Q. You're functioning, I guess -- there are multiple Ernst & Young witnesses who have filed expert reports in the case. You're aware of that, correct?
A. Yes.
Q. And I want to try to figure out kind of your role with respect to these other witnesses, okay?
A. Okay.
Q. You're holding yourself out as an expert, I guess, in tax policy; is that correct?
A. So I'm an expert in the real and personal property taxes for the General Fund for the City of Detroit.
Q. You're not holding yourself out as an expert in urban policy, correct?
A. Correct.
Q. You're not an expert in health benefits?
A. Correct.
Q. You're not an expert on government?
A. Correct.
Q. You're not an expert on blight reduction?
A. Correct.

Q. You're not an expert on property assessment?
A. I'm not an expert on property assessment.
Q. And you've never assessed property before, correct?
A. That's correct.
Q. You're not an expert in property tax collection?
A. That's correct.
Q. Not an expert on real estate valuation?
A. Correct.
Q. Never done a real estate valuation before?
A. That's correct.
Q. Never been involved in property tax collection before, correct?
A. By understanding the mechanisms of property tax collections, I understand those, but in terms of an expert in how it's being collected? Logistics?
Q. Well, I'm asking more of a factual question. Have you ever personally been involved in collecting property taxes before?
A. No, I have not.
Q. You're not holding yourself out as an expert in real estate in general, correct?

A. Correct.
Q. You're not an expert on the state government or the Michigan government, correct?
A. Correct.
Q. Not an expert on casinos or wagering revenue?
A. Correct.
Q. Not an expert on wagering tax revenue?
A. Correct.
Q. Not an expert on art valuation?
A. Correct.
Q. Not an expert on pensions?
A. Correct.
Q. Not an expert on government grants?
A. Correct.
Q. You're not an expert on information technology?
A. No.
Q. You're not an expert on transportation systems?
A. Correct.
Q. And you wouldn't hold yourself out as an expert in accounting?
A. Correct.
Q. You're not an expert in financial

analysis?
A. Correct.
Q. You are not an expert on Chapter 9 bankruptcy?
A. Correct.
Q. You're not holding yourself out as an expert on state revenue sharing?
A. So I am holding myself out as an expert on state revenue sharing for the City of Detroit.
Q. Have you ever been involved in state revenue sharing before?
A. What do you mean by involved?
Q. I mean, has there ever been any work that you've done in the area of state revenue sharing before?
A. Any work? So I've analyzed how the State of Michigan does their revenue sharing, and I've looked at distribution to certain counties, cities, townships. So in that capacity, I understood how it's done and in this case, how the revenue was going to the City of Detroit.
Q. Is the only work you've done on state revenue sharing for purposes of this case?
A. No.
Q. What was the other work you've done?

A. So I've done some work for the City of Flint, Michigan and then looking at how revenue sharing worked for past clients at my old job.
Q. What was that job?
A. I worked for Anderson Economic Group.
Q. And did you do work on Michigan revenue sharing or other states' revenue sharing?
A. Just Michigan.
Q. Okay. And you understand that the state has significantly cut its revenue sharing to all the cities in Michigan in recent years, correct?
A. I understand that Michigan revenue sharing has gone down.
Q. And it's gone down by hundreds of millions of dollars to Detroit, correct?
A. I wouldn't say hundreds of millions of dollars. So overall Michigan's revenue sharing has gone down, and Detroit has had fluctuations. So in any given year, it's gone up and down.
Q. Well, there have been analyses, though, that have showed that the cuts in recent years have cost Michigan -- I mean cost the City of Detroit more than $700 million. You're aware of that, correct?
A. I can't speak to that because I don't have

an analysis in front of me.
Q. I mean, do you know how much cumulatively the cuts in the last decade to revenue sharing have cost the City of Detroit?
A. I do not know that.
Q. You know that many cities, though, are under financial distress in Michigan because of the cuts to revenue sharing, correct?
A. I can't speak about other cities and townships.
Q. Well, the City of Flint, was that city under financial distress?
A. The City of Flint has been under financial distress, yes.
Q. And is one of the causes of financial distress of the City of Flint the cut in state revenue sharing?
A. I would say it's been one of the factors.
Q. And one of the factors causing Detroit's fiscal distress is the cut to state revenue sharing, correct?
A. One of the causes --
Q. Yes.
A. -- you're asking? I would say for the City of Detroit, reductions to state revenue

sharing is a problem for them, yes.
Q. And the City of Flint, when it was in fiscal distress, what activities did it try to engage in to improve its fiscal condition?
A. I can't speak to that.
Q. What specifically were you doing for the City of Flint?
A. So this is a public case, so I feel I can talk about it. So we were retained by the City of Flint to look at their revenue forecasting for the next five years.
Q. And so the City of Flint did revenue forecasting over a period of five years?
A. That's right.
Q. And why were you doing that? Why were you looking at the revenue forecasting?
A. Because we were asked to.
Q. I mean, why did they want you to, though? What was --
A. My understanding is that EY had -- was hired, and I was brought in from the restructuring team to look at the revenue forecasting, and they were asked by the State of Michigan to look at their -- both their expenses and their -- forecasted expenses and revenues, and the State

wanted them just to do one more check.
Q. And was the City of Flint put under an emergency manager as a result of fiscal distress?
A. They have been under emergency financial management, yes.
Q. And do you know what actions the emergency manager has taken to alleviate financial distress?
A. I do not.
Q. Do you know if Flint has improved its fiscal situation at all?
A. I do not.
Q. Do you know -- as far as you know, did the City of Flint ever consider going into Chapter 9 as a result of fiscal distress?
A. I don't know.
Q. You're not aware of that ever coming up?
A. I don't know if they've ever talked about it.
Q. During your interactions with the City of Flint, though, they never suggested to you that they would go into Chapter 9 to alleviate fiscal distress, correct?
A. So during my conversations with the City, we never talked about whether or not they would go into bankruptcy.

Q. And why was the State of Michigan having the City look at its revenues again?
MR. STEWART: Objection.
THE WITNESS: I don't know.
BY MR. SMITH:
Q. Do you know if the city of -- City of Flint cut costs and services in order to address fiscal distress?
A. I don't know.
Q. Do you know if -- I mean, you were doing the revenue forecasting, I guess. Do you know if the City of Flint raised taxes in order to address its fiscal distress?
A. So I was doing forecasting, so in terms of -- I don't know what they had done in the past. Going forward, we looked at the various taxes and whether or not things were going to expire at certain times, so it was all under current law, things that had been planned so...
Q. What kind of things did the City of Flint plan in terms of taxes for raising revenue?
A. They -- so I looked at their property and income taxes and state revenue sharing. They had certain millages that were going to expire at certain times, and so we just took that into

account in our forecast, made sure we were following what was the current law.
Q. Were there increases in taxes that were planned or increases in tax revenues that you incorporated into your Flint revenue --
A. So anything that was in current law we incorporated.
Q. And what would that include?
A. Off the top of my head, I can't remember.
Q. When did you do the analysis for Flint?
A. I did it in February of 2014.
Q. You mentioned that you can talk about this because it's public, correct?
A. Correct.
Q. Are there nonpublic engagements that Ernst & Young has been engaged for for cities in Michigan?
A. Not that I'm aware of.
Q. Are there other nonpublic engagements that 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 of my head.
Q. Do those have anything to do with the

Detroit bankruptcy?
A. No.
Q. The -- did the City of Flint receive, other than the revenue sharing, any special assistance from the State in terms of monetary payments?
A. I don't know.
Q. Before the City of Detroit matter, though, had you ever forecast state revenue sharing payments?
A. Before the Detroit matter, no.
Q. In Flint, are there -- other than -- one difference between your projections in the City of Flint and the City of Detroit matter is the length of time over which the projection occurs, correct?
A. There were different time periods that I was asked to look at, yes.
Q. And you were asked to look at a shorter 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 Detroit?

A. No.
Q. Were you asked to look at anything other than property tax and state revenue sharing, or did you do other sources of revenue?
A. We looked at other sources of revenue.
Q. Okay. What other sources?
A. So income taxes.
Q. Anything else?
A. So what I was responsible for was property and revenue sharing, so those are the ones that I'm comfortable talking about.
Q. I mean, do you know if there were other revenue sources?
A. There are other revenue sources, yes.
Q. What were the other revenue sources for Flint?
A. So those were the ones that I was not personally involved in forecasting.
Q. Well, I'm just wondering what they were, not the details necessarily.
A. Just like any city, they would have certain grants or other things, but that was not what I looked at.
Q. So one significant source of revenue for a city is grants from either the federal government

or the state government, correct?
MR. STEWART: Just a second. Objection.
BY MR. SMITH:
Q. Now you can answer.
MR. STEWART: You can answer the question.
THE WITNESS: I guess I don't know what the question is.
BY MR. SMITH:
Q. One significant source of revenue for a city is grants from the federal government or state government, correct?
A. I guess it depends on the city and what you mean by significant.
Q. For the City of Detroit, grant money from the state and federal governments is a significant source of funds, correct?
A. I don't know.
Q. You would agree that property tax revenue is a significant sort of revenue for Detroit, correct?
A. What do you mean by significant?
Q. Well, you've used the word significant before, right?
A. I don't know. I don't think I have.
Q. You're saying in your life, you've never

used the word significant before?
A. Well, I use it, but I don't know if I would use it in this context, so what do you mean by significant?
Q. Okay. The property tax revenue would be one of the top revenue sources for the City of Detroit?
A. So for the City of Detroit, when I look at the various tax components, property tax revenue makes up a good portion of the tax revenue that the City receives.
Q. Do you know what the proportion is?
A. So it's around 17 percent.
Q. And what's the proportion of revenue for the city that the state revenue sharing makes up?
A. Off the top of my head, I don't know.
Q. Would it be fair that to say that state revenue sharing is one of the top revenue sources for the City of Detroit?
A. State revenue sharing, when I look at the tax revenue plus the state revenue sharing, state revenue sharing is a good portion of that revenue, yes.
Q. Have you ever forecasted expenditures for a city?

A. Expenditures for a city? No, I haven't.
Q. Before -- before the Detroit matter, did you ever forecast property tax revenues?
A. Yes.
Q. What context did you do that?
A. I would do it for clients related to certain projects, so for example, I would be retained in my old job to look at a new facility and then to forecast the property tax revenue from that.
Q. Okay. But before the Detroit matter, you never forecasted the total property tax revenues a city received, did you?
A. For -- what do you mean the total forecast for a city?
Q. I mean you never forecasted the amount of property tax revenue a city would receive in total before your retention on the Detroit matter, correct?
A. That's correct.
Q. You've never been qualified as an expert by any court; is that correct?
A. That's correct.
Q. Have you ever been retained to do any expert work before in a litigation context?

A. Yes.
Q. And what context was that?
A. Sorry. Let me clarify. Do you mean -- so in my old job, my boss had been an expert on a number of cases, so I would work on his cases. I was not the expert, though.
Q. Okay. So you've done litigation consulting work before, but you weren't personally the expert, correct?
A. That's correct.
Q. When did you begin your work on the City of Detroit matter?
A. I started work in May of 2013.
Q. Have you ever forecasted municipal population levels before?
A. For specific projects in my old job, yes.
Q. Have you ever forecasted -- have you ever done a forecast for municipal revenue sharing for the Detroit matter?
A. No, I don't think so.
Q. And have you ever forecasted what future property assessments would be in a city before the Detroit matter?
A. So in this case, I forecasted taxable value, which obviously, has some relationship with

assessments, and this is the first time that I did that for a municipality, yes.
Q. You're not a lawyer, correct?
A. I am not.
Q. And you're not holding yourself out as a legal expert?
A. What do you mean by legal expert? I'm an expert in this case.
Q. Okay. Are you offering any opinions on the law like as it relates to this case?
MR. STEWART: Objection.
THE WITNESS: I don't think I'm offering opinions on the law. I'm offering opinions on the two things that are in my report.
BY MR. SMITH:
Q. Okay. So other than what's in your report, you're not offering any expert opinions other than that, correct?
A. That's correct.
Q. Okay. And is it fair to say that in your report, you're not -- or anywhere else, you're not trying to offer an opinion about interpreting the law, correct?
A. I'm not offering an interpretation of the law.

Q. Okay. Have you reviewed any depositions in this case?
A. Yes. No, I haven't. Sorry. I've reviewed expert reports. Sorry.
Q. But no depositions?
A. I have not reviewed depositions.
Q. So you didn't review Mr. Evanko's deposition?
A. I have not reviewed Mr. Evanko's deposition.
Q. You know who Mr. Evanko is, though, correct?
A. I do.
Q. Who is Mr. Evanko?
A. Gary Evanko --
Q. Yes.
A. -- is the city assessor for the City of Detroit.
Q. Have you -- you mentioned you had reviewed expert reports. What expert reports have you reviewed?
A. I have read Robert Cline's expert report and Gaurav Malhotra's.
Q. Any other expert reports?
A. Not that I'm aware of, no.

Q. You didn't read Charles Moore's expert report, correct?
A. I have not.
Q. And do you know who he is?
A. I do not.
Q. Do you know --
A. And I read Martha -- what's her last name?
Q. Ms. Kopacz?
A. Yes. Thank you.
Q. You read her report?
A. I did read her report.
Q. And you know that Ms. Kopacz opines that the forecasts Ernst & Young had presented were subjective, correct?
MR. STEWART: Objection.
THE WITNESS: I do not recall reading that, no.
BY MR. SMITH:
Q. Do you recall her doing an analysis where she calculated the effect of a 1 percent increase in property tax collections?
A. I did read her report where she did do the sensitivity analysis, yes.
Q. She found that increasing property tax collections by 1 percent could lead to more than a $20 million increase in revenue, correct?

A. My recollection from her report is that if you assumed that -- if you were able to change the parameter by 1 percent, what would that mean over the long haul, and my recollection is over 20 million in property tax revenue.
Q. Has Ernst & Young done any sensitivity analysis on its forecast to understand what changing the inputs would mean in terms of revenues available to the city?
A. Throughout the process, we would vary our assumptions, change our assumptions and see what the revenue impacts are.
Q. And what assumptions did you change during the process?
A. So for property taxes, we would change the important drivers, so whether it be taxable value or collection rates. Those are the key assumptions that we would change.
Q. And did you increase or decrease taxable value over time, I mean, in changing the assumptions?
A. Well, so do you have a -- I mean, both. I mean, there are times when we would say we would get a new piece of information, and we might adjust our growth rates, and sometimes they would raise

taxable value. Sometimes they would lower it. So it really depended on the particular situation we were modeling.
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 information, we would incorporate it.
Q. And what other important drivers did you change multiple times?
A. Change multiple times? So we've done -- I think we're about -- I think there are five forecasts, five disclosure statements, so we've done the analysis, and we've updated it five times. And so like I said, given new information, we would look at the different components of taxable value, make some adjustments to taxable value, to the collection rate based on the -- whatever information was at hand.
Q. So one important driver of property tax revenue is taxable value, correct?
A. That's right.

Q. Another important driver of property tax revenue is the collection rate, correct?
A. Uh-huh.
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?
A. Property tax revenue? So within property taxes, we forecasted, and by we, I mean I did analysis. I also talked with Bob Cline about it. So within the analysis, I would look at different components of taxable value and forecast that. What was your question, though?
Q. What are the other important drivers of property tax revenue?
A. So within property -- so tax revenue is 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 to the city is important. You would need to know sort of new economic activity, is there any

businesses started, is there new construction activity. These are all drivers of taxable value which ultimately then affects your tax levy, your collection and then ultimately your tax revenue.
Q. And the tax rate is an important driver of property tax revenue, correct?
A. What do you mean by important?
Q. It's a key -- tax rate is a key driver of property tax revenue, correct?
A. It is one of the -- it's one of the key drivers.
Q. And in your formula, increasing the tax rate increases property tax revenue, correct?
A. It depends, I guess. So if you were to hold --
MR. STEWART: You answered his question.
MR. SMITH: Are you telling her not to finish her answer?
MR. STEWART: No. I'm just telling her to let you ask your next question.
MR. SMITH: I think you're telling her not to finish her answer, Geoff.
MR. STEWART: Finish your answer if you want to finish your answer.
THE WITNESS: Okay. I was going to say it

depends.
BY MR. SMITH:
Q. Okay. You agree with me that if you hold everything else constant in your forecast, increasing tax rates increases property tax revenue, correct?
A. If you hold everything else constant and you increase the tax rate, you would get more tax revenue.
Q. And if you hold everything else constant, increasing the percent of state revenue sharing increases state revenue sharing revenue, correct?
A. If you hold everything constant and the state decided to give Detroit more money, they would have more money.
Q. It's basically -- the state has the discretion to improve Detroit's fiscal condition by just giving more revenue sharing, correct?
MR. ALBERTS: Objection.
THE WITNESS: Theoretically, the state could decide that they want to give more money to Detroit, and Detroit would have more money.
BY MR. SMITH:
Q. Do you know what the important -- the key drivers are of the income tax revenues for the City

of Detroit?
A. Do I know what they are? I did not do that analysis.
Q. But did -- I take it you're not offering any opinions on the income tax or the corporate tax or the wagering tax or the utility users tax, correct?
A. That's correct. I'm not offering an opinion.
Q. You -- one of documents you rely on is the Citizens Research Council report on Detroit. Do you recall that?
A. Which report?
Q. The one on revenues.
A. Do you know the title?
Q. It's called something like revenues available to the City of Detroit or something like that.
A. So I have looked at a Citizens Research Council report. It sort of fits that definition.
Q. Well, I'm just wondering is the Citizens Research Council a reliable source of information, in your view, on revenues available to the City of Detroit?
A. I think the Citizens Research Council does

excellent work.
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 issued.
Q. You know the Citizens Research Council has done significant work researching Detroit's fiscal condition, though, correct?
A. I don't know about significant. I know they've done that one report.
Q. You mentioned -- have you done previous work for the State of Michigan?
A. Specifically for the state?
Q. Yeah.
A. So I was hired by a group and worked with the governor on a state citizens guide to their -- it was a citizens financial guide to the state's finances.
Q. Was that when you were at Ernst & Young or your prior job?
A. That was my prior job.
Q. And so have you met the governor?
A. I have, yeah.
Q. And did you work with the governor in

creating the citizens guide?
A. So the governor -- I worked with his office on creating the guide that was released by him.
Q. Were your forecasts based on assumptions or other information provided by officials from the City of Detroit?
A. Can you say the question one more time?
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.
Q. How long ago were you on the phone with Gary Evanko?
A. The last time I talked to him, it was on my sister's birthday. It was April 7th.
Q. And before that, do you recall when you spoke with him?
A. I think it was January 22nd.
Q. Have there been times when the City failed to respond to Ernst & Young's request for information for your analyses?
A. There are times the City did not respond to a specific request.
Q. What specific request did the City fail to respond to that you had made?
A. So I had asked Gary Evanko for detailed Renaissance Zones by property type. I wanted several years. He provided one year.
Q. Why did you want several years of information about Renaissance Zones by property type?
A. I wanted to see how the taxable value had changed from year to year.
Q. And why did you want to do that?
A. Just to see if there were fluctuations,

things that I would need to take into account for my forecasting model.
Q. And you wanted to have multiple years' data on Renaissance Zones because that would make your analysis more reliable and accurate?
MR. STEWART: Objection.
BY MR. SMITH:
Q. Is that fair?
A. I would not say it would make it more reliable. I had good information from the City for fiscal year 2014. I actually got it then later for 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, but I wanted to make sure I understood what was happening just as a matter of course.
Q. I mean, without multiple years' data, you weren't able to look at fluctuations in the Renaissance Zones, correct?
A. I did end up with two years, so I could see some fluctuations.
Q. Okay. There's no way to do a historical trend based on two years' data regarding the Renaissance Zones, correct?

A. I was not able to do a historical trend more than two years for Renaissance Zones by property type.
Q. Did Mr. Evanko ever explain to you why he didn't give you information that you requested on Renaissance Zones?
A. He did.
Q. Why was that?
A. He was working at that point to prepare the taxable values for the current tax year, and so he was very busy and said he --
Q. Were there any other pieces of information you had requested that you didn't receive from the City?
A. Yes.
Q. What were those?
A. I requested what the taxable value of property that would be subject to the small business exemption starting in 2014. I asked what the taxable value of those properties were in a report.
Q. And who did you ask that?
A. I sent the request to our EY team who forwarded it on.
Q. Did you get an explanation about why you

didn't get that information?
A. I did not.
Q. Why did you want the information on small business exemptions?
A. So part of the analysis is looking at personal property, and the -- certain personal property is going to be exempt if the referendum 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 to see an actual report.
Q. Okay. But you were never sent the report on small business exemptions for the personal property tax, and you have never gotten any explanation about that?
A. That's correct.
Q. Were there other pieces of information you requested the City did not provide?
A. Not that I recall.
Q. Do you know if there are other people on the EY team that have made requests to the City that they did not fulfill in terms of information?
A. I don't know.
Q. Did you work with Katie Ballard at all on your analysis?

A. I did.
Q. What was her role in your analysis?
A. So Katie and my analysis, we mostly talked about population forecasts.
Q. And did Katie Ballard do some of the population forecasting that's in your analysis?
A. She did not.
Q. What did she do?
A. So we talked about how we thought we should do the analysis. We talked about places to go for certain data, so she was more somebody just to talk through what we were doing, and we -- me, her and Bob talked about our assumptions going forward.
Q. And so Katie Ballard, what's her educational background?
A. She has a master's degree in public policy.
Q. And when did she get that?
A. I'm not sure.
Q. How long has she been out of school?
A. I'm not certain. I think she's been out for four years.
Q. But you wouldn't view Katie Ballard as somebody qualified to do the -- any of the

forecasting for the City, correct?
A. I wouldn't say that, no.
Q. Okay. Did Katie Ballard do any of the forecasting for the City?
A. She did not.
Q. Has Katie Ballard ever done forecasting for the City before?
A. I don't know, so maybe I should say she did assist me on the Flint matter.
Q. Would it be fair to say that you were relying on the expertise of the City of Detroit people that you talked to in formulating the assumptions for your forecast?
A. I had conversations with the City, and I used the information that they gave me in forming 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 ensure it was accurate?
A. I checked to make sure that the ad valorem

taxable value information they gave me matched what was in the State Tax Commission reports, and that was the only check to make sure that those numbers matched.
Q. Was there information that the city provided you that you didn't do independent testing for to ensure its accuracy?
A. I did not verify every piece of information, go back and see if I thought it was accurate. I did not do that.
Q. What were some of the pieces of information you didn't do any testing to verify its accuracy?
A. So for the most recent tax bills, the ad valorem data. I took that information they gave me since it was certified and used it.
Q. Anything else?
A. I had conversations with the City about when they were planning to hire consultants to do the reappraisal study. I did not go back and check to see when a contract was filed or things like that.
Q. Other information that you relied on from the City you didn't verify its accuracy?
A. I took information from their audited

financial statements. They had been audited, so I didn't go back and check. They ran certain reports from their system. I didn't have access to those systems, so I took that information.
Q. And other information you received from the City you didn't verify its accuracy?
A. I don't think so.
Q. I mean, basically on the conversations with the City officials that were used to formulate your assumptions, you didn't do anything to verify the accuracy of what the people at the City were telling you; is that fair?
MR. STEWART: Objection.
THE WITNESS: I don't think that's fair.
BY MR. SMITH:
Q. Were there instances, though, where people from the City gave you information verbally that you used in formulating your assumptions where you didn't go and try to verify the accuracy of the information?
A. There were times when the City would give me -- would tell me something over the phone or what they planned to do, and there are times that I would have conversations with our ground -- our team on the ground in Detroit. I would talk to

multiple people about what was going on, talk to the mayor. So there were times where I was able to make sure the information was consistent, and there were other times where they would run a report, and they'd give it to me, and I accepted it.
Q. So generally when the City would run a report from their system to which you didn't have access, you wouldn't do anything to verify the accuracy of that report, correct?
A. Sometimes I was able to go back and look to see if, like I said, the taxable value matched what was being reported to the state or available in other systems or would show up in a budget book or an audited financial statement. So there are times I was able to check to make sure the numbers were consistent, and then there were times where I had requested collection rate information by property type that they had to run a report for me. I talked to the person, made sure I understood it, made sure numbers added up, and then I would accept it.
Q. You didn't verify the accuracy of the collection rate information, though, that you have you were given by the City, correct?
A. If you mean by -- what do you mean by

verify?
Q. You didn't go back to actually test and verify the accuracy of the collection rate information that was given to you by the City, correct?
A. I was not able to go and, say, run the report myself or look at their base data.
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 revenue?
A. There was a model in place for property taxes.
Q. Do you know who created that model?
A. I do not know.
Q. Did you look at the experience of any other cities in developing your forecast?
A. No.
Q. Do you know what cities would be comparable to Detroit in terms of their financial situation?
A. No.
Q. Did you rely on data provided by the assessor's office in formulating your opinions?
A. I did receive data from the assessor's

office.
Q. And you relied on that in formulating your opinions?
A. I did rely on some of that data.
Q. Did you work with Shavi Sarna at all?
A. I did.
Q. What was your interaction with that individual?
A. Shavi and I would have conversations. We would exchange e-mails. He would ask questions.
Q. Do you know what fees the City collects?
A. What do you mean by fees?
Q. Well, you know the City of Detroit charges fees for various services, correct?
A. Correct.
Q. Do you have any idea what fees the City of Detroit collects?
A. I don't.
Q. Do you have any idea what licensing revenues the City gets?
A. I don't.
Q. Do you have any idea what the mechanisms 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

the mechanism or methodology used in assessing property taxes?
A. I don't know what the city assessor's office was doing to assess property. I don't know.
Q. Can you explain the methodology used by the City in collecting property taxes?
A. No.
Q. Can you explain to me the methodology the city used in setting property tax rates?
A. No.
Q. Can you explain the methodology the State used in setting the revenue sharing levels?
A. So there are two parts of revenue sharing. So there's the constitutional portion, which has a formula, and then there's the EVIP portion, the Economic Vitality Incentive Program. And in terms of how exactly they decide what they're going to allocate cities, villages or townships, I don't know the formula for that.
Q. Okay. So it would be fair to say that you don't know the formula or methodology used in setting the statutory portion of the revenue sharing; is that correct?
A. I wouldn't say that. The EVIP portion doesn't have a formula, and so it would be

inaccurate to say I don't know the formula because 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?
A. I personally don't know why legislators decide to allocate a certain amount of money to Detroit. There is a -- there are three components to EVIP. There's supposed to be -- they're supposed to meet certain things in order to get the revenue, but what the legislature decides year to year to allocate is their discretion, so...
Q. Basically the amount of revenue sharing, would you agree, is a discretionary political decision by the legislature?
A. For EVIP, it is the discretion of the legislature.
Q. And it's a political decision. The amount of money that the legislature decides to give to 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 that's made in the political process, correct?
A. I wouldn't say that because there are two components.
Q. The EVIP portion of the state revenue sharing is generated by political process, correct?
A. In that the legislature and the legislature is part of the political process, yes.
Q. And the EVIP portion is the largest portion of the state revenue sharing, correct?
A. For the City of Detroit?
Q. Yes, for the City of Detroit.
A. That's correct.
Q. In your view, what are the biggest sources of untapped revenue for the City of Detroit?
A. I don't have an opinion on that.
Q. Do you have an opinion about how the City of Detroit could increase property tax revenues?
A. I do not.
Q. The City of Detroit has never asked you or anyone else at Ernst & Young to use your expertise to increase property tax revenues for them, correct?
A. Correct. We don't do specific tax policy recommendations.

Q. Okay. So you're offering no opinion about whether the City can increase tax revenues, correct?
A. I'm not offering an opinion about whether they can increase tax revenues.
Q. And you're not offering an opinion about whether the City can pay the creditors more money in the bankruptcy, correct?
A. I'm not offering an opinion on that.
Q. And you're not offering an opinion about how much revenue the City would have if the bankruptcy case is dismissed, correct?
A. That's correct.
Q. I mean -- and in fact, Ernst & Young's 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 things like that, correct?
A. So Ernst & Young would not want us to make specific recommendations on tax policy the City of Detroit should pursue. We just do the analysis.
Q. And why doesn't Ernst & Young allow its staff to make recommendations about tax policy like that?
A. So the bulk of our business is providing

auditing services, accounting services. We do, obviously, tax advisory. We prepare tax statements. Our business is not to consult in the policy realm in this way. And so I didn't make those decisions, but that's what I follow.
Q. Okay. So Ernst & Young is not in the business of offering tax policy advice to municipalities, correct?
A. So the work that I do, I do not provide specific policy recommendations. I don't know if other parts of EY offer, but I know as a whole, we don't make, say, specific tax policy recommendations.
Q. In the past, have you made tax policy recommendations to government in your other jobs?
A. In my other job, I would do the analysis around a policy change, and so I would provide my opinion sometimes about the change.
Q. I mean, you know that other cities have increased taxes to address fiscal distress to raise revenue, correct?
A. Some cities have done that, yes.
Q. And you're aware that cities have cut services in order to address fiscal distress and improve their fiscal situation?

A. Some cities have done that, yes.
Q. And you know that cities have added new fees for services in order to raise revenue to address fiscal distress, correct?
A. I don't know anything specifically.
Q. Do you know that other cities have imposed new taxes to raise revenue for -- to address fiscal distress?
A. That could be possible. I don't know of any specific instance.
Q. Do you know generally that there are a number of cities in the country now because of the recession we've had that are experiencing fiscal distress?
A. Yes, I'm aware of cities experiencing fiscal distress.
Q. In fact, you've worked for at least one other city that's experiencing fiscal distress in the state of Michigan, right?
A. That's right.
Q. And you know in the state of Michigan, there are multiple cities that are under the supervision of emergency managers because of fiscal distress, correct?
A. Correct.

Q. And what are the causes of these cities in Michigan having to be under the supervision of emergency managers and being in physical distress?
MR. STEWART: Objection.
THE WITNESS: I don't know the specifics for other cities.
MR. ALBERTS: Objection. I think you mean fiscal.
MR. SMITH: Yes, fiscal.
BY MR. SMITH:
Q. You know that declines in state revenue sharing have -- in Michigan have adversely impacted the fiscal situation of multiple cities, correct?
A. I can't talk about other cities.
Q. Do you know whether the City of Flint undertook efforts to try to get the state legislature to increase state revenue sharing?
A. I don't know.
Q. Do you have any opinion about the sources of untapped cost savings for the City?
A. I don't.
Q. Does Ernst & Young ever do any kind of evaluation of cities to determine how they can increase revenues?
A. I don't know.

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 whether Detroit can raise taxes or increase revenue?
A. I don't know.
Q. Do you know whether there are any formal studies that have been conducted to determine whether Detroit can cut costs more than half?
A. I don't know.
Q. Do you know of any formal studies -- can you identify any studies on Detroit property taxes or revenue sharing?
A. Do I know of any formal studies on Detroit property taxes or revenue sharing? Other than what the CRC report you mentioned earlier?
Q. Yes.
A. No.
Q. How many people assisted you in preparing your forecast?
A. So I did the work and the analysis. I had discussions with Bob Cline, Katie Ballard.

Q. What percent of your time is spent on the Detroit matter?
A. What percent of my daily just sort of work time?
Q. Your billable time.
A. My billable time? So I've been working on this for a year or a little over a year. My billable time might be around 50 percent.
Q. Do you know what proportion of your -- what proportion of Katie Ballard's billable time is spent on the City of Detroit?
A. I have no idea.
Q. Can you identify any other matters other than the City of Detroit that Katie Ballard works on?
A. What do you mean matter? Do you just mean projects or --
Q. Yeah.
A. Sure. She works on our economic impact studies for private clients, basically, you know, just some of our thought leadership pieces. And she also worked on our council on state taxation business tax burden study.
Q. Have you had any interaction with anyone from Conway MacKenzie?

A. I've been on phone calls where Conway & MacKenzie have been on the line.
Q. Do you have an understanding of Conway & MacKenzie's role in this matter?
A. I understand a little bit, and I've occasionally received things they prepared.
Q. Like what kind of things?
A. So when they put together some of the reinvestment initiatives, I would see a copy of it.
Q. And do you have any understanding of Miller Buckfire's role in this case?
A. I've interacted with lawyers from Miller Buckfire. I seen them as a coordinating role. I don't know any more what they're doing.
Q. I mean, when you say coordinating role, what exactly have you done with them?
A. So Kyle Herman, who works for Miller Buckfire, he would coordinate collection of materials. He would organize calls with the creditors, things like that.
Q. Would it be fair to say that there are people who have contributed information to your forecasts that you don't know who they are and you've never met?
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 them.
Q. Do you agree that the forecast that Ernst & Young has put together includes hundreds of different inputs?
A. Would I agree? I don't know how many inputs there are. I can only talk about mine.
Q. How many -- I mean, your piece of the forecast, would it be fair to say that your piece of the forecast includes numerous different inputs?
A. I guess what do you mean by numerous?
Q. Well, how many? Do you know how many inputs?
A. I don't, no. I mean, there are inputs. I wouldn't say -- yeah, there are inputs. I don't know how many.
Q. Do you know whether there's more than 100 inputs in your analysis?
A. There's not more than 100.
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?
A. I have been able to see where it goes into

the disclosure statements.
Q. Okay. But do you have an understanding of how it's actually incorporated into the overall forecast?
A. I can see that they've taken my analysis and my forecast, and they've put that into their work.
Q. Are there hundreds of different spreadsheets that make up the Ernst & Young forecast?
A. I don't know how many spreadsheets.
Q. Do you know how many assumptions went into the Ernst & Young forecast?
A. I don't.
Q. Do you know how many assumptions went into your forecast?
MR. STEWART: Objection.
THE WITNESS: I don't.
BY MR. SMITH:
Q. Would it be fair to say that there's a series of assumptions that your forecast is based on?
A. There are some assumptions that my forecast is based on.
Q. And there are multiple assumptions that

your forecast is based on, correct?
A. There are multiple assumptions, yes.
Q. And your assumptions are based on your experience, correct?
A. My assumptions are based on my analysis of the information at hand, my conversations with the City, those things.
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 would substitute that with my own data collection review analysis.
Q. Are your assumptions based on your judgment?
A. So I use my judgment in selecting what I thought were good parameters for final of certain assumptions.
THE VIDEOGRAPHER: Off the record. The time is 10:01 a.m.
(Whereupon, a short break was taken.)
THE VIDEOGRAPHER: We are back on record. The time is 10:09 a.m.

BY MR. SMITH:
Q. Ms. Sallee, you mentioned that your forecasts have been updated several times; is that correct?
A. They have been updated several times.
Q. And you've -- when you've received new information, you felt it was necessary to update your forecasts so they would be accurate and reliable, correct?
A. So when new information became available and when the EY restructuring team requested it, we updated our forecast.
Q. And is there any rule of thumb for how frequently a forecast should be updated?
A. Not that I'm aware of.
Q. You agree that as new information comes in, though, you should update the forecast to incorporate the new information?
A. As new information was presented, we did our best to try to incorporate.
Q. And if you don't incorporate new information, your forecasts can be less accurate and reliable than it otherwise would be, correct?
A. I would not say that.
Q. Okay. So we don't have to consider new

information at all? We can just let the forecasts sit there, and no matter what changes, it's okay, right?
MR. STEWART: Objection.
THE WITNESS: I don't -- what's the question?
BY MR. SMITH:
Q. If you don't incorporate new information as it becomes available, a forecast can become inaccurate or unreliable, correct?
A. No, I wouldn't say that.
Q. Okay. So if the property tax were increased by 100 percent, your opinion is you wouldn't have to update your forecast?
A. So new information can sometimes confirm what you've already put down, so that's why.
Q. And new information can also change your forecast, right?
A. Yes.
Q. And so it's possible that new information, if you don't incorporate it, your forecasts will be inaccurate or reliable. That's possible, correct?
A. So it depends on the situation. New information can improve the accuracy of the forecast. New information can confirm it.
Q. And in the hall, Mr. Stewart had his

finger in your face, didn't he, during the break?
MR. STEWART: Objection.
THE WITNESS: No.
BY MR. SMITH:
Q. Did you have a conversation with Mr. Stewart during the break?
A. I did.
Q. What was he telling you?
MR. STEWART: Objection. It's privileged. You know that.
MR. SMITH: You're directing her not to answer that?
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.
BY MR. SMITH:
Q. How long did you talk to Mr. Stewart for?
A. Maybe 30 seconds.
Q. The -- do you know whether the assessor's office has been subject to any reviews by outside consultants?
A. I don't know.
Q. So you haven't been provided with reviews

of the assessor's office conducted by Plante Moran?
A. No.
Q. Were you aware that the assessor's office -- there have been a number of problems identified in the assessor's office?
A. I have a general sense that people have said there are problems.
Q. What problems are you aware of in the City of Detroit Assessor Office?
A. The only problem that people have talked about has been overassessments.
Q. That's the only problem that you're aware of in the assessor's office is overassessments?
A. That's the only problem that people have talked to me about.
Q. Would it be fair to say that you haven't cited any scientific literature or anything like that in performing your forecasting?
A. What do you mean by scientific?
Q. Well, there's no literature of any kind that you've cited as the basis for your forecast, correct?
A. So as I noted in my report, I followed the procedures laid out by the revenue -- the State of Michigan's Consensus Revenue forecasting, and

that's in report that I think was produced.
Q. Have you run any runs of your forecasts that had higher revenues available to the City?
A. I guess I don't understand your question.
Q. Have you done any runs of your forecast where you generated revenues that are higher than what you're forecasting currently for the City?
A. Yes.
Q. And what kind of runs?
A. So as you've noted, we've updated our analysis, our forecasts several times, and so previous earlier iterations had slightly higher property taxes.
Q. And are there runs that you haven't submitted to the creditors or others that have included higher revenues than you're forecasting?
A. Everything we've done has been turned over, so the creditors would have access.
Q. Do you agree that you've used your discretion in selecting the specific values for the assumptions in your model?
A. I've used my judgment in selecting the assumptions.
Q. Do you agree that in conducting a tax forecast, you should seek to gather all evidence

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reasonably related to the forecast?
A. What's the question?
Q. Do you agree in conducting a tax forecast, you should collect all information reasonably related to the forecast?
A. So I think you need to make sure you take in relevant information in doing the forecast.
Q. And you should endeavor to collect all relevant information in doing a forecast, correct?
A. So it depends on what you mean by relevant.
Q. Have you ever used the word relevant before?
A. I have.
Q. Okay. Using your definition of relevant, do you agree that you should endeavor to collect all relevant information in doing a forecast?
A. I did endeavor to collect relevant information for the forecast.
Q. That's not my question. My question is do you agree that in conducting a forecast, you should endeavor to collect all relevant information?
A. I would say in conducting a forecast, you should collect information that's pertinent and related.

Q. And if you have incomplete information, your forecast can be inaccurate, correct?
A. Not necessarily, no.
Q. But it can be inaccurate if you have incomplete information, correct?
A. Incomplete information can make it -- it can go either way. It depends on the situation. I mean, the nature of forecasting, you're selecting data and assumptions. It's not complete, so there -- so yeah, I mean, there are situations and incomplete information could make it inaccurate, or it could not. It depends.
Q. Have you done any stress testing on your forecast?
MR. STEWART: Objection.
THE WITNESS: What do you mean by stress tests?
BY MR. SMITH:
Q. Well, I've seen reference to stress tests that have been conducted on forecasts before. Do you know what that is?
A. I have not done a stress test.
Q. Have you ever done any kind of stress testing on forecasts before?
A. What is stress test in this context?
Q. So you don't know what a stress test is in

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?
A. I don't know anything about the City's forecasting.
Q. Have you ever looked at the consensus forecast for the City?
A. I did receive one piece of information that had their consensus revenue estimates for the next fiscal year.
Q. And do you know how many years they looked at?
A. I can't remember off the top of my head.
Q. Have you ever done a tax forecast for as long as 10 years?
A. I'm not sure.
Q. Have you ever -- you haven't done a revenue sharing forecast for as long as 10 years, correct?
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 actual values for property taxes or revenue

sharing?
A. What do you mean by actual values?
Q. The actual collections of property tax revenue and the actual amount of money that's received from revenue sharing.
A. Sure. So population rate is important, employment, new economic activity. These are all things that are driving both the portion of state revenue sharing and property taxes.
Q. If population increases, the revenue from property taxes and revenue sharing could increase, correct?
A. It's possible.
Q. And if employment increases, the revenue from property taxes and revenue sharing would increase?
A. It's possible.
Q. And if economic activity increases, revenue from revenue sharing and the property taxes would increase?
A. It's possible.
Q. And is that -- are those -- your model, though, do revenues increase if employment, population or economic activity increase?
A. So in our model, if there is greater

economic activity, we have better property tax revenues.

Q. If there's increased economic activity, do you -- does your model generate increased revenue sharing, or does it not take into account economic activity for revenue sharing?

A. So revenue sharing, because it is based on per-capita distribution on the constitutional side and for EVIP, there's no formula. Economic activity, it doesn't really affect it directly.

Q. There was no formula you used for calculating the revenue sharing that you projected, correct?

A. That's not true.

Q. Well, I mean, you were just saying no formula. What did you mean?

A. There's no formula in how the legislature allocates the EVIP portion.

Q. Does increasing population in your model increase property tax revenues or revenue sharing?

A. So there's no direct link between a one-for-one population increase causes property tax increase. So there's no one-to-one relationship in the model.

Q. Does your model take into account the

effect of population on property tax increase at all?

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 tax revenues in your model; is that correct?

A. That is fair.

Q. In your model, does an increase in employment lead to an increase in property tax revenue or to revenue sharing?

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 of a tax base.

Q. Okay. So increased employment could increase growth rates, which would increase property tax revenues in your model, correct?

A. So it depends. Employment in Detroit 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

property or not.

Q. In your model, does increased employment in the city among residents lead to an increase in property tax revenue?

A. There's no direct relationship in the model between employment and the tax bases.

Q. Okay. What is the relationship then in the model?

A. Sure. So in the model, there are four different tax bases, and so employment is something that's important for -- I guess for all three, for residential, commercial, industrial. So if you have improved economic activity, improved employment, we could see those tax bases grow, and that could translate into more tax revenue, but if everything else is equal. So there's other factors that drive the model.

Q. Do you agree that increased employment will lead to people purchasing more goods and services in the city and an increase in sales tax revenue?

MR. STEWART: Objection.

THE WITNESS: Can you say that one more time, your question?

BY MR. SMITH:

Q. Increased employment will lead to an increase in people purchasing goods and services in the city and an increase in sales tax revenue?

A. It's possible.

Q. Your model does not take into account increased employment having any effect on revenue sharing, correct?

A. That is correct.

Q. Can you identify any forecast comparable to the Ernst & Young forecast that's been done for Detroit over a 10-year period?

A. I have not seen any other forecast.

Q. Can you identify -- so you've never seen any forecasts like that Ernst & Young has done for Detroit in any Chapter 9 bankruptcy, correct?

A. I have not looked at any other Chapter 9 bankruptcies.

Q. Have you done any investigation to find out what other forecasts have been done to model property tax or state revenue sharing for a municipality?

A. Have I -- what's your question?

Q. Have you done any investigation to look at other forecasts for property tax revenue or revenue

sharing in a municipality?
A. I have not looked at other forecasts.
Q. Do you agree that the longer period of time a forecast covers, the less reliable it becomes?
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?
A. My opinion is the -- we did a 10-year forecast, and we did an extrapolation for 30 years, and it could go either way. That's the nature. It could be as accurate as the 10-year. I don't know yet.
Q. There's no way to note -- no way to assess the level of accuracy of your forecast, correct?
A. The way that you could assess the accuracy is to compare the forecast with actual, and the actual hasn't happened yet.
Q. So there's, in fact, no way to assess the accuracy of your forecast, correct?
A. Right, except for comparing to actual, and our actuals so far have come in pretty well compared to the forecast.
Q. And how long has your forecast been in

existence?
A. We did the first iteration in June of 2013.
Q. You're aware that the City is failing to collect approximately half of the property taxes owed, correct?
A. I am aware, sorry, half of property taxes on the residential.
Q. Okay. And are you aware that the City has identified more than 100,000 properties where taxes have not been paid in addition to the foreclosed properties?
A. I don't know the number.
Q. Do you know that the City has identified over $504 million in unpaid property taxes that are owed to it?
A. I don't know the amount.
Q. Your forecast doesn't take into account or doesn't include any amounts for payment of property taxes that are owed, but haven't gone collected thus far, correct?
A. That's not correct.
Q. Okay. How does your forecast take into account the property taxes that are owed to the City from prior years, but haven't been collected?

A. So in Michigan, unpaid taxes at the municipal level are turned to the county for collection, and so the county will try to collect on them, and then it will foreclose and has been doing public auctions to sell the property. So the model takes into account net payments from the county, which would be then the county paying for the taxes that these properties owe. And so that's factored into the property tax collections in the model.
Q. Do you know what percent of the owed taxes your model predicts will be actually paid from prior years?
A. Not in that way, no.
Q. Do you know what -- is there a collection or a payment rate or anything like that that is incorporated into your model for the past year's owed taxes?
A. So the model includes a percent of the tax levy that is assumed the City will receive from Wayne County.
Q. Okay. And what number is that?
A. It depends on the year.
Q. How did you select that number?
A. So Wayne County provided their prior

year's net revolving fund payments, and so it analyzed the trends and what had been happening and had some conversations about what was happening 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 collection that will occur with respect to amounts already owed from prior years, you implemented different assumptions for different years based on your judgment; is that fair?
A. What's the question?
Q. For the amount of property tax that would be collected from prior years that's still owed, you implemented different assumptions for different years based on your judgment?
A. So using my judgment, I selected payment amount from Wayne County that was likely, and that varied by year.
Q. Okay. And how did you go about using your judgment to figure out how to vary the payment amount by year?
A. So using data from the past, we're able to see what was happening over the last -- I guess I got data for eight or nine years is my recollection, and I was able to see what had

happened after the recession. And so we were able to see the trends where there were -- what the payments were doing and then getting to kind of a more stable steady state going forward and was able to see what was happening trend-wise and then see what was reasonable, use our judgment to select what's reasonable.
Q. I mean, you don't know what will happen in future years in terms of property tax collections?
A. It's a forecast, yes. I don't know.
Q. I mean, you just don't know. You have to kind of engage in a certain amount of guesswork or speculation in order to choose the assumptions for the model, correct?
MR. STEWART: Objection.
THE WITNESS: I wouldn't say guesswork. I think performed an analysis, used the analysis to form my opinion.
(Document marked No. 1)
BY MR. SMITH:
Q. Why don't I hand you what's been marked as Exhibit 1, and you can let me know if you've seen this document before. Ever seen that document?
A. No, I haven't.
Q. Okay. I'd like to ask you about Page 5 at the bottom, the last bullet point.

MR. ALBERTS: Could you just say what the document is, please?
MR. SMITH: It's City of Detroit Assessing Division Observation and Opportunities by Plante Moran.
MR. STEWART: Just for the record, the control numbers probably, too, for those who don't have it in front of them.
MR. ALBERTS: Thank you.
BY MR. SMITH:
Q. At the bottom of Page 5, there's some observations in the document. The last bullet says a review of Tribunal opinions and judgments reveals that there have been instances in which appraisers were not present for hearings thereby leaving the City unrepresented. Do you see that?
A. Uh-huh.
Q. Were you aware that people from the appraiser's office weren't showing up for hearings on property taxes that were owed?
A. No.
Q. Then if you turn over to Page 21 -- well, let me ask you this first before we get to the document.
Do you agree with me that in valuing real

estate, it's important to base valuations on arm's length transactions?
A. I don't know.
Q. You just -- would it be fair to say you're not aware of the standards for reliably valuing real estate?
A. I was not asked in this case to evaluate real estate for the City of Detroit. I took the information that was given to me.
Q. Do you know -- and that information, was that from the assessor's office?
A. Some of it.
Q. And you know that there have been many foreclosures in the city of Detroit, correct?
A. Correct.
Q. Do you know whether a foreclosure is an arm's length transaction?
A. I wouldn't think it would be.
Q. I mean, so a lot of the sales in Detroit -- a lot of the sales or exchanges of properties in Detroit have been non-arm's length transactions. Are you aware of that?
A. I don't know.
Q. Page 21, you see at the bottom in observations, the first bullet says valuation is

supposed to be determined by arm's length transactions.
Sitting here today, you don't dispute that, correct?
A. Correct.
Q. And it says one assessor estimates that of the 12,000 sales included in last year's sales study, only 550 were arm's length transactions. Do you see that?
A. I do.
Q. Were you aware of that information before you formulated your opinions?
A. I have not read this document, no.
Q. Were you aware of that information from any source, though, before you formulated your opinions?
A. The specific information, no.
Q. Were you aware that the vast majority of transactions that form the basis for the valuations you've been given for real estate are not arm's length transactions before you formulated your opinions?
A. So I knew, obviously, they were not arm's 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 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?
A. I did not know what percentage were not 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?
A. I was not asked to assess the reliability 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?
Q. I mean are you somebody who is qualified enough to be able to tell how reliable the assessment valuations that you've been given are, or does that require somebody with a different skill set?

A. So in the work that I did, I did some analysis of the assessments and came to my conclusion that they were overassessed. I did not systematically look at their transactions and their process of assessing.
Q. Okay. So one of the bases for your forecast is your determination that property is overassessed in the city, correct?
A. I do think property was overassessed, yes.
Q. You've never been trained in property assessment, correct?
A. I have not been trained to assess property.
Q. Do you know whether there's standards governing property assessment?
A. There are methods for assessing property, yes.
Q. And have you been trained in those methods?
A. Formally trained on those methods?
Q. Yes.
A. I have not.
(Document marked No. 2)
Q. Were you aware -- let me hand you what's been marked as Exhibit 2. It's a news article entitled Detroit's Property System Plagued By

Mistakes, Waste. Have you ever seen this article?
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 city's property tax system is riddled with errors and waste and is overseen by a pair of double-dipping officials who work just two days a week the Detroit news investigation has found. Do you see that?
A. Uh-huh.
Q. Were you aware of that information before 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.
Q. Were you aware of people who had come to the conclusion, though, that the Detroit property tax system is riddled with errors and waste before you formulated your opinions?
A. I don't know about waste or what the definition -- I, obviously, had conversations where people talked about the property being overassessed

or problems with the system, but no specifics were told to me.
Q. What problems with the Detroit property tax system were you told of?
A. These are just general recollections, but problems with how property was assessed leading to overassessments and property collection issues, but these type of issues relating to the logistical collection are not things that we dealt with in our forecast.
Q. Were you aware that Ernst & Young had done its own review of the property tax system in Detroit?
A. What do you mean by review?
Q. Well, you see there's a section in that article entitled hardest job in the state?
A. Okay.
Q. And you see in the first paragraph it talks about a Plante Moran review, correct?
A. Yeah.
Q. And the second paragraph, it says one review by Ernst & Young concluded the two departments have a prevailing culture which is riddled with bureaucracy and a lack of accountability. Do you see that?

A. Okay.
Q. Were you aware that Ernst & Young had conducted a review of the property collection processes in Detroit before you worked on your opinions?
A. No.
Q. And nobody has provided you with a copy of the report in which Ernst & Young concluded that departments in the city relating to property taxes have a prevailing culture which is riddled with bureaucracy and a lack of accountability? Do you see that?
A. Uh-huh. I did not receive a report that Ernst & Young had done.
Q. And you're not in a position to dispute Ernst & Young's conclusions that the City's departments charged with property tax collection have a prevailing culture which is riddled with bureaucracy and a lack of accountability, correct?
MR. STEWART: Objection.
THE WITNESS: I didn't work on this report, and I've not seen it, so I can't comment on it.
BY MR. SMITH:
Q. Were you even told who at Ernst & Young might have done reviews of the City's property tax

collection processes?
A. I know the team in Detroit, but I don't know who did this study.
Q. Okay. So the team in Detroit you've been working with daily never informed you that they had done a review of the City's property tax collections and found that it was riddled with bureaucracy and had a lack of accountability, correct?
(Document marked No. 3 and No. 4)
A. We never had a specific conversation about a report that reached those findings, no.
Q. Let me hand you what's been marked as Exhibit 3. I'm just wondering if you've ever seen this document before?
A. No.
MR. STEWART: Before you testify about it --
MR. SMITH: I don't have any questions about it other than whether she's seen it.
THE WITNESS: No, I haven't seen it.
BY MR. SMITH:
Q. Okay. I'm going to hand you what's been marked as Exhibit 4, which is a Detroit news article entitled Half of Detroit Property Owners Don't Pay Taxes, and you can let me know if you've ever seen this news article before. Is that

something that you've seen?
A. I may have seen it. I'm not recalling whether I read this or not.
Q. Going back to the -- were you aware that property tax bills were frequently sent to the wrong address in Detroit?
A. No, I wasn't aware.
Q. Were you aware that homeowners exemptions have been granted to people without proof of eligibility in Detroit?
A. No, I wasn't aware.
Q. Were you aware that the City is going to undertake a review because it believes that there may be people that are improperly taking homeowners exemptions?
A. I was not aware of that.
Q. Are you aware that the City has begun implementing reforms of its property tax collection system to improve revenues?
A. I've had some conversations that note that they've done some -- they're working on that. I don't know any specifics.
Q. Who have you had those conversations with?
A. Just conversations with the Detroit team, the EY Detroit team, so I don't remember who

specifically, though.
Q. Do you know what an equalization factor is?
A. I do.
Q. And you know that an equalization factor of 1 means that property is properly assessed in the view of the county, correct?
A. It means that the county believes property 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 underassessed, correct?
A. I wouldn't reach that conclusion. The county has given them an equalization factor of 1, and so the processes that they're following have given them an equalization factor of 1. That doesn't mean that in reality or by other measures, the property is not over or underassessed.
Q. You're aware that the county has always given Detroit an equalization factor of 1, correct?
A. I don't know always. I know when I looked at the last 10 years, they've received an equalization factor of 1.
Q. You're not aware of any instance where the City of Detroit didn't receive an equalization

factor of 1, correct?
A. When I looked narrowly at the last 10 years, they received a factor of 1.
MR. SMITH: Can we take a break real quick.
THE VIDEOGRAPHER: Off the record. The time is 10:47 a.m.
(Whereupon, a short break was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 10:56 a.m.
(Document marked No. 5)
BY MR. SMITH:
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?
A. Uh-huh.
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

to ask any of these questions. It's an improper line of questioning.
MR. SMITH: Okay. So your position is she's 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.
MR. SMITH: You're wasting time.
MR. STEWART: Wait. You just took a nine-minute bathroom break, and you're telling me I'm wasting time?
MR. SMITH: The witness went to the bathroom, too, right? The witness went to the bathroom at the last break.
MR. STEWART: Because you were sitting going through your papers because were not prepared.
MR. SMITH: No. I went to the bathroom. The witness went to the bathroom, right?
MR. STEWART: No.
MR. SMITH: Did the witness go to the bathroom?
MR. STEWART: We were both sitting here five minutes while you were shuffling your papers. Then people decided to go because we weren't sure what you were up to.
Now, let me finish my objection. As you know, under Rule 30, the Federal Rules of Evidence

govern depositions, and it's an improper use of a witness's testimony to show it to another witness. I'm not going to instruct her not to answer it, but 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 Mr. Hackney in court not to do this.
MR. SMITH: Okay. Why don't we put aside the deposition for a second. Is there any bar, in your opinion, to showing the witness testimony of Mr. Evanko before --
MR. STEWART: Yes. It's improper. It's inherently asking her to speculate about somebody else's testimony.
MR. SMITH: Okay. But outside of the deposition, your opinion is nobody can see the depositions outside?
MR. STEWART: No. You're not allowed to examine a witness about the testimony of another witness. That's what the evidentiary rule is, and you know that very well.
MR. SMITH: No, I don't know that that's the rule actually. I've never heard of that rule in my life, but --
MR. STEWART: Well, maybe you should share it

with Judge Rhodes.
BY MR. SMITH:
Q. Has anybody communicated to you that Mr. Evanko has called your forecast ridiculous?
MR. STEWART: What part of this are we looking at?
MR. SMITH: We're not looking at the testimony. I put it aside.
MR. STEWART: Okay.
THE WITNESS: I don't remember anyone telling me that he said my -- our forecast was ridiculous.
BY MR. SMITH:
Q. Has anybody shared with you Mr. Evanko's criticisms of your forecast?
A. Mr. Evanko's criticism of our forecast, no. I haven't received specific -- I haven't -- I haven't been told of his criticisms of the forecast.
Q. If Mr. Evanko made criticisms of your forecast, would you want to know that?
A. Would I want to know that? At this point, they've been completed, but -- so would I want to know that? As a matter of just knowledge, sure.
Q. Well, you understand you're going to testify at the confirmation hearing, right?

A. I'm going to testify at the confirmation hearing for this matter, yes.
Q. And before the confirmation hearing, wouldn't you want to know if Mr. Evanko had characterized -- had criticisms of your forecast?
A. I would like to know.
Q. And why would you like to know that?
A. I would find it surprising.
Q. You agree that equalization factor of 1 means the county has determined that property is being properly assessed and not overassessed or underassessed, correct?
A. Equalization factor means that the county believes the process has not systematically over or underassessed property.
Q. And currently you understand that the county is giving Detroit an equalization factor of 1, correct?
A. The county is giving Detroit an equalization factor of 1.
Q. And it would be unlawful for the City to assess property in any way that was inconsistent with what the county was saying, correct?
MR. STEWART: Objection.
THE WITNESS: I don't understand that question.

BY MR. SMITH:
Q. It would be unlawful for the City of Detroit to assess property in any way that was inconsistent with the way the county assessed property, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know. There are rules governing how property must be assessed, and so municipalities have to follow those, and the county has to follow their procedures as well.
BY MR. SMITH:
Q. And if the county assessed an equalization factor different than 1, Detroit would have to change its assessments, correct?
A. The equalization factor would be applied to what the City had assessed, and it would be modified in those ways. In that way.
Q. Okay. So it would -- if the county implemented a different equalization factor other than 1, then as a matter of law, the assessments would be changed, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know if the assessments would be changed. The assessment factor is multiplied by what the City produces.

BY MR. SMITH:
Q. So property taxes would be changed on the properties if the equalization factor were different than 1, correct?
A. Property taxes are based on taxable value, and state -- you're talking about the state equalized value, which is a different concept.
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.
Q. Okay. So the methodology you used for determining assessments whether properties are properly assessed in the city is different than the county's methodology, correct?
A. It could be. I don't know.
Q. You don't know what methodology the county uses, correct?
A. I don't know specifically what they looked

at in determining the equalization factor.
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.
Q. The planned reassessment, do you know who is going to be conducting that?
A. No.
Q. Do you know what method will be used for the planned reassessment?
A. I understand generally how they go about reassessing.
Q. But do you know -- I mean, do you know what reassessment methodology the unidentified contractor who is doing the reassessment is going to employ?
A. I do not know specifically what they're going to do.
Q. Do you know how long the planned

reassessment is going to take?
A. I was told it would take three to five years.
Q. Who told you that?
A. Alvin Horhn.
Q. Is that somebody at the City?
A. It is.
Q. And do you know when the planned reassessment will begin?
A. Initially I was told they wanted to have a contract in place by March 2014. The last time I checked to see if a contract was in place I was told they were working on that, or they thought they were going to have it done this month.
Q. Okay. So so far there's no contract, as far as you're aware, that has been written for the reassessment?
A. I don't know if a contract is in place.
Q. And have you also been told that the reassessment could take longer than five years?
A. I have not been told that.
Q. Do you know when -- do you know whether 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

can't provide us with any specifics about what the planned reassessment is going to entail one way or the other?
A. I don't know the specifics about the reassessment. I know generally what they're going to do.
Q. Has anybody informed you regarding Mr. Evanko's opinion that the reassessment -- he doesn't know whether it's going to increase or decrease property values?
MR. STEWART: Objection.
THE WITNESS: I have not been told what Mr. Evanko said during his deposition about that matter.
BY MR. SMITH:
Q. Wouldn't you want to know if Mr. Evanko said that he couldn't say that the property reassessment would result in lower property values?
A. What's the question?
Q. Wouldn't you want to know if Mr. Evanko's opinion was that the property values would not necessarily change under the planned reassessment?
A. I guess I would want to know that. That would be surprising.
Q. Would it be surprising to you if -- well,

let me ask you this. Would you want to know if Mr. Evanko determined that your forecast of the personal property tax was ridiculous?
A. Would I want to know that? That, again, would be surprising.
Q. Is that something you would want to know?
A. It would be something I would be interested in, sure.
Q. Did you ever submit your forecast to anyone at the City to solicit their opinion after you were done about whether your forecast was reasonable?
A. We discussed sending the forecast to the City back when we started a year ago, and I don't believe we ever did that. They did review our forecast. I had a conversation in January with Gary Evanko, and he had seen what we put together is my recollection, so we had conversations about the forecast for sure.
Q. So Mr. Evanko's familiar with details of your forecast, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know if he's familiar with the details. I couldn't say for him.

BY MR. SMITH:
Q. You didn't -- the current forecast, though, the one that's been completed in July, you never resubmitted that to the assessor's office to determine if they thought that it was reliable and accurate, correct?
A. I did not turn over the July forecast to the City. I did not provide it to them.
Q. Do you agree there are -- well, we've talked about how there are a lot of people that are in Detroit that are delinquent on their property taxes. Do you recall that?
MR. STEWART: Objection.
THE WITNESS: We talked about -- you showed me some articles about that.
BY MR. SMITH:
Q. And you agree there are many reasons that people don't pay their property taxes, right?
A. Yeah, there are many reasons.
Q. One reason people may not pay their property taxes is if they believe that enforcement efforts are lax, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know specifically why people are not paying their taxes.

BY MR. SMITH:
Q. So you --
A. It would be speculation. I don't know.
Q. You haven't undertaken any analysis to determine why people in Detroit aren't paying their taxes?
A. I have not undertaken an analysis other than reading articles about what people say.
Q. Okay. And you've seen then statements that people say they're not paying property taxes because city services are poor, correct?
A. I could have read something about that.
Q. And have you also seen statements that people aren't paying taxes on their property because they believe assessments may be inaccurate?
A. I have read that.
Q. Have you seen statements that people may not be paying taxes on their property because they believe the City doesn't enforce the property tax?
A. I don't recall any article about that. Maybe it's in one of them that you just showed me.
Q. Have you undertaken any investigation into what enforcement efforts the City makes on property taxes?
A. No. That was assigned to a different

group.
Q. When you say assigned to a different group, who was that assigned to?
A. My understanding is that Conway & MacKenzie and others were looking at those issues.
Q. Given the collection rates in the city, though, it's obvious that the City is not doing a good job of collecting property taxes, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know what you mean by good job.
BY MR. SMITH:
Q. Okay. Well, in your view, how would you characterize the City's job in collecting the taxes?
A. I can't speak to the City's job. I know their collection rates are -- for residential property in particular, you know, is at 50 percent, so it's lower compared to, say, Flint for example.
Q. Do you know what Flint's collection rate 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

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' collection rates, so I don't know.
Q. And so you can't identify any?
A. I can't speak to that question. I don't know.
Q. Well, you've worked with some other cities, right?
A. I have worked on projects that involved other cities, yes.
Q. Okay. So based on your experience with other cities, you can't identify any city that has a lower property tax collection rate than Detroit, correct?
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 factors other than taxes that impact a person's

decision whether to live in a city?
A. I would agree with that.
Q. Do you know whether there are corporations that are exempt from the property tax in the city?
A. Do I know if there are corporations that are exempt from property tax?
Q. Yeah.
A. There are property that is exempt. I don't know the specific names of any of the companies that have exemptions.
Q. Do you have any idea of the proportion of property that is exempt from the property tax?
A. I do.
Q. Can you give me the numbers in the ballpark?
A. Yes. So in fiscal year 2015, about 11 percent of taxable value is in a Renaissance Zone and is exempt from general operating taxes.
Q. Are there other property tax exemptions that apply in Detroit?
A. There are.
Q. And how much property is exempt under other exemptions?
A. When I looked at this, a very small 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 facilities tax, and then there are others that I was not given data, so I don't know.
Q. And you know that property tax collections historically have been higher in the city of Detroit, correct?
A. Historically meaning just what?
Q. In the last few years since 2005, there have been higher collection rates in the city of Detroit, correct?
A. There are have been higher collection rates, yes.
Q. And how high have the collection rates have gone in prior years?
A. So I can tell you from memory that in 2007, I know residential collection rates -- I'm sorry. Collection rates on residential property was around 70 percent. I can't recall specifically industrial/commercial off the top of my head, but they're already around in the 80s.
Q. Do you recall that residential collection rates were as high as -- they were over 76 percent in 2008?
A. That sounds right.

Q. And do you have any explanation for why collection rates have decreased in the city of Detroit in the last few years?
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 tax levy and then what's collected on it, the collection rate was falling for that reason. So once you start removing blighted properties and others, you would see the collection rate go up, but I think it contributed to its decline.
Q. Anything else that contributed to the decline in collection rate?
A. The other issues would just be ones that I read or people saying they didn't -- they thought their taxes were too high and overassessed, and they weren't going to pay.
Q. Anything else that contributed to a decline in collection rates in Detroit?
A. I mean, there are sort of economic factors, and people found they couldn't pay.
Q. Anything else that contributed to a decline in collection rates in Detroit?
A. Nothing that I have specific information

about.
Q. And you anticipate the blight reduction effort should increase collection rates?
A. So blight reduction will remove -- well, so removal of blight properties off the tax roll would mean that the tax base becomes smaller, and you should see the collection rates go up.
Q. Do you agree the blight reduction should increase property values?
A. It could.
Q. And that's the City's goal, in part, in blight reduction to increase the value of property in the city, correct?
A. I don't know the City's goal.
Q. Have you done any investigation at all into the City's blight reduction plans?
A. The only information on blight reduction I've received is what was put together in the restructuring and reinvestment initiatives.
Q. Have you done anything to look at other cities and how they've improved property tax collections?
A. I have not.
Q. You are aware, though, that there are other cities that have improved their property tax

collections through a variety of mechanisms, correct?
A. I haven't looked at any other cities.
Q. Did Flint, Michigan improve its property tax collections?
A. During what time frame or --
Q. Well, recently have they undertaken efforts to improve property tax collections?
A. I don't know.
Q. Are you aware of the fact that there are individuals in the city of Detroit, speculators and investors, who are purchasing properties, not paying the taxes and then allowing them to be foreclosed and repurchasing them?
A. I don't have any specific information related to that. I had a conversation with an EY person who -- his impression was that's -- that some of that was going on.
Q. And so there are people who are avoiding paying property taxes by simply allowing property going into foreclosure and then they repurchase the property, correct?
A. My conversation with this one person said that he thought some of that was going on.
Q. And that person was from Ernst & Young?

A. Uh-huh.
Q. And who was that person?
A. Dan Jerneycic.
Q. Do you agree that Detroit property tax revenue per capita is modest compared to other cities in Detroit?
MR. STEWART: Objection.
THE WITNESS: Do I agree that Detroit -- say the question again.
BY MR. SMITH:
Q. Detroit property tax revenue per capita is low compared to other cities in Detroit?
A. I don't have that analysis in front of me, so I don't know.
(Document marked No. 6)
Q. Okay. Why don't I hand you what's been marked as Exhibit 6, and you can let me know if this is the CRC report that you've seen before.
A. Yes.
Q. And if you turn over to Page -- it's on Page vi, Page 6 of the executive summary. There's a section on property taxes there. Do you see that there?
A. Uh-huh.
Q. And you see that it has a chart listing different cities with property tax per capita. Do

you see that?
A. Yeah.
Q. And there are a number of cities that have higher property tax per capita than Detroit does, correct?
A. In this chart, yes.
Q. And if you look at the paragraph just before the heading income taxes, do you see that?
A. Okay.
Q. First in the second sentence, it says although the 15.8 percent decline in Detroit's taxable value between 2008 and 2012 was a smaller percentage than the reduction in taxable value in 18 of the 24 largest cities in Michigan, collection rates declined from 92.64 percent in 2008 to 83.68 percent in 2012. Do you see that?
A. I do.
Q. So first Detroit historically has suffered smaller reductions in taxable value than other cities in Michigan, correct?
A. That's what this says.
Q. And when you say this, that's the CRC report that you've reviewed, correct?
A. Yes.
Q. And Michigan, because its collection rates

are -- I mean, Detroit, because its collection rates are low, actually has low per-capita property tax collections compared to other cities in Michigan, correct?
A. There are a number of factors that lead to tax collections, so I don't know what the collection rates are in these other cities.
Q. Okay. Do you agree that Detroit has low per-capita tax revenues from property taxes compared to other cities in Michigan?
A. In this chart, Detroit is towards the bottom in terms of city property tax revenue per capita. These aren't all the cities in Michigan, though.
Q. But the main cities in Michigan are listed in that chart, correct?
A. The main cities meaning --
Q. Highest population cities.
A. Highest population cities? My scanning of it is yes.
Q. Do you know whether the appraisal staff in Detroit is unionized?
A. I don't know.
Q. Do you know whether it's uncommon for appraiser staff to be unionized?

A. I don't know.
Q. Are you aware that there have been proposals for improvement in property tax collections by various consultants in the past in Detroit?
A. I don't know about any specific proposal.
Q. Have you been provided with any of the reviews by consultants who have proposed improvements to property tax collections in Detroit?
A. I don't know who has proposed certain -- who has put together proposals, so I don't know.
Q. And so you haven't been provided those proposals?
A. I have not been provided those proposals other than I received a memorandum from Plante Moran. No. I'm just -- I have not received any proposals. I have read memos about property taxes.
Q. Everybody recognizes that property tax collections need to be improved by improving the assessor's office in Detroit, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know if everybody thinks that. I don't know.

BY MR. SMITH:
Q. The City of Detroit certainly thinks that it needs to improve property tax collections, correct?
A. My conversations with the people at the 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 to do that, correct?
A. I don't know what efforts they're doing.
Q. In your report, you relied on the Case-Shiller Home Price Index for Detroit. Do you recall that?
A. It is one of the things that I looked at.
Q. And you agree the Case-Shiller Index is a standard measure of housing prices, correct?
A. It is a measure of housing prices, yes. It's widely used.
Q. And it's a reliable -- Case-Shiller is a reliable measure of housing prices, correct?
A. What do you mean by reliable?
Q. I mean, people -- a lot of people in government, business, academia rely on the Case-Shiller Index for housing prices, correct?
A. Many people rely and look at it, yes.

Q. And you've done analyses where you've utilized the Case-Shiller Housing Price Index in the past for property valuations, haven't you?
A. I have looked at the Case-Shiller Index for projects in the past.
Q. And did you use the Case-Shiller Index in your work in Flint, Michigan?
A. I don't recall. I don't think so. I don't know if Flint is one of the -- I don't think it's one of the areas that the Case-Shiller Index would cover.
Q. I mean, why do people look at the Case-Shiller Housing Price Index?
A. It's viewed as a reputable source of trends in house prices.
Q. And did the creators of the Case-Shiller Housing Price Index, have they received the Nobel Prize?
A. Yes.
Q. They're widely respected economists, right?
A. They are widely respected economists, yes, I would agree.
Q. The -- in generating your forecasted values for revenues, did you actually use numbers

from the Case-Shiller Property Index?
A. So the Case-Shiller Index was one source that I consulted in selecting my inputs.
Q. But didn't you use some different numbers for average housing selling prices in generating your forecast other than Case-Shiller?
A. I did.
Q. And what were those?
A. I used the Detroit Association of Realtors data.
Q. And did you use that updated to the present time or not?
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 I looked at it, but in order to use it in comparison of other data, my analysis went through December 2013.
Q. Okay. And you know that the Detroit realtor information shows that housing prices continue to increase from the point you used, December 2013, to the most recent data in 2014?
A. Housing prices did go up, yes.
Q. In fact, housing prices have gone up fairly significantly in 2014 under the Detroit

realtor data you used?
A. What is significant in your opinion?
Q. Well, do you know how much they've gone up?
A. I can't remember off the top of my head.
Q. It would be more than 10 percent, wouldn't it?
A. I don't recall.
Q. In the -- do you agree that based on all the data you've seen, real estate values in the city are increased in 2014?
A. The data I've looked at have shown real estate values increasing in residential.
(Document marked No. 7)
Q. And you're aware that there are -- let me just hand you a copy of what I'm going to mark as Exhibit 7. It's an article entitled Detroit Named a Top Turnaround Town For Residential Real Estate.
Do you have that in front of you?
A. Okay.
Q. And you've seen news stories and assessments that have indicated that Detroit is one of the markets in the country that's experienced the largest increases in home prices during 2014, correct?
A. I haven't compared Detroit to other

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cities.
Q. Well, this assessment reports that, in the first sentence, Detroit's housing market ranks seventh overall in a realtor.com turnaround town study of the national housing market in the second quarter the real estate tracking firm said in a report Wednesday. Do you see that?
A. I do see that.
Q. And you don't dispute that, correct?
A. I have no idea how realtor.com did their analysis.
Q. Okay. Well, that's not my question. I mean, you don't dispute -- you haven't done the work necessary to dispute the fact that Detroit is one of the fastest growing markets in terms of housing prices in the country, correct?
MR. STEWART: Objection.
THE WITNESS: So I've looked at the most recent data for Detroit. I've not compared it to other cities.
BY MR. SMITH:
Q. So you can't identify any city with more rapidly growing housing prices in 2014 than Detroit sitting here today, correct?
A. Well, this says it's the seventh.

Q. Okay.
A. I haven't looked at it, though.
Q. I mean, you wouldn't find that surprising that it's the seventh most highest in terms of housing price growth, Detroit is?
A. From a very low base, it's had growth, so that seems plausible, sure.
Q. And in fact, you mentioned the Detroit Land Bank. Have you done any investigation into its operations?
A. I don't know its operations.
Q. Were you aware that the City had transferred 16,000 properties to the Detroit Land Bank recently?
A. No.
Q. Do you know that the Detroit Land Bank has recently had an auction of blighted properties?
A. Recently when?
Q. During the last year. I mean in this year.
A. They have had auctions, yes.
Q. And in fact, there's been high demand in the Detroit Land Bank auctions for blighted properties, correct?
A. I don't know.

Q. You haven't done any analysis to determine the effect of the Detroit Land Bank on housing prices in Detroit, correct?
A. No.
Q. And you haven't done any analysis to determine the effect of the City's blight reduction efforts on housing prices, correct?
A. We -- in our forecast in a reinvestment scenario, we take into account removal of blight property as part of general economic improvement to the city, and so we've -- in that scenario, we've factored in removal of blight as a positive for our forecast.
Q. Do you actually know whether the forecasts that have been done for the City attach a dollar value to blight removal in terms of improved revenue for the City?
A. What's the question?
Q. Do you actually know whether the forecasts that have been done attach a dollar amount for blight removal?
A. There has been money put in for each year for blight removal in what I've seen.
Q. But do you know in terms of increased revenue?

A. There has not been a sort of one relationship done to say this much spending on blight translates into X dollars of revenue.
Q. And you've done no analysis that's tried to determine how much the blight removal will increase revenues to the City in your analysis, correct?
A. I have not. Right. So in my analysis, I did not look at the direct relationship between blight removal and property tax revenue.
(Document marked No. 8)
Q. Let me hand you what's been marked as Exhibit 8. It's a regional commerce paper from Detroit Regional Commerce. If you go to the first page entitled Detroit Facts, this document says that approximately 12 billion in private investments have been made in Detroit since 2006.
Do you have any basis to dispute that?
A. I have no idea where that number is coming from.
Q. Have you done any investigation into how much private investment has been made in Detroit in the past few years?
A. I've only read some articles on it.
Q. Okay. You know there's been significant private investment in Detroit in the last few

years, correct?
A. I don't know if it's significant.
Q. Can you tell me how much in dollar terms investment has been made by private companies in Detroit in the last few years?
A. I don't know.
Q. Can you tell me how many jobs Detroit has added in the last few years?
A. Well, when we've looked at government 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 BLS data and used that information in doing -- I would say this is something that Bob and Katie looked at, and I know -- and just having conversations and reviewing that employment has fallen since they've looked at it, which has been in the last what? I'm going off memory. I know they pulled data going back to 2006, maybe even before then.
Q. In the last year, do you know if employment has increased or decreased in the city?
A. In the last year, I don't think that data is out, so I don't know.

Q. In the last period -- in the last year for which there's data, do you know whether city employment has increased or decreased?
A. I don't have it in front of me, so I don't want to say. I can't remember.
Q. Are you aware or have you been provided any of the reviews that have been done or audits on the City's financial data?
A. I have not been provided those studies.
Q. Are you aware that auditors have made findings saying that the financial data in the City of Detroit is not reliable?
A. I have not been told any of that.
Q. Do you know who the City's auditors are?
A. No.
(Document marked No. 9)
Q. I'm going to hand you what's been marked as Exhibit 9. It's an article entitled Will Detroit Land Bank Auction Build Value For Housing in Crain's Detroit. If you look at this article, it talks about an auction of 33 homes. Do you see that?
A. Uh-huh. Yeah.
Q. And the bids that have been drawn in are nearly $1 million. Do you see that?
A. I do.

Q. With an average price of $22,000 per property. Do you see that?
A. I do.
Q. Before you did your analysis, were you aware that the Detroit Land Bank had been able to auction off 33 properties for a million dollars?
A. I was not aware of this information, no.
Q. Okay.
A. It's from what? June?
Q. Okay. So you haven't done any investigation into the prices that the Detroit Land 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 attained.
Q. And you've not also been told the amount of revenue that Detroit Land Bank has generated by selling blighted properties through auction, correct?
A. The only information I was given on that was a conversation with Dan Jerneycic where he mentioned that properties had been sold, and there would be some money coming back to Detroit because they had paid a charge-back on the property taxes, and that's all I was told.

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 Bank?
A. No. So with the information he gave me, it was very minimal.
Q. Okay. So that's -- your forecast does not attempt to forecast revenue that the City may obtain from selling properties through the Detroit Land Bank, including property tax revenues, correct?
MR. STEWART: Objection.
THE WITNESS: So the forecast does not specifically look at the activities of the Land Bank.
BY MR. SMITH:
Q. Okay. So it doesn't include amounts that the City will receive from back property taxes through sales through the Land Bank, correct?
A. The only thing is the relationship between the net revolving fund in Detroit. And so if the 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 payment, so they wouldn't pay the additional

chargeback. And so that would be taken into account in our forecast.
Q. Okay. You haven't -- do you know whether the City of Detroit actually receives any funds from the sale of properties through the Land Bank?
A. So my understanding is that if the process 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.
Q. But the sale -- the sale price for the properties, do you know whether Detroit actually gets any of the sales price for the properties sold through the Land Bank?
A. I don't know. I don't know what they receive.
Q. Okay. So certainly you haven't forecasted any sums the City might receive from sales through the Land Bank for -- in terms of the sales price, correct?
A. I don't know what -- after all the taxes are paid, etcetera, I don't know what money is left over and how that's allocated. I don't know that.
Q. Would it be fair to say you're offering -- you haven't been asked to offer any opinion about

the Detroit Land Bank?
A. I have not been asked about the Land Bank.
Q. You can't testify about the Land Bank's operations?
A. I cannot testify about the operations at the Land Bank.
Q. You can't testify about the Land Bank's effect on the economy in Detroit?
A. I don't know how the Land Bank is affecting the economy in Detroit.
Q. You can't testify about the Land Bank's effect on property tax revenues, correct?
A. Outside of the normal working process with the revolving fund, I don't know anything besides how the process is supposed to work.
Q. But you can't testify about the Detroit Land Bank's effect on property taxes through improved real estate values or other mechanisms, correct?
A. I don't see how it would affect it, but you're right. I wouldn't testify about that.
Q. The Bureau of Labor Statistics is a reliable source of information on employment data. You would agree with that, correct?
A. I would agree with that.

Q. And have you relied on that as a source of information about employment data in your analysis?
A. It's one of the things that I looked at, yes.
Q. Do you know what source of information you looked at for information on population levels?
A. Yes.
Q. What source of information?
A. So the 10-year forecast uses the SEMCOG, Southeast Michigan Council of Government, forecast.
Q. And is that a Detroit-specific forecast or is that statewide information?
A. So SEMCOG did a regional, I believe, seven-county forecast, and then within the counties, they did specific municipalities, and Detroit was one of them.
(Document marked No. 10)
Q. I'm going to hand you what's been marked as Exhibit 10. Let me know is this the type of Bureau of Labor Statistics data on employment levels that you have looked at in formulating your opinions?
A. This looks right.
Q. And the Bureau of Labor Statistics is a reliable source of information on employment data, correct?

A. I do think it's reliable, yes.
Q. And the employment levels in the city of Detroit currently are higher than they were in 2010, correct?
A. So you're looking at which numbers?
Q. The current level -- employment levels compared to 2010 in the graph.
A. They are higher.
Q. And the employment levels in the city currently are higher than in -- during many periods during 2011, correct?
A. I'm sorry. You said during 2011 --
Q. The employment levels in the city currently are higher than during most periods in 2011, correct?
A. So current employment is higher than in most periods in 2011 is your question?
Q. Yeah.
A. I guess it depends on the period.
Q. Okay. During most of the months in 2011, employment was lower than it is currently in Detroit, correct?
A. It looks that way, yes.
Q. And the same is true for 2012, correct?
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?
Q. Around April of 2014, April and March.
A. There was a downward trend between, it looks like, December 2013 down to April 2014, and then May 2014 it's slightly higher.
Q. Do you know what period of time the employment data that you looked at for your analysis?
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 trend analysis, so they would be the ones to better speak to it.
Q. I mean, did you use the trend analysis by Mr. Cline and Ms. Ballard in your forecast?
A. So they did the trend analysis, and then I looked to see what their employment forecasts were

based on that analysis so that my analysis was consistent with theirs.
Q. And did they forecast decrease in employment?
A. They did.
Q. Do you have any idea how they arrived at their forecast of decreasing employment after looking at the Bureau of Labor Statistics data?
MR. STEWART: Objection.
THE WITNESS: So generally I know what they did. They performed an analysis looking at the historical trend and the relationship between Detroit and the rest of the state, and so they used that information to forecast employment trends with relationship to the state forecast.
BY MR. SMITH:
Q. Okay. Can you explain to me how the employment forecast was actually calculated that you relied on?
A. Other than generally saying, I was not the one that did it, so no.
Q. And who was the person who you understood did that forecast?
A. Bob Cline with the assistance of Katie Ballard.

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?
A. The only way it would factor into the analysis is private donation improving the economy and stabilizing some of the negative aspects of Detroit, and then that shows up in our reinvestment scenario.
Q. So private donation improving the economy can improve property tax revenues, correct?
A. It's possible.
Q. And -- but as far as you're aware, nobody has tried to forecast the amount of private donations over the next 10 years for the City, correct?
A. I don't know if that's been done.
Q. Okay. As far as you're aware, there's no analysis that's been done to try to show the impact of private donations on City revenues, correct?

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 housing market or private tax revenues, correct?
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 environment, then that's been factored into the reinvestment scenario.
Q. But you don't know if the reinvestment scenarios tried to forecast the amount of private donations that will come into the city, correct?
A. I don't know how private donations are included in that.
Q. And you don't know how the reinvestment forecast was put together, correct?
A. I was shown the reinvestment forecast. I don't know how it was put together.
Q. And you didn't do anything to test the reliability of the reinvestment forecast, correct?
A. So as before, you can only test, I think, reliability with actuals, and it hasn't occurred, 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?
A. I would not say generate. I would say that I looked to see what was put together for reinvestment for further reinvestment initiatives, and that helped think about how we selected our growth rates in that reinvestment scenario.
Q. Were numbers from the reinvestment forecast plugged into your forecast?
A. Were numbers for the reinvestment forecast plugged into our forecast? No.
Q. Did you use the reinvestment forecast to generate some of the assumptions for your forecast?
A. It was something that was looked at along with other things in terms -- in how we put together the reinvestment scenario.
(Document marked No. 11)
Q. I'm going to hand you a copy of what's been marked as Exhibit 11, which is from the Case-Shiller Detroit Home Price Index, and let me know if this is the type of data that you have reviewed regarding housing prices.
A. Yeah.
Q. And the Case-Shiller Index shows the

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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 going up, yes.
Q. And there was an inflexion point around 2010; is that correct? It's a little bit light on there.
A. Yeah, midway through 2010, 2011. Yeah.
Q. And increasing housing prices in your model lead to increased property tax revenues, correct?
A. So increasing home prices is one factor in our model, and it could lead to our overall increase in tax revenue. It really depends on what happens to taxable value.
Q. Holding all other factors constant, do increased home prices have an effect in increasing property tax revenues in your model?
A. Holding everything constant, an increase in a home price would -- well, it depends on the taxable value, I guess. It depends on what the taxable value is when the property sells and it's reset. And so if the home price is higher than -- and the reset of the taxable value is higher than what it had been, it would increase tax revenues. If sort of varies house to house.

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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?
A. So the Case-Shiller Detroit Home Price Index is for the Detroit metro region, and so the metro region could see home price indexes go up. And we show that other factors mean that taxable 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 for the last two years, correct?
A. So in our model, we have taxable value continuing to decline even with some improvements

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in home prices.
Q. And in fact, you're predicting the tax revenues are going to be cut in half, aren't you, over the course of the 10-year period?
A. Tax revenue --
Q. Or taxable values are going to be cut in half in the city of Detroit over the 10-year period?
A. So residential property is going to be cut in half over the 10-year period.
Q. So you're predicting that property values are going to be cut in half even though the Case-Shiller Home Price Index is showing an increase in property home prices for the last two 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 that set by the City?
A. So taxable value is put together by the City, and then it goes to -- there are several review processes before it's finalized.

(Document marked No. 12)
Q. I'm going to hand you what's been marked as Exhibit 12. It's another printout from Case-Shiller. At first at the top, it describes what the Home Price Index, the Case-Shiller Index tries to do, which it seeks to measure changes in the total value of all existing single-family housing stock.
Is that your understanding of what it does?
A. Uh-huh.
Q. And if you look at the index levels below, it indicates the one-year change in the index is an increase of 15.37 percent for Detroit, correct?
A. Yes.
Q. And the three-year change for Detroit is a 12.86 percent increase, correct?
A. Uh-huh.
Q. And they also provide figures for a 20-year -- a 20-city composite home index as a benchmark. Do you see that?
A. Yes, I do.
Q. And you're familiar with that benchmark?
A. I am.
Q. And the benchmark of 20 cities shows growth in home prices that is lower than Detroit's

for the one and three-year periods, correct?
A. Uh-huh. Yeah.
Q. Detroit's home prices using the Case-Shiller Index have increased more than other cities in the benchmark index over the one and three-year and five-year periods, correct?
A. Correct.
Q. And what are some of the reasons that Detroit's home prices would have been increasing at greater rates than other cities over the last one, three or five years?
A. I haven't looked at the other cities, but when I looked at Detroit specifically, the percentage increases have been so large, in part, because the base is so low.
Q. Right. I mean, Detroit is starting out from a low period, so it's not surprising that you would see a large increase in home prices, correct?
A. That is correct. A $5,000 increase is large in Detroit.
Q. And you would anticipate that the Case-Shiller Index would continue to increase for the Detroit market over the 10-year period that you forecast?
A. I don't know what it's going to do for the

Detroit metro area. I don't know.
Q. You haven't looked at that?
A. So we were charged with looking specifically at the city of Detroit, not the entire Detroit metro region.
Q. Is it possible to forecast what the Case-Shiller Home Price Index would look like for Detroit over the next 10 years?
A. I don't understand the question.
Q. Is it possible to forecast what the Case-Shiller Home Price Index will be for Detroit over the next 10 years?
A. So Case-Shiller is using actual data. I don't know if they do forecasts.
Q. I'm asking could you forecast the Case-Shiller Home Price Index over the next 10 years?
A. I have not done that, no.
Q. I know, but is it possible for you to do that? Is that something that's technically possible for you to do?
A. So you can forecast what is going to happen to average home prices. That's an exercise that I've done, that I've engaged with.
Q. Okay. And if we were to forecast home

prices over the next 10 years in Detroit, those home prices would increase under a reasonable forecast, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know what reasonable is. When I've done this, I've had -- I've looked at what would likely happen to average home prices, and they have been going up in my forecast.
BY MR. SMITH:
Q. Okay. And those are forecasts over the next how many years?
A. So looking out 10 years.
Q. Okay. So you're forecasting home prices to increase over the next 10 years, correct?
A. I am.
Q. And that would include in Detroit?
A. That's just for Detroit. I didn't look at the entire area.
Q. Okay. And why were you doing that forecast? Is that part of your expert analysis?
A. So as I mentioned in my report, one of the things that I looked at is the uncapping of taxable value when homes prices sell, and so part of the exercise was thinking about what happens to home prices.

MR. SMITH: Okay. Why don't we take a break now. I know there's been a request from the retiree's counsel who had to leave. He's got another call, so we'll take a break for lunch.
MR. STEWART: 30 minutes?
MR. SMITH: Why don't we take a little bit longer for lunch.
MR. STEWART: 32 minutes?
MR. SMITH: No, 45 minutes.
MR. STEWART: 35, 40. That's fine.
THE VIDEOGRAPHER: Off the record. The time is 12:02 p.m.
(Whereupon, a lunch break was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 12:44 p.m.
BY MR. SMITH:
Q. Ms. Sallee, you're aware the City is planning to spend hundreds of millions of dollars in blight reduction?
A. I'm aware the City is going to spend money on blight reduction.
Q. I mean, do you know it's in the amount of hundreds of millions or not?
A. I don't know the exact amount.

Q. You don't know any of the details of how the City is going to spend the blight reduction money?
A. I don't know any of the details.
Q. Do you agree that many large cities suffer from blight?
A. I haven't looked at any other cities on blight.
Q. What about Flint, Michigan, is there blight in Flint, Michigan?
A. Yes, there is.
Q. And is Flint, Michigan planning any blight reduction efforts?
A. Yes.
Q. And do you know how much they're planning to spend on blight reduction?
A. I don't know off the top of my head.
Q. Do you know why Flint, Michigan's planning to spend money on blight reduction?
A. I had some conversations with city officials, and they wanted to remove properties, and they basically said they thought it would help the city.
Q. How did Flint, Michigan officials think that blight reduction would help the city?

A. They were targeting certain neighborhoods with blight removal. My recollection is that it was around schools or commerce areas, and they thought that it would sort of improve safety and existing property values is my recollection of conversations about it.
(Document marked No. 13)
Q. I'm going to hand you a copy of what's been marked as Exhibit 13, which is some City of Detroit Assessing Division Operational Recommendations by Plante Moran. Have you seen that document before?
A. I have not.
Q. If you turn over to Page 6, there's a chart that has a history of the Detroit assessment roll. Do you see that?
A. Okay.
Q. It indicates that the assessed value of property in Detroit went from 14 billion in 2008 to 9 billion in 2013, correct?
A. That's what is says here.
Q. So there was a $5 billion reduction in the last five years in assessed value, correct?
A. That's what it says here.
Q. It's about a third of property values gone away, correct?

A. It looks like a reduction of 5 billion in the assessed value, which is about a third.
Q. And you're forecasting additional reductions in the assessed value, correct?
A. So I am forecasting additional reductions in taxable value.
Q. Okay. And what will be the total taxable value at the end of 10 years under your forecast?
A. I would have to look at my report for the exact number.
(Document marked No. 14)
Q. I'll mark your report as Exhibit 14 so you have it in front of you.
Do you know now looking at your report what taxable value you're forecasting in the next 10 years?
A. I was realizing that the actual forecasts aren't in here, so I would need to see the disclosure statement.
Q. Okay. The -- did you do anything to look at historical taxable values in doing your forecast?
A. I did look at historical values.
Q. And you know there's been a significant decrease in historical assessed value already in the city of Detroit, correct?

A. How would you define significant?
Q. Well, along the lines of that $5 billion that we just looked at, correct?
A. There has been a reduction in assessed and taxable value in Detroit.
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.
Q. The -- and your forecasting reduction assessed value, that goes beyond what's occurred in the last five years, correct?
A. So I'm not forecasting assessed values. I'm forecasting taxable value.
Q. What's the difference in your view?
A. So taxable value is the lower of capped value or state equalized value. And given that the county's equalization factor is 1, assessed value and state equalized value are the same thing.
Q. Okay. So the taxable value is the same as the assessed value in Detroit?
A. No.
Q. No? Okay. Can you explain why that is?
A. I'm saying assessed value and state

equalized value are the same thing. Taxable value is the lower of capped value or state equalized value.
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 year, your state equalized value is roughly 50 percent of your market value and your taxable value equals your state equalized value in that first year. And then going forward, your capped value is the rate of inflation or 5 percent, whichever is less.
Q. And how do you figure out which to use in your forecast, capped value or state equalized value?
A. So I don't use either of those. I use taxable value.
Q. Which is what?
A. The lower of the two.
Q. Okay. So how do you figure out what that is in your forecast?
A. Sure. So in this case, I looked at capped value and state equalized value and its relationship to taxable value, and I did some analysis to see if state equalized value was

potentially higher or lower than capped value. And if assessments are lowered, what would then happen to state equalized value in relation to capped value and what impact would that have on taxable value. And so ultimately what I was concerned with was taxable value.
Q. And do you -- can you identify any city that's engaged in a greater blight reduction effort than is planned for the city of Detroit?
A. I have not looked at any other cities' plans.
Q. So you can't identify such a city?
A. I haven't looked into the issue.
Q. So you haven't examined the effects of blight reduction in other cities at all?
A. I have not looked at blight reduction in other cities.
Q. Do you agree that property taxes revenue is one of the largest sources of revenue for the City of Detroit?
A. So property tax revenue makes up about 17 percent of the tax and state revenue sharing.
Q. The -- you mentioned that you had read Ms. Kopacz's report, correct?
A. That's correct. I read maybe half of it.

Q. Do you have any understanding as to what qualifications or background Ms. Kopacz has in forecasting?
A. I don't know particularly her expertise in forecasting.
Q. We discussed that she did a sensitivity analysis for property tax revenues. Do you recall that?
A. Yes.
Q. You don't have any criticism of Ms. Kopacz's sensitivity analysis for property tax revenues, correct?
A. I didn't try to mimic what she did. When I looked at it, her analysis seemed in line with what I would expect, so it seemed okay.
Q. She also does a sensitivity analysis for state revenue sharing. Do you recall that?
A. Yes.
Q. Do you have any criticism of Ms. Kopacz's sensitivity analysis for state revenue sharing?
A. I can't remember exactly what she varied there, so I can't remember the specifics of her report.
Q. Okay. Do you have any opinions about Ms. Kopacz's report?

A. Yes.
Q. What are they?
A. My opinion was that the first half of it I read, I agreed with her conclusions.
Q. Okay. What page do you think you're about 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.
Q. And do you agree that Ms. Kopacz's analyses showed that by varying certain of the inputs by a small amount, you can change the outcome in terms of revenue in your analysis by tens of millions of dollars, correct?
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 seemed to be the extent of the sensitivity analysis.
Q. There are other inputs you could change to produce other additions to revenue in your model that Ms. Kopacz did not look at, correct?
A. So I don't know exactly what she did, but you can change assumptions, and it would change the results.

Q. And there are assumptions that Ms. Kopacz did not report on in her report that you could change to increase the revenues in your model, correct?
A. There are assumptions that could be changed that could increase -- that could increase revenues.
Q. And you didn't do any sensitivity analyses for any of your forecasting, correct?
A. What do you mean by sensitivity analyses?
Q. The type of analysis Ms. Kopacz does in her report which she calls an sensitivity analysis.
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 a 10-year period. I did analysis along with Bob Cline, other members of our team to say what happens if we change inputs, they increase or lower revenues in a given year and what's the impact of 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 to the revenue.
Q. And your CV says you've used IMPLAN and

REMI to model economic impacts of capital expenditures and operations. Do you recall that?
A. I have done that, yes.
Q. And is IMPLAN a generally accepted measure for measuring economic impacts?
A. Yes.
Q. And you could use IMPLAN to measure the economic impacts in terms of increased economic activity and revenue from the reinvestments that the City is planning, correct?
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 the plan, correct?
A. I wouldn't use IMPLAN for that.
Q. Is that something that IMPLAN can be used for, though?
A. So in this case, you could -- you could look at an investment, and you could say what is the result of that investment and then model the economic impact of that with IMPLAN, but you would have to take into account, you know, substitution. There would be a lot of factors that would go into it.

Q. Okay. So the reinvestment expenditures could be analyzed using IMPLAN to determine their economic impact, but you would have to take into account a number of factors; is that correct?
A. So IMPLAN would be sort of an awkward way to evaluate it. You can do economic modeling where you would look at a detailed, say, investment and then think through the impact on the economy. That's standard economic analysis.
Q. Okay. And as far as you're aware, has anybody done any standard economic analysis to measure the positive economic impact of the reinvestment proposals?
A. I'm not aware of any.
Q. Do you know why that hasn't been done?
A. Well, I don't know if it has been done. It could have been done by someone else. We weren't charged with looking at the reinvestment activities.
Q. Okay. But you would agree there's a variety of standard methodologies that could be used to measure the economic impact of the reinvestment activities, and IMPLAN would just be one of them; is that correct?
A. So there's -- there's a methodology, a way

that you would go about looking at this, and there are different software tools that can aid you, and there are generally only a few accepted ways to do it.

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 you're going to use REMI.

Q. And have you used such standard economic models in assessing the economic impact of government projects before?

A. Yes.

Q. What kinds of government projects have you done that for?

A. So prior to joining EY, I looked at the economic impact of building a new research facility or sort of a specific government planned -- it would be a collaboration, I guess, between entities, so looking at project base, say, a new facility or something and using one of those to evaluate the economic impacts.

Q. And is that -- do governments often try to model the economic impact or see how much economic

improvement there will be from government projects?

A. I've done these projects for governments or for groups going before government, so there seems to be interest in it.

Q. And is modeling the economic improvement of a government expenditure something that you believe is like a useful project for planning purposes for governments?

A. In certain situations, yeah, I do think it's useful.

Q. And do these economic modeling that you've 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?

A. So typically I would look at the measures of economic impact and then tax revenue.

Q. And is the reason that you didn't use IMPLAN or some other accepted economic modeling in this case to look at the effect on tax revenues just because you weren't asked to do that?

A. So in this case, we were asked to forecast tax revenue, which is a little different exercise 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

there are no other expenditures and thought about how it would improve the economy and then factored that into our reinvestment scenario.

It wouldn't necessarily make sense to use IMPLAN in that sense. I should clarify we use IMPLAN for economic analysis. The tax analysis we're usually doing we're usually not using IMPLAN for.

Q. Okay. But there are other methodologies that you've used that you didn't use in this case to model tax revenues?

A. So in the past, if you're looking at a project and you forecast the labor income that's associated with the project, we often use a ratio of taxes to personal income because we have measure now of personal income or labor income. And so we can apply that ratio to our estimated labor income, and that doesn't apply here to this situation.

Q. Okay. But measuring -- somebody could have used one of the standard economic modeling methodologies to determine the economic impact of the reinvestment scenarios or the tax revenues from the reinvestment scenarios, correct?

A. Yes, you could do something.

Q. Okay. I'm going to turn to your expert

report now. Do you have that in front of you?

A. I do.

Q. On Page 6 of your report, you relied on 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?

A. I do.

Q. Why is it that you only used certain years?

A. So there's a gap in between '95 and '98 and '98 and 2001, so that data was not publicly available on the website, and then -- so I took as much information as was available, and then I did it through 2013. I looked beyond that, but the analysis goes to 2013, so I could compare it to other sources of data.

Q. Okay. So your analysis, you used data stopping at the end of 2013 from the Detroit Board of Realtors, correct?

A. Correct.

Q. But you know -- you've seen what the data is for subsequent periods in 2014, correct?

A. Right.

Q. And that data from the Detroit Board of Realtors is the data showing that housing prices

continued to increase in the city of Detroit; is that correct?
A. There were increases, yes.
Q. The information you talk about about Renaissance Zones, it's kind of down toward the bottom of the page, and you mention you had the one year's data from 2013. Do you see that?
A. Yes.
Q. And we already talked about how that was provided to you by the assessor's office, right?
A. It was.
Q. And the reason you need the Renaissance Zone data is because there's different tax -- different taxes apply to Renaissance Zone than elsewhere in the city; is that correct?
A. So Renaissance Zones are exempt from certain taxes.
Q. And that includes the property tax?
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 operating. You're not paying library.
Q. Page 7 of your report, it says in Paragraph C use separate growth rates for real and personal property by property class. Do you see

that?
A. Uh-huh.
Q. Do you know what growth rates you used?
A. So it varied by type of property within real and personal.
Q. Did you pick the growth rates for real and personal property based on your judgment?
A. So ultimately I selected those growth rates based on my judgment.
Q. And do those growth rates also vary over year for each class of property?
A. They change year to year, yes.
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?
A. I used my judgment to see how they would change year to year, yes.
Q. Page 8, subsection ii(b), you say that -- one of your assumptions was the tax law will remain unchanged during the forecast time periods. Do you see that?
A. Yes.
Q. And who gave you that assumption?
A. So in this case, it's referring to the selected tax rate, and we kept it constant

following standard forecasting procedures. So as I outlined earlier, I followed the Michigan State Revenue Conference forecasting procedures, which is also what U.S. federal agencies use. So you follow current law, and you don't assume a tax rate has changed.
Q. Current law does not exempt personal property in the manner that the proposed legislation does, correct?
A. So right now in current law, it is planning for -- the bills have been passed that would repeal personal property. It has to be confirmed by voters. And so in that case, the third part of forecasting is to think about what known changes there are, and in this case, we accounted for a known change.
Q. Okay. Well, you don't know what the outcome of the vote will be, correct?
A. I do not know.
Q. And so under current law, personal property is not exempted, correct? That's not the law in the state of Michigan right now, correct?
MR. ALBERTS: Objection.
THE WITNESS: So currently personal property is slated to be repealed assuming voters approve it in

August.
BY MR. SMITH:
Q. Does current law as it exists at the date of this deposition exempt personal property?
A. So the laws have been passed that exempt it. It just hasn't been -- it's subject to approval by voters, so I kind of feel like this is gray, and I don't quite know how to answer that question.
Q. Okay. Right now personal property is not exempted. You can't say oh, I'm not going to pay my personal property tax, right?
A. So personal property right now is -- has been taxed in Michigan.
Q. Okay. And that's the current law right now?
A. Current law, the vote has not happened. It's still taxed. Okay. I will say that.
Q. But in your forecast, you've modeled the possibility that that current law treatment of personal property tax may change over time, correct? You've used a 50 percent factor to model that possibility, correct?
A. Right. So we -- so I've included a 50 percent chance that the vote passes in my

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 would be decreased, correct?
A. So what I specifically modeled is a 50 percent chance that personal property taxes will be reduced for commercial industrial taxpayers, and so I factored in a 20 percent -- what -- we're forecasting a 20 percent reduction in personal property and a 50 percent chance of that happening, so we've modeled a 10 percent reduction.
Q. So you factored in a chance that there will be a change in current law leading to a reduction in personal property taxes, correct?
A. Yes.
Q. And the -- have you done any investigation into whether there's any debate about changing tax rates in the state of Michigan?
A. For what?
Q. Have you done any investigation into whether there are any proposals to change tax rates in the state of Michigan?
A. In the state overall or --
Q. That would impact City of Detroit.

A. I have not looked into any tax rate changes in the city.
Q. Have you looked into any tax changes other than the personal property tax change that could impact Detroit's revenues and whether there are proposals for those?
A. I don't think I understand the question.
Q. Have you looked into any -- into whether there are any proposals for tax rate changes that might impact Detroit's tax revenues?
A. I am not aware of any proposals that would change tax rates in Detroit.
Q. Have you investigated the matter, though?
A. No. I have not looked into it.
Q. So you're saying that the assumption that you used for keeping tax rates constant came from the Michigan Manual; is that correct?
A. So they've published a paper about their procedures for doing their consensus revenue forecasting, and so that was consulted as well as what do other agencies do, and those procedures were followed.
Q. Have you done forecasting for taxes before where you did not assume current tax law applied, that there might be changes?

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 two-year project looking at tax policy changes at the State of Michigan level. Some of the tax changes would have reduced revenues for certain taxes, and some would have increased tax revenue for certain taxes.
Q. So when you were working with the State of Michigan, you forecasted the effects of potential changes in tax policy on tax revenues?
A. So I wasn't working for the State of Michigan. Maybe you said with, but I was working for another organization doing State of Michigan taxes, and -- I've forgotten your question.
Q. What was the other organization that you worked on Michigan taxes with?
A. I worked for a group called Business Leaders for Michigan.
Q. Okay. When you were doing forecasting to look at changes various policies that could be

adopted would have on Michigan tax revenues, you did an analysis on that, correct?
A. So I did an analysis of specific tax changes for the state that would affect the state.
Q. Okay. And did you calculate -- forecast what the changes in revenues would be if tax policy changed in the state of Michigan when you did this other project?
A. When I did this other project, yes.
Q. And were you coordinating with the state, or how would you describe your relationship with the state in conjunction with that project?
A. So I would have -- I would go to meetings with state representatives to talk about the tax change and to collect data.
Q. And what kind of tax changes were you discussing with Michigan officials?
A. Generally looking at changes to the business tax and changes to the sales tax.
Q. Okay. Were they looking at increasing or decreasing the business tax and the sales tax?
A. They were looking at decreasing the business taxes and potentially raising the sales tax.
Q. And raising the sales tax would increase

the amount of money that the state collected that 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.
Q. Do you know where the city -- where the state gets the money that it uses for revenue sharing?
A. I do.
Q. Okay. Where do they get that money?
A. So -- so the constitutional piece is funded through sales and use tax revenue, a part of it.
Q. So increasing the sales tax would increase revenue sharing under the constitution of Michigan to the cities, correct?
A. All things equal, if you -- so -- so right 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 constitutional piece is 15 percent of that 4 percent, and those things are written that keep that 4 percent constant, and you play with that additional 2 percent.
So proposals that I often look at was sort

of keeping the revenue sharing intact. If you're 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 it may not actually affect sales tax revenue.
Q. Is it possible that increasing the rate of the sales tax will increase state revenue sharing payments to the cities?
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.
Q. What about the percent above 4 percent?
A. Well, that part of it isn't part of the sales tax formula.
Q. But generally you know that the state uses the sales tax as a source for its revenue sharing payments to the cities, correct?
A. The constitutional piece comes from the sales tax.
Q. Do you know if any of the statutory piece comes from the sales tax?
A. So right now the Economic Vitality Incentive Program is being -- the funds for it are coming from the General Fund, and part of the sales

and use tax go into the General Fund.
Q. Okay. So the more money that the state collects in sales tax, the more money that is available to fund revenue sharing payments, correct?
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?
A. More money would be available. Legislature could or could not decide to use it.
Q. When were you doing that analysis about potentially raising the sales tax rate?
A. So that analysis I did back seven, eight years ago. What year is it? 2014. So I did that work, I'm remembering, but probably around 2007.
Q. Okay. And did the state raise the sales tax?
A. They didn't.
Q. Do you know why they didn't?

A. So Michigan ended up making some changes. They eliminated the SBT. They put in a new business tax and decided not to make any changes to the sales tax.
Q. And is the state of Michigan, compared to other states, a relatively low-tax state?
A. It depends on what time frame you look at.
Q. Currently.
A. Currently Michigan's in the middle in terms of tax burden.
Q. Do you know if there's any other planning regarding sales taxes, sales tax changes?
A. I'm not aware of any planned sales tax changes.
Q. Have you investigated whether there are any planned sales tax changes?
A. Nothing has come up in my conversations with anyone, so I'm not aware.
Q. Have you ever heard of the Revised Judicature Act of 1961?
A. I don't think so.
Q. Are you aware that under current law, if the City has a judgment against it, that it can charge -- it can raise property tax rates above statutory rates to collect money to satisfy the

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?
A. No one told me that. When I looked at a history of property tax millages for general operating, I noticed that the rates in the past 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?
A. No, because going forward, what was 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?
MR. STEWART: Objection.
THE WITNESS: I don't know the likelihood of that.
BY MR. SMITH:
Q. Well, other -- you know other creditors of the City in the past have been successful in

getting judgments and having the tax rate raised above statutory maximums to pay it, correct?
A. I don't know any details.
Q. Well, you know that the tax rates have been assessed above statutory maximums in the past, correct?
A. The only thing that I noticed was in the past, the general operating mill was above 20, and I was not sure when the 20-mills limit became relevant for Detroit.
Q. Nobody -- I guess since nobody has told you about this possibility of property tax rates being above statutory maximums, so that's correct, right?
A. Nobody has told me about that.
Q. Okay. So nobody has asked you to consider what taxes -- property taxes could be collected at rates above statutory maximums under the Revised Judicature Act, correct?
A. Correct. Nobody asked me to look into that.
Q. And you don't have any idea why they didn't ask you, correct?
A. I have no idea why people did not ask me to do something.

Q. Okay. You did do an adjustment for changes in collection rates over time, correct?
A. Correct.
Q. Do you know if there's an adjustment for changes in collection rates for the income tax under 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 respect to collection rate on the property tax is consistent with Mr. Cline's approach on the income or other taxes, correct?
A. We took pains to make sure that the inputs we were using were consistent, and the way we were going about -- he had a different methodology because it's a different type of tax with a different tax base. He had a different methodology than I did, and I don't -- given how -- I don't know -- you know, there's a different collection process. I don't know how he factored in

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?
A. I don't know how his model incorporates 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?
A. So there are -- collections of income is important, and he -- you know, collections for income taxes are different than property taxes, so it's not -- it's not unusual that he would deal with it differently than I would. He's -- for example, you have tax withheld from paychecks, so that's a very different model than someone paying their property taxes.
Q. But you agree that it's important to factor in in some way changes in collection rate over time in forecasting the income, corporate, wagering or utility user tax, correct?
A. I think you said, though, that it's important to factor in changes. I think it's important to think about the revenue that you're going to be receiving, you're actually receiving,

and for each of the different taxes, we did that.

In property, we thought about what's the collection rate. In income taxes, we thought about the tax base, different tax bases, taxes withheld versus taxes paid, so collection would show up in that analysis. For the other taxes, we thought about well, what is being actually paid by, say, the casinos or utility users. So collections is present, but I think they're different in each of the tax bases.

Q. But in the income tax analysis, you know there's no change or analysis of what the collection rate might be over the next 10 years, correct?

A. I don't know exactly what Mr. Cline did there.

Q. Okay. But you agree it's important to take into account the collection rate in any forecast of taxes and tax revenue that you do, correct?

A. I don't know if I would say it's important to think about a collection rate. I think it's 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

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, correct?

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.

Q. I'm asking about any tax forecast. Have you ever done a tax forecast where you didn't take into account potential changes in collection rates?

A. I mean, I think -- I've always incorporated collections, and we all think -- you know, both in this project and other work what do we actually think money is going to be in the door, so collections are always a process of what we're thinking about.

Q. Because the higher your collection rate, the higher your tax revenue, and the lower your collection rate, the lower the revenue, correct?

A. In some cases, yes. In other cases, you can have a higher collection rate and a lower tax levy, and you could have -- you would have a lower tax revenue.

Q. All other things being equal, the higher the collection rate, the more tax revenue you take in, correct?

A. Up to a certain point.

Q. And that's why it's important to consider the collection rate in a tax forecast, right?

MR. STEWART: You've asked this question, I think I've counted, 15 times now, so she's going to answer. This is going to be the last time because I am going to instruct her after this.

MR. SMITH: You have a pattern of obstructing every deposition you've been in. By the way, I'm going to ask her about deposition transcripts later, so I ask that you produce this order of the court because I'm informed there is no such order.

MR. STEWART: No. Ask Mr. Hackney.

MR. SMITH: No. I'm asking you. I'm going to ask about it. Where's the order?

MR. STEWART: It was a ruling that he made. Your partner, Mr. Hackney was there.

MR. SMITH: And there was no such ruling, so --

MR. STEWART: Yes, there was.

MR. SMITH: -- you're obstructing the deposition.

MR. STEWART: I was in court when it happened.

MR. SMITH: Okay. Then I'm asking that you produce it. Produce it before the deposition is over. We've got like three or four hours left.

MR. STEWART: No.

MR. SMITH: We're at your offices. I just want the order.

MR. STEWART: I told you it's not an order. It's a ruling that he made.

MR. SMITH: Or the transcript, whatever it is. I want you to show me where the court issued this ruling.

MR. STEWART: Why don't you ask Mr. Hackney because he was the one that got in the colloquy with the judge, and he is the one where the judge said it. I think it was during the swaps trial, but we've had thousands and thousands of pages of transcript. So I'm not going to interrupt the deposition to go find it. I think, though --

MR. SMITH: You can do it at a break.
MR. STEWART: -- since your firm was the one that got the adverse ruling, I would think they'd have no trouble, and find Mr. Hackney. He remembers it well because he professed to be surprised by the judge's ruling, and the judge told him actually it's standard, and it is standard. And that's just -- everybody knows it. Surprised he didn't because he's an excellent lawyer, but that was the ruling.
So now the question, though, is I think -- I don't think I'm going unfair when I say that after you've asked this witness the same question 15 times and she's answered it 15 times, you have to move on. You're just arguing with her. You're wasting everybody's time, and it's an abuse of the witness. So let's reread the question. Reread the question. She's going to answer it, and then we're going to move on.
(Whereupon, the record was read as requested.)
THE WITNESS: Collections are important to consider in doing any tax forecast.
BY MR. SMITH:
Q. And Ms. Sallee, is it your understanding

that you're not allowed to look at any of the testimony given in deposition by other witnesses in this case, including Mr. Evanko?
MR. STEWART: You just misstated it.
MR. SMITH: I'm asking the question.
MR. STEWART: Ask her. Then I'm going to correct you because you just misstated what I told you.
MR. SMITH: You're coaching the witness.
MR. STEWART: Answer the question.
THE WITNESS: You said testimony. I'm trying to -- I don't know -- I don't know legal things, so I don't know.
MR. STEWART: Just because I think you misunderstood it, Mr. Smith, but the judge's ruling was --
MR. SMITH: Listen, your speaking objections are really obstructive.
MR. STEWART: Well, there's no pending question.
MR. SMITH: Then don't give a speech on the record.
MR. STEWART: Because you just misstated things, and we have to have the record corrected because you can't go around misstating things.

What the ruling was is you cannot ask a witness to comment on the testimony of another witness. That's what the ruling was.
MR. SMITH: Okay. That's what you've been telling everybody in this case, right?
MR. STEWART: Well, that's what the judge ruled. I should add, by the way, I didn't instruct her not to answer your questions. I just told you I have a standing objection to them, and I cannot stop you if you want to ask her what Mr. Evanko said. I just told you it's improper, and the judge has said not to do it.
MR. SMITH: You obstructed the deposition already.
MR. STEWART: No. If you want to ask her, ask all day about it.
MR. SMITH: I'm told the tape is running out. Let's take a break.
THE VIDEOGRAPHER: Off the record. The time is 1:32 p.m.
(Whereupon, a short break was taken.)
THE VIDEOGRAPHER: We're back on the record. The time is 1:39 p.m.

BY MR. SMITH:
Q. Hi, Ms. Sallee. Do you have Mr. Evanko's testimony in front of you? Do you see the excerpts there?
MR. STEWART: And you have my standing objection, and I will not interrupt your examination if it's clear my objection to this is standing.
MR. SMITH: Okay.
BY MR. SMITH:
Q. You've got it in front of you?
A. Yes.
Q. Okay. I wanted to ask you about Page 152 in there if you would flip through. These are just excerpts from his deposition, and let me know when you get to Page 152.
A. Okay.
Q. Okay. And actually if you go down to Line 13, you see Mr. Evanko's talking about the transactions they have and whether they're arm's length. Do you see that?
A. Yeah.
Q. And you see that the data that he's received was so scant of arm's length transactions. There could not have been a study developed because

it was just absolutely insufficient data. Do you see that?
A. Okay. I see that.
Q. And Mr. Evanko's testimony is generally consistent with the other materials we've seen from the assessor's office indicating that most of the transactions are not arm's length, correct?
MR. STEWART: Objection.
THE WITNESS: Well, I haven't seen any of the data, so I don't know.
BY MR. SMITH:
Q. Well, I mean, we saw some other documents talking about how most of the transactions were not arm's length. Do you recall that?
A. I don't know if most of the transactions were not arm's length.
Q. So you don't know what percent of the transactions the City has that are arm's length transactions, correct?
A. I do not know a percent, no.
Q. If you go over to Page 223 of the document, it's like the last two pages. Let me know when you get to 223.
A. Okay.
Q. If you'll look at Line 18, Mr. Evanko is

asked but when I said you don't remember discussing this with Ernst & Young, I was correct, right? Right. You don't recall discussing .5 reduction of 10 percent in collection in fiscal year 2015 due to loss of revenue from the small business personal property tax exemption? Not only do I not -- I do not recall, but this is a ridiculous estimate. I knew in December of 2013 that the small business personal property tax exemption would affect the City's tax base by approximately .7 of 1 percent, not 10 percent.
Do you see that?
A. Uh-huh.
Q. So Mr. Evanko is characterizing your forecast of the reduction in personal property tax as a ridiculous estimate, correct?
MR. STEWART: Objection.
THE WITNESS: Well, he says this is a ridiculous estimate.
BY MR. SMITH:
Q. And you didn't have any conversation with Mr. Evanko to ask him about whether it was a reasonable estimate the reduction in personal property tax before you put it in your report, correct?

A. So I had to -- I had several conversations with Mr. Evanko. I've talked with him in January of 2014 and received some data from him. He answered some questions. I also had conversations with Alvin Horhn in his office. And I had a call with Alvin in February of 2014, and I ran the 10 percent reduction by him, and he -- he said that was reasonable.
Q. Did you ever run the 10 percent reduction in personal property tax by Mr. Evanko before you put that in your report?
A. I can't remember if it came up in the conversations with him in January or not. I know I did run it by, because of my notes, with Alvin Horhn.
Q. Do you have written notes of all of your conversations with people at the City?
A. No, I don't.
Q. Do you have written notes of any of your conversations with people at the City or others you rely on?
A. I do have some written notes.
Q. Do you know if those have been collected for production?
A. They have.

Q. Do you understand that under the proposed legislation that there's sums that will be reimbursed to cities to help offset reductions in personal property taxes?
A. Yes, there's a replacement mechanism.
Q. Do you have an understanding that under the legislation, not all property is subject to the reduction in personal property tax?
A. What's the question?
Q. Is there some property that would be exempted from the reduction in personal property tax under the legislation?
A. So in personal property, you have commercial, industrial and utility. Utility property is not exempt, would not be subject to the reduction, and there's a -- and there's different phase-outs of how commercial and industrial are affected.
Q. Before today, you were never informed that Mr. Evanko had characterized your forecast for the reduction in personal property tax in the manner that he did in his deposition, correct?
A. So I have had some conversations with my lawyers about --
MR. STEWART: You can't talk about what you

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talked to your lawyers about.
THE WITNESS: Okay.
MR. STEWART: He can ask -- he can tip-toe around the subject, and he will do that, but that's -- there's a little dance we usually do.
BY MR. SMITH:
Q. Did you know before today that Mr. Evanko characterized your personal property tax forecast reduction as ridiculous?
MR. STEWART: You can answer that.
THE WITNESS: I did not know he said it was ridiculous.
BY MR. SMITH:
Q. Okay. Then Mr. Evanko is asked on Page 224, he's asked about this -- the reassessment that's going to be completed in 2020. Do you see that?
A. Uh-huh.
Q. The planned reappraisal study?
A. Yeah.
Q. And he's asked and you could not have given them an estimate of how much to reduce taxable value based on this study because you, yourself don't know which way it's going to come out, correct? And he answers I don't know where --

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how it's going to come out next year. 2020 is a lifetime.
And then he's asked okay, and he testifies you know, I'll be collecting Social Security living in North Carolina. And then he's asked I know you're thinking about two years. I know where your head is at, but you agree with my statement. You did not provide them with -- you didn't tell them this is about what it's going to look like when the reappraisal study is done, correct? Absolutely correct.
Do you see that testimony?
A. Uh-huh.
Q. Before today, were you aware of that testimony by Mr. Evanko?
A. I was not aware of this testimony, no.
Q. Okay. It's true that Mr. Evanko did not provide you with the assumption you use in your forecast regarding a reduction in assessed value as a result of the planned reappraisal, correct?
A. Mr. Evanko did not provide the assumption 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

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in value as a result of the planned reappraisal study, correct?
MR. STEWART: Are you asking her that's what this says?
BY MR. SMITH:
Q. That's what his testimony is, correct?
MR. STEWART: Objection.
THE WITNESS: Can you say that one more time?
BY MR. SMITH:
Q. Mr. Evanko's testimony is that he doesn't know what the outcome of the reappraisal study will be in terms of whether property values will increase or decrease, correct?
A. It says here, yeah, he does not know how the reappraisal study will come out, correct.
Q. And in fact, nobody knows how the reappraisal study is going to come out in terms of effect on property values and assessments in the city, correct?
A. Nobody knows for certain.
Q. Would you agree that Mr. Evanko would certainly be one of the most knowledgeable people in terms of assessed values in the City of Detroit?
MR. STEWART: Objection.
THE WITNESS: Mr. Evanko is knowledgeable of

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the assessed values in Detroit.
BY MR. SMITH:
Q. In fact, Mr. Evanko is responsible for the assessed values in Detroit as the assessor, correct?
A. He is.
Q. And in fact, Mr. Evanko would be one of the most knowledgeable people about assessed values in Detroit, correct?
MR. STEWART: Objection.
THE WITNESS: He is a knowledgeable person.
BY MR. SMITH:
Q. Mr. Evanko has been dealing with assessed values in Detroit for much longer than you have, correct?
A. My understanding is he joined the City in January.
Q. Do you know where he joined from?
A. I think I was told he was at Wayne County.
Q. And at Wayne County, he would be dealing with assessed values in the city of Detroit, correct?
A. I don't know what he did.
Q. I'd like to go back to your report now.
A. Okay.

Q. Page 9 you talk about how you had assumed there would be a reduction -- well, you talk about the planned reassessment at the top of Page 9, correct?
A. Yes.
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?
A. No. I only looked at taxable value, so I took into account the City's activities and its impact on taxable value.
Q. Okay. So you used your judgment in developing the assumption about what taxable value would be under the reappraisal study that's planned, correct?
A. So after the reappraisals and the reassessments, I took those into account in thinking about what happens to taxable value.
Q. And did the value you used to reduce taxable value as a result of the reappraisal study, was that based on your judgment?
A. The parameter I used was based on my judgment after the reappraisal study.
Q. Okay. On Page 9 down under C, you say

that the reinvestment scenario estimates improvements to the tax base on collections of the general operations and economic environment of the city improved during the 10-year period. Do you see that?
A. Uh-huh.
Q. And the City anticipates that improved economic conditions will increase property values, correct?
A. You said the City?
Q. Yeah, the City.
A. Okay.
Q. Well, do you anticipate that -- do you anticipate that improved economic conditions will increase property values?
A. So this scenario does say that if the economy in Detroit improves, we would see improvement to taxable values in the city. We would see improved property tax revenue.
Q. And under your model, improving services in the city should improve property tax revenues, correct?
A. We didn't look at services offered by the City.
Q. Okay. So you did no analysis to determine

the effect on improved services on property tax revenues, correct?
A. Did not look at the relationship between improved city services and property tax revenue.
Q. Do you agree it's at least theoretically possible that improving city services could increase property tax revenues?
A. I agree it's theoretically possible.
Q. Page 9 to 10 you talk about the growth rates after recessions. Do you see that?
A. Yes.
Q. And you mention historical data. What historical data did you look at?
A. So I pulled historical taxable value information from the State Tax Commission for Detroit.
Q. And then did you use your judgment to set the various growth rates that you assume in your forecasting model?
A. Yeah. So I performed some analysis and then used that analysis to select growth rates.
Q. When you say analysis, what calculation did you perform?
A. So in this case, looking at historical taxable value and trends and seeing during

different periods on different tax bases what's happened in the city.
Q. For any of the historical trends that you talk about in your report, did you actually come up with a mathematical formula to specify the trend, or did you eyeball it?
MR. STEWART: Objection.
THE WITNESS: So I mean, I would type in a compounded annual growth rate formula and calculate the compound annual growth rate, things like that. That's a formula, I guess.
BY MR. SMITH:
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 not?
A. So I would calculate certain things using the data.
Q. What kind of things?
A. Like the compounded annual growth rate during certain periods.
Q. Did you just take an average of certain number of years or --
A. So I would look at a time period, and then I would calculate -- so compounded annual growth

rate is what is the average growth rate during that 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.
Q. Do you know what the time period was that 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 happened to taxable value.
Q. Okay. Did you just do compounded annual 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 trying to do.

Q. So you used different time periods in assessing historical trends -- the various historical trends that you discuss in your report; is that correct?
A. There are different time periods in my 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).
A. So part of the forecasting procedure is to look at past data and to understand historical trends, and then throughout our forecast work, we consulted forecasts when they were relevant. And in this case, the Congressional Budget Office has a -- they put together a 10-year forecast, and so I looked to see what the Congressional Budget Office had forecast. So they have the Federal Housing Finance Agency House Price Index, so I looked to see what they had forecasted nationally, and their forecast only goes to 2023.
Q. For the growth rates after 2027, are those growth rates that you essentially picked using your judgment?
A. So growth rates after 2027 used the historical data that I mentioned before, so tax

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 rate for 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 on your judgment?
A. And so after doing the analysis, I looked at the data, and then I made a judgment about what 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

data for Wayne County, correct?
A. Correct.
Q. And have you updated that data to the present time or not?
A. So I used through 2013, which would be the most recent data available.
Q. Well, there is data available for 2014 now regarding building permits for Wayne County, correct?
A. So there would be a few months' worth of data. It wouldn't be for the entire year.
Q. Have you looked to see what that data 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.
Q. Okay. Has there been an increase in construction permitting activity in terms of the dollar amount of construction in 2014 so far compared to prior years?

A. So all years are showing there was construction in Wayne County.
Q. And my question is is there an increase in activity in 2014 in terms of construction activity?
A. My recollection going off memory was that we're looking better in 2014.
Q. And what purpose did you use the permitting and construction data for?
A. So residential taxable value, one of the components of that are additions to the tax base. And to get a sense of what new activity there was, 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.
Q. All other things being equal, the more permitting and construction activity there is, the more property tax revenue will be forecasted, correct?
A. It depends because you could have construction activity and the City puts it in a Renaissance Zone, and you don't pay taxes on it.
Q. Well, I mean, how did you use the data in your -- in developing your assumptions?
A. So I looked at it to see what sort of increases in taxable value were happening and used

that to inform my growth rate selection.
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 value, all things equal, leads to more property tax review.
Q. Over on Page 13, you mentioned the Detroit Association of Realtor data that we've discussed previously. Do you see that?
A. Uh-huh.
Q. And you say that according to Detroit Association of Realtors data, average existing home prices in Detroit fell 63 percent between 2006 and 2013. Do you see that?
A. Yes.
Q. In fact, the data that's being reported by the Detroit realtors is data for home sales, correct?
A. They're reporting average home sale prices.
Q. Right. So it's only a subset of the housing stock that's being actually sold that the Detroit index is measuring, correct?

A. It would be whatever the realtors in this association are reporting.
Q. And they would only be reporting housing 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?
A. That's right. Like Case-Shiller or other things, it's measuring -- this data is measuring sales.
Q. Okay. And so this data that you've used in your analysis doesn't give us a value for houses that aren't being sold during the period you examined, correct?
A. This is just sales data.
Q. Okay. So it wouldn't give us a value for the houses that aren't being sold during the period you've looked at, correct?
A. It would not tell me the sales price of housing that has not been sold, yes.
Q. And it wouldn't tell you the value of housing that hasn't been sold, correct?
A. It wouldn't tell me the market value of homes that have not been sold.

Q. Okay.
A. True.
Q. Why did you only -- was data available before 2006?
A. Yeah. As we pointed out earlier, I had 1995, '98, 2001 to 2006.
Q. Okay.
A. I'm sorry. 2001 to 2013 and then some months of 2014.
Q. Okay. Did you only use a subset of the data you had reviewed in using -- in terms of calculating a housing price, or what did you use this data for first?
A. So as part of looking at the residential taxable value, an important component of that is, you know, what's happening to sort of the market values, how does that -- how does that impact state equalized value? What's the relationship there, state equalized value, capped value? This is part of helping us think -- helping me think through what's going on with the residential taxable value.
So I looked at Detroit Association of Realtor data because it's publicly available data 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.
Q. 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?
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, and then I was able to use that information in helping think through what was going to happen to residential taxable value in the forecast, so it helped me select my growth rates.
Q. Okay. And so the -- if you had looked at a different period of time, your growth rate assumptions would be different, correct?
A. Well, I did look at different periods of time. So I looked at longer periods and shorter periods, and I -- ultimately this information was used to help think through, you know, what were home prices -- average home prices five, 10, 15, 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

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.
Q. Okay. If the property values don't fall below capped value, I mean, what's the effect of that?
A. I don't understand your question.
Q. Let me ask a better question. Down at the bottom of Page 13, you say that your forecast assumes a reduction in residential taxable value of between negative 2 and 4 percent per year between fiscal year 2016 and fiscal year 2020?
A. Yes.
Q. Is that assumption based on your judgment?
A. I used my judgment to select those rates, yes.
Q. And did those rates change over each year?
A. There are some years that I think have the same rate, so it varied depending on -- some of them are the same. Some of them aren't. I can't remember year to year what I picked.

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?
A. Well, so the goal here in using -- so using some data to think about what's likely to happen to taxable value and then looking at sort of overall how much -- looking at the data, how much do I think taxable value on the residential side needs to drop and then spreading that out and thinking through how many years is it going to take, is this process going to take and then applying a growth rate for -- to those years.
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 paying taxable value equal to your capped value. If your assessment falls and your equalized value goes below your capped value, then your taxable value would fall, so it would be the lesser of the two.
And so I've now forgotten what you've

asked me after having gone through that.
Q. Right now the county isn't -- right now the county is saying that the properties are not overassessed, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know if the -- the county has given it an equalization factor of 1.
BY MR. SMITH:
Q. Okay. And that means in the county's view, the property is not overassessed, correct?
MR. STEWART: Objection.
THE WITNESS: Through their process, the county has given them an equalization factor of 1.
BY MR. SMITH:
Q. Okay. And that means the county determines that the property is not overassessed because if it thought it was overassessed, it wouldn't give them a value of 1, correct?
A. So the process is that if the county thinks that the property is overassessed, it would not give it a factor of 1.
Q. 15 percent value at the bottom of the page, that's the value that you assumed for the effect on taxable value from the reappraisal study that's planned in three -- that's going to take

three to five years, correct?
MR. STEWART: Sorry. Where are we again?
THE WITNESS: Where are we?
BY MR. SMITH:
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 take place in the future; is that correct?
A. Yes.
Q. And then over on the top of Page 15, you say that your assumption of the 15 percent decline would bring residential taxable value to approximately half of its fiscal 2013 level. Is that accurate?
A. That's accurate.
Q. And so based on your assumption regarding the effect of the reappraisal study, you're saying that the taxable value of the property in the city would be reduced in half, correct?
A. No. I said the residential value would be half.
Q. As a result of your assumption about the reappraisal study, you're concluding that the residential taxable value will be reduced in half, correct?

A. It will be half of its fiscal year 2013 level, the residential taxable value.
Q. For commercial or industrial property, how did you go about figuring out taxable value for those?
A. So taxable value, how did I go about figuring out? So commercial and industrial taxable value, I pulled historic information as the starting point and then applied growth rates for the forecast period.
Q. For commercial and industrial property, you didn't factor in the potential of reappraisal during the forecast period, correct?
A. So during the next few years, I have commercial and industrial property taxable value declining. How property is evaluated for commercial industrial, I did not have a big factor like I did with residential.
Q. Do you know how the value of commercial industrial property is set by the City?
A. For personal, I understand. For real property, I know the methods they can choose from. I don't know exactly what the City has been selecting.
Q. Do you know -- I mean, do you know what

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 property, correct?
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.
THE WITNESS: Can you say that again?
BY MR. SMITH:
Q. You do have a huge drop in the taxable value for residential property based on this reappraisal study that's planned to take place in the future over the next several years, correct?

A. So I have a 15 percent drop in -- well, I have a 15 percent drop between fiscal year 2019 and 2020 on the residential side because of the reappraisal.
Q. And that 15 percent drop results in wiping out half of the taxable value of residential property in the city, correct?
A. When you take into account what the taxable value is by 2020 compared to 2013, it's going to be half of the 2013 level.
Q. And that's in addition to drops in taxable value that have already occurred before 2013, correct?
A. The drops of taxable value before 2013?
Q. Yeah. Before 2013, taxable value already decreased, correct?
A. Yes.
Q. And so your forecasted 50 percent reduction is in addition to the reduction that has already occurred in taxable value in the city for residential property, correct?
A. There have been reductions in taxable value, and we have continued reductions occurring because of reassessments and reappraisals, yes.
Q. And the continued reduction in taxable

value, that's because of actions the City is going to take in the future, correct?
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?
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 the forecast have been -- so in fiscal year 2015, the City lowered assessments, and so that created a 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

action of the City, yes.
Q. And do you have any idea what factors were taken into account in assessing property in the city?
A. So I know theoretically what they could be using. I don't know what they are actually using.
Q. So you don't know what factors the City used in factoring assessments in the reappraisal it has done so far, correct?
A. I do not know the specifics.
Q. And you do not know what factors the City may use in its planned reappraisal study in the future, correct?
A. So the reappraisal study, they're hiring 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.
Q. I mean, part of the reason the City seems to be reducing assessments is basically for political reasons to reduce people's property taxes, correct?
MR. STEWART: Objection.
THE WITNESS: I have no idea.
BY MR. SMITH:
Q. Well, do you know that -- when the

reassessments came out already, were you aware there was a press conference where the politicians all came out and said look, we're lowering your property taxes? Were you aware of that?
A. I was aware there was a press conference.
Q. And you're aware the politicians in the 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?
A. I haven't read anything about what city officials are saying about the reassessments.
Q. You agree that Detroit is planning to do a reassessment even though Wayne County is saying the property is properly assessed, correct?
A. I don't know if Wayne County is saying the properties are properly assessed. They're giving it a state equalization factor of 1.
Q. Okay. Even though -- even though Wayne County is giving the property an equalization factor of 1, which means it's not over or underassessed, the City, nonetheless, is going to go in and reappraise the property, correct?
MR. STEWART: Objection.
THE WITNESS: So my understanding is the City is taking -- hiring a group to parcel by parcel

reassess the property in the city.
BY MR. SMITH:
Q. Page 17, you note that much of the industrial personal property qualifies for a Renaissance Zone exemption. Do you see that?
MR. STEWART: What paragraph?
MR. SMITH: Up at the top of Page 17.
THE WITNESS: Uh-huh.
BY MR. SMITH:
Q. Do you know what percent of the industrial personal property is subject to a Renaissance Zone exemption?
A. Off the top of my head, no. Let me see. I think about two-thirds of it. This is just without my spreadsheet in front of me.
Q. During the historical period that you've looked at, did property tax rates change?
MR. STEWART: Could I have the question reread, please.
(Whereupon, the record was read as requested.)
THE WITNESS: Which specific property tax rates?
BY MR. SMITH:
Q. Well, did any of them change?

A. I don't know.
Q. Well, you mentioned that there were some years where the rates were above 20, and I'm just wondering whether there were other changes that you noticed in property tax rates in the historical data that you examined?
A. So I don't know for the years where I pulled taxable value what the property tax rates were in those given years year by year. I don't know.
Q. You're assuming that no property rate changes will change for the next 40 years, correct?
A. The analysis done as such keeps the tax rate constant.
Q. And it does that for 40 years, correct?
A. Well, so we did a 10-year forecast where we kept our tax rates at current level, current law levels and then extrapolated for another 30 years, and so that, in effect, we're sort of holding tax rates constant.
Q. And you're doing that, in effect, for 40 years, correct?
A. For 40 years in total.
Q. Have you ever done a forecast before when you assumed the tax rates would remain constant for

as long as 40 years?
A. I think this is the only time I've done a 40-year forecast.
Q. And is it the only time you've done a 10-year tax forecast?
A. I have done 10-year forecasts of tax revenue for specific projects for individual clients.
Q. Okay. But you had never done a forecast for as long as 10 years trying to forecast revenues for a city or other government entity, correct?
A. I don't think so. I think just Detroit.
Q. And I mean, in the other -- what's the longest tax forecast that you've done for a city or any other governmental entity other than the Detroit one?
A. Well, so most of my work that I've done I've forecasted tax revenues to a municipality, but I wasn't working for the municipality. So I've done forecasts for -- I guess I've done forecasts for projects involving taxes to the State of Michigan. You know, those have been five to 10 years.
Q. I mean, my question is not about individual projects. I'm talking about overall tax

revenues. You haven't done any forecasts of overall tax revenues to a city or other government entity for as long as 10 years, correct?
A. I can't remember if for the Business Leaders for Michigan project, which was forecasting State of Michigan tax revenue, how long our time frame was. That was forecasted at least five years. I don't know how much longer if I did -- if I did beyond that.
Q. Okay.
A. So I don't know.
Q. And that was just the sales -- was that limited to certain taxes in Michigan, or was it all taxes?
A. In that case, it was limited to a few taxes.
Q. When you did the Flint, Michigan forecast, how many years was that?
A. Five years.
Q. Did you assume that tax rates would all stay constant for five years in Flint, Michigan?
A. So I think as I said earlier, they do have certain millages expiring, and so anything that was in current law we took into account. So if a millage was expiring, then we would add it back in

for parts of the analysis where it was relevant.
Q. And did you look at corporate tax at all in your Flint, Michigan analysis?
A. So we looked at income taxes.
Q. And you know the corporate income tax rates changed recently, correct?
A. Corporate tax rates have changed, yes.
Q. Did you factor that into your analysis, or was that not during the period of your analysis?
A. So anytime there were changes that had been enacted, they were taken into account. So if there was something on any of the taxes, if they were by law slated to expire, decrease, increase, we would incorporate that.
Q. And do you advise about various tax rates 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 of tax rates in different states or what they are?
MR. STEWART: Objection.
THE WITNESS: So part of our practice, we will look at effective tax rates that various industries are facing in certain states. We do a tax burden study where we look at the tax environment for all 50 states. So we don't offer specific advice about

whether you should lower or increase your taxes. We will do an analysis of what businesses are paying.
BY MR. SMITH:
Q. But based on the surveys Ernst & Young does, you know that tax rates change in states on various taxes, correct?
A. Yes, tax rates change from time to time.
Q. And so -- well, do you update your survey every year, or how often do you update that?
A. We have sort of complex models, so we 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.
Q. Okay. And you know that tax rates frequently change on various taxes in the states, correct?
A. I don't know about frequently, but when tax rates change and have been -- gone into effect, we put them in our model.
Q. Okay. Have there ever been any states where tax rates didn't change for 10 or 40 years in your survey that you can identify?
A. I don't know off the top of my head if there are states that have had the same tax rate

for 10 or 40 years. I don't know.
Q. You can't identify anyone sitting here today?
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, any state where tax rates haven't changed for 10 or 40 years sitting here today, correct?
A. There could be. I just don't know off the top of my head.
Q. And certainly you know that tax rates have changed in the last 10 years in Detroit? I mean in Michigan, correct?
A. Tax rates for various taxes have changed in the last 10 years, yes.
Q. What kind of tax rates have changed in the last 10 years in Michigan?
A. So Michigan's taxes on business have changed in the last 10 years.
Q. And have corporate tax rates changed in the last 10 years?
A. Well --
Q. I mean, have individual tax rates, personal tax rates changed over the last 10 years in Michigan?

A. The state level?
Q. Yeah.
A. Has the state? I can't remember if the 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 passed and old taxes eliminated.
Q. What kind of taxes have been passed in Michigan in the last 10 years?
A. So we're going back to what, 2004, so the single business tax was replaced with the Michigan business tax, which then was replaced by the corporate income tax.
Q. Has the sales tax changed in Michigan in the last 10 years, if you know?
A. I don't think so.
Q. Page 18 at the bottom, you've got this 20 percent reduction or 20 percent of the property tax revenue from industrial and commercial property will not be replaced by a new funding mechanism. Do you see that statement?
A. Yes.
Q. And that was an assumption you made based on your judgment?
MR. STEWART: Objection.

THE WITNESS: So we looked at the -- looked at the set of laws that had been passed about the 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 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 the likelihood that voters approve the referendum next month.
BY MR. SMITH:
Q. And was that a statewide estimate, though, of how much revenue would be replaced?
A. It was a statewide.
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 estimate.
Q. Other than what Mr. Evanko provided in his deposition, correct?
MR. STEWART: Objection.
THE WITNESS: Did he provide a specific number?
BY MR. SMITH:
Q. Yeah. He was talking about .7 percent.

MR. STEWART: No, he did not. He said that's tax base. He used the word tax base. You just misquoted him. She's talking about the personal property receipts reduction. He was talking about the overall tax base.
BY MR. SMITH:
Q. Okay. So you've never seen any estimate for personal property tax receipts reduction in anything you've seen, correct?
A. I have not seen anything that is Detroit-specific.
Q. How did you pick -- I think you gave it a 50/50 chance of passing. How did you pick that number?
A. So doing the analysis, we started doing the work, like I said, over a year ago, and the referendum, the ballot was coming up a year later. And you know, just like most things, there's a certain probability it will go through. At that point, we had to select a probability that 50/50 was reasonable.
Q. I mean, you didn't do any investigation into the likelihood of passage in the legislature of the personal property legislation?
MR. STEWART: Objection.

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 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.
I mean, at the end of the day, we needed to -- we were trying to come up with a reasonable method of thinking about what personal property tax revenue the City would lose, and this seemed like the best method.
BY MR. SMITH:
Q. At the end of the day, nobody knows whether this new legislation is going to pass about personal property taxes; is that correct?
MR. STEWART: Objection.
THE WITNESS: I guess we'll know in two weeks, a week and a half.
BY MR. SMITH:
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?
MR. STEWART: Objection.
THE WITNESS: Yes. So the way of dealing with

that uncertainty is to assign a probability and then to multiply that probability by sort of an average reduction, what's a reasonable reduction in property tax revenue, and so that's how we arrived at our estimate.
BY MR. SMITH:
Q. You mentioned reasonable a lot of times. Can you give me your definition of reasonable in terms of forecasting?
A. In this case, reasonable is realistic or likely.
Q. And you would agree with me there could be more than one reasonable forecast for the City of Detroit, correct?
A. I would agree with that.
Q. Page 18, Paragraph ix (a), you've got some collection rates for residential property, commercial property and industrial and utility property. Were those assumptions based on your judgement?
MR. STEWART: Which page?
MR. SMITH: 19.
BY MR. SMITH:
Q. On Page 19, you made -- you have some numbers for the collection rates you used of

50 percent for residential property, 3 percent for commercial property, 87 percent for industrial property and 100 percent for utility property.
Were those assumptions you made based on 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.
Q. So in the baseline scenario, are you assuming that the City is not going to collect more than 50 percent of its residential property tax?
A. For part of it. So I kept the current situation of about 50 percent collections on non-delinquent for residential. I kept that assumption for the next four years of the forecast, and I increased it after that.
Q. And why was it four years that you kept that assumption rather than five or six years?
A. It's coinciding with the reappraisal study. So when the results go on, the forecast has things stabilizing on the residential side.
Q. So it's your belief that the reappraisal study will result in the stabilization of property tax, or let me ask you another question. Is it your view that the reappraisal study is going to

increase property tax collection rates?
A. So the forecast has, after the reappraisal, a slight improvement to the collection rate.
Q. And why is that?
A. So there are two things. One, the collection rate goes up because you remove certain property that isn't paying off the roll, and so your tax base becomes smaller, but your collection rate goes up. And the second is that if you have people that have now seen their property tax bills go down and they had been protesting because they thought they were too high, they were ridiculous, we have a small improvement in those folks' pain.
Q. And those improvements, were those just numbers you picked based on your judgment?
A. So the improvements in those areas having it -- kind of go back to times in history. So before the most recent recession, as you noted earlier, residential collection rates were in the 70s, and so use that historic information as a guide to what's reasonable, you know, what kind of improvement might we see. And so that helped me select the collection rates in the forecast.
Q. Okay. On Page 20, under heading B, it

says Ms. Sallee forecasted the planned city reinvestments would have a modest impact on tax revenues. Do you see that?
A. Yes.
Q. In fact, did you personally forecast the effect of reinvestments on tax revenues, or was that somebody else?
A. So in this case, we have in the scenario reinvestments improving the City's economic climate, and that, in turn, improves the tax bases and ultimately tax revenue.
Q. How does reinvestment improve the City's economic climate?
A. So there are a number of different ways. In this case, the City, in their reinvestment scenarios that I looked at, had things for blight reduction or improved safety, improved lighting, things that could ultimately, you know, positively impact various property tax bases on the residential and commercial industrial side. And so this scenario thinks about well, what are the likely magnitude of that -- you know, what's the magnitude of improvements to the tax base, and then we sort of modeled that in this scenario.
Q. You had no study or data, though, showing

the relationship between reinvestment and improvements in economic climate, correct?
A. It would be difficult to do that, but you're right. There was no study that I looked at.
Q. You just kind of picked those numbers?
A. Ultimately I had to select some growth rates.
Q. 20, down at the bottom of Page 20, you have slight additions to taxable value of 1 percent beginning in fiscal year 2017 for commercial and industrial taxable values?
A. Uh-huh.
Q. Where did the 1 percent come from?
A. So in terms of looking at what has happened, you know, to the City sort of post downturns and what are kind of the size of improvements, you know, using that kind of analysis to help think about well, what are reasonable growth rates, and at the end of the day selected 1 percent is a reasonable growth rate.
Q. On Page 21, you say the City's population will continue to climb from 2024 until 2029. Do you see that?
A. Yes.
Q. And then below it talks about how you're

forecasting no population growth from 2029 until 2033. Do you see that?
A. Uh-huh.
Q. Did you personally forecast the population growth figures that you use, or was that Mr. Cline?
A. So I prepared the forecast after discussions with Mr. Cline and Katie Ballard.
Q. Have you actually looked at any of the data on population growth in the city of Detroit?
A. For what period?
Q. For any period of time.
A. So I've looked at population in Detroit since 2000.
Q. Okay. And that's all the data you've looked at?
A. The only other information I've looked at -- so in one of the reports that I mentioned that looked at sort of population trends between 1980 and 2010, so Detroit was one of those cities in that information. The year-by-year data I have looked at since 2000.
Q. And that's the -- is that the Brookings report?
A. That's the Brookings report.
(Document marked No. 15)
Q. I'm going to hand you what's been marked

as Exhibit 15, which is some information from that Brookings report. Do you recall seeing this?
A. Uh-huh.
Q. And for Detroit, for example, during 1990 to 2000, there was actually -- it's got a number here of 4.8 percent and .5 percent. Do you see that?
A. Yeah.
Q. And the 10-year growth is the .5 percent number. Do you see that?
A. Uh-huh.
Q. And the growth in Detroit during 1990 to 2000 is actually greater than other comparable cities, correct?
MR. STEWART: Objection.
THE WITNESS: It's below Akron.
BY MR. SMITH:
Q. But it's above Chicago. It's above Philadelphia. It's above Cleveland. It's above New Orleans. It's above Scranton. It's above Syracuse. It's above Toledo, right?
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 last couple of decades where there's positive

population growth in Detroit, correct?
MR. STEWART: Objection.
THE WITNESS: Not in Detroit, the city, but the 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 think Detroit city gained population between 1990 and 2000.
BY MR. SMITH:
Q. Do you believe that there is a positive relationship between the health of the auto industry and the population in Detroit?
A. There has -- historically the entire southeast region has been -- there's been a relationship with the fortunes of the auto industry, yes.
Q. And so the better the auto industry does, the better the economy in Detroit; is that correct?
MR. STEWART: Objection.
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.
BY MR. SMITH:
Q. Do you agree that the auto industry has

been improving in recent years?
A. When you say auto industry, you mean both domestic and international companies?
Q. Companies located in the Detroit area are improving in the auto industry, correct?
A. Well, again, so how do you measure improvement? More car sales? What?
Q. More revenues, more car sales, doing better in general.
A. So there are different measures. I mean, what's important more than anything for -- well, I guess there are two things that are important. It would be sort of cars that are being produced in the region and so jobs associated with that, and then like I said, jobs and employment in the industry. I don't know off the top of my head what employment in the auto industry has done in southeast Michigan in recent years. It fell dramatically the last decade, but I don't know recently.
Q. I mean, what would you say are the drivers of the economic health of the City of Detroit?
A. Can you be more specific with your question?
Q. Well, I mean, what are the most -- what

are the most important factors contributing to the economic health of Detroit?
A. So the economic health as measured by what?
Q. Well, in your forecast, you used some measures of the economy, right?
A. So a big driver in our analysis and forecast is employment.
Q. Okay. So the higher the employment levels, the more revenues you project for the City all other things being equal?
A. Not necessarily. It depends. So all other things, employment -- increased employment in the city would, everything else being equal, improve revenue.
Q. The numbers for population that you cite in your report on Page 21 on population growth, were those just assumptions that you made based on your judgment?
A. Which numbers?
Q. The .2 percent annual population growth, no population growth from 2029 to 2033, .2 percent population growth from 2034 to 2043, .3 percent annual population growth from 2044 until 2053. Were those numbers assumptions based on your

judgment?
A. So the forecast -- so the 10-year forecast we followed the SEMCOG forecast, and then for the 30-year extrapolation followed SEMCOG up until 2029. Both us and SEMCOG have in 2029-30 no population growth or sort of a leveling. And then in going forward, the .2 percent and the .3 percent that you mentioned, I did analysis of sort of metro 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 rates.
Q. Does SEMCOG not project population values after 2029?
A. SEMCOG has a projection until 2050.
Q. Why didn't you use the SEMCOG projection during the entire forecast period?
A. So SEMCOG, they prepared their forecast before the bankruptcy, before the reinvestment scenarios were put together, and so the 30-year extrapolation is off of the -- with the reinvestment scenario, and so SEMCOG hadn't taken that into account, and so we decided that we needed to deviate from it slightly going after 2029.
Q. Do you project higher or lower population

growth factors than SEMCOG for after 2029?
A. So in some years, our growth actually matches theirs. Overall, our population forecasts are slightly higher than SEMCOG.
Q. On Page 22, you have a rate of increase for -- of 3.4 percent of taxable value in 2024 and 2025, and then -- I mean, what's that's based on?
A. So as we discussed earlier, I use the Congressional Budget Office forecasts, and they go out 10 years. And so I continued sort of -- looked to see what overall is happening with home prices 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 first part of our 30-year extrapolation.
Q. Okay. If you go over to Page 24, in the middle of the page, you have a statement that there's no set formula for EVIP payments for the City of Detroit. That's a correct statement, correct?
A. So what is meant by that is there's no -- there's no, you know, statutory formula or any 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

unlike kind of the old statutory revenue sharing in Michigan where there was a way that money was supposed to be allocated, EVIP doesn't have that sort of formula.
Q. Okay. Did you hold the rate of revenue 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?
A. We don't know that.
Q. I mean, if you were sitting here today, would your -- has there been any two years when the EVIP portion of revenue sharing has been the same?
A. EVIP has been around for three years, so no, they haven't been the same each year.
Q. Okay. We know that the EVIP portion, because it's based on a number of factors, is not going to be the same each year, correct?
A. You're right. It's not probably going to be the same each year. I don't know for certain.
Q. You've assumed a 2 to 3 percent sales tax growth rate. What was that based on?
A. Based on what the Michigan Department of Treasury forecasts.

Q. Okay. Is the treasury -- do they forecast it for years after 2025?
A. They do not.
Q. Okay. What period of time do they forecast it for?
A. So the information that I used, you know, started with actuals, so it probably started with fiscal year 2012, and then it went all the way to 2025.
Q. The -- you know that there's a forecasted increase in income tax revenues, correct?
MR. STEWART: Objection.
THE WITNESS: I don't have the disclosure statement in front of me, so I don't know exactly what the income tax revenues are for the 10 and 40-year off the top of my head.
BY MR. SMITH:
Q. I mean, do you know if they increase -- do you know if Ernst & Young is forecasting an increase or decrease for income tax revenues over 10 or 40 years?
A. So an increase compared to what? So year on year?
Q. Compared to 2013. I mean, what's the trend in income tax? Do you know if it's

increasing or decreasing under the Ernst & Young forecast?
A. So we have income tax -- so I'm going off memory. We have income taxes falling for a period and then growing for another period.
Q. Okay. And corporate tax, is that similar that the Ernst & Young forecasts have a growth in corporate tax?
A. I don't want to comment on it based on memory.
Q. Okay. On Page 25, you note that your 10-year forecast includes the legislature-approved fiscal year 2015 revenue sharing payments for Detroit. Do you see that? Do you see where I'm at?
A. Yes, I do.
Q. Your prior forecasts, you did not use the fiscal year 2005 revenue sharing payments for Detroit, correct?
MR. STEWART: Do you mean 2015?
MR. SMITH: 2015.
THE WITNESS: So previous iterations, we always used what the most recent current law amount was, so the legislature-approved fiscal year 2015 in the first week and a half of June. And so in the

latest version, we incorporated fiscal year 2015 once it had been passed.
BY MR. SMITH:
Q. And did the incorporation of fiscal year 2015 revenue sharing payments materially increase your forecast for the state revenue sharing?
A. What do you mean by materially?
Q. Well, do you know how much -- did it increase it?
A. So the EVIP payment to Detroit did go up between 2014 and 2015.
Q. And do you know how much it did?
A. It went up by almost 4 million.
Q. And then for periods after that, did you use the 2015 rate?
A. We used the higher 2015 amount.
Q. And what additional amounts did using the higher 2015 rate add to your forecast compared to the last time you did it?
A. Somewhere between 35, 40 million.
Q. Okay. So incorporating the fiscal year 2015 revenue sharing payment into your forecast increased revenue sharing by 35 to $40 million; is that correct?
A. Going off the top of my head, but it's

around there.
Q. Okay. And so using your assumption of current law remaining unchanged led you, in your prior forecast, to be off by approximately 35 to $40 million compared to your current forecast, correct?
A. So using current law, we had planned for -- so we used current law, which was lower than the fiscal year 2015 amount.
Q. And using -- the assumption of using current law led you to predict that revenue sharing would be 35 to $40 million lower than you're now predicting, correct?
A. So using current law led us to -- so we can compare what did we predict for 2015 compared to -- 2015 versus actual. And so using current law, we were slightly below. We don't know what's going to happen to EVIP. It could be eliminated next year, so this is --
Q. And it could be increased by 100 percent?
A. It could be increased by 100 percent. You never know, so this is a good way to do it.
Q. And my question is but using the assumption of no change in current law led you to underestimate state revenue sharing by 35 to

$40 million in your last projection compared to this projection, correct?
MR. STEWART: Objection.
THE WITNESS: I wouldn't say underestimate. The forecasts differ, and you're right. So using this new assumption, we are forecasting a higher state sharing EVIP revenue to Detroit. It remains to be seen whether that actually happens.
BY MR. SMITH:
Q. There's no way we know what the actual revenue sharing numbers are going to be over the period of your forecast?
A. That's right.
Q. They could be much higher, or the state could completely eliminate revenue sharing, correct?
A. They could eliminate EVIP and do something else or not do anything at all.
Q. The state could -- the City of Detroit could find itself in bankruptcy again within the next 10 years, correct?
MR. STEWART: Objection.
THE WITNESS: I have no idea.
BY MR. SMITH:
Q. Well, if the state eliminates revenue

sharing payments, the City could find itself in bankruptcy again within the next 10 years, correct?
MR. STEWART: Objection.
THE WITNESS: I have no idea.
BY MR. SMITH:
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?
MR. STEWART: Objection.
THE WITNESS: So what we were asked to do was 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.
BY MR. SMITH:
Q. But there's -- your forecast can be changed depending on actions by various people in either the state government or the City of Detroit government, correct?
A. So -- so you know, the forecasting exercise, as any forecasting entity would tell you, you know, you forecast, and your forecasts can't really incorporate, you know, whimsical, random, whatever changes, large changes year to year, and the forecast exercise, you acknowledge that at the

get-go. And so you're right. Anything could happen.
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, correct?
A. I don't think I understand the question.
Q. Okay. The state revenue sharing depends on the -- in the future over the next 10 years depends on the action of elected officials in setting revenue sharing values, correct?
A. So a portion of it depends on the legislature.
Q. And the largest portion of revenue sharing depends on the actions of elected officials, correct?
A. The largest share for Detroit, not for the entire state.
Q. And similarly the property tax depends on the action of officials in the city of Detroit in terms of what they do with assessments over the next 10 years, correct?
A. Say that again.
Q. The actual property tax revenues in the

city of Detroit over the next 10 years depends on the actions of state -- city officials in terms of what they do with property tax assessments over the next 10 years, correct?
A. I would say it's one factor.
Q. And so right now you don't even -- nobody can know the identity of the officials that are going to influence revenues for the City in the next 10 years, correct?
A. It's possible that elected officials in the future that we do not know affect revenues.
Q. And it's impossible to know what actions officials in the city or state will take over the next 10 years that could materially impact the revenues to the City of Detroit, correct?
A. There are things that can happen that can impact the revenue forecasts.
Q. And it's impossible to know what those things are sitting here today?
A. The forecast takes into account what we know, and there could be things we don't know.
Q. And one of the things we don't know is what officials in the state or city will do which could have a material impact on the revenues that you forecast, correct?

MR. ALBERTS: Objection.
THE WITNESS: Future officials could have some impact on the revenues. That's a possibility.
BY MR. SMITH:
Q. I mean, they will have an impact. I mean, the state officials set the revenue sharing level really, right? We know for a fact that state officials are going to impact the revenue available to the City, correct?
A. We know that the legislature does set the amount of EVIP for Detroit.
Q. And we know for a fact that city officials are in charge of the assessments of property to the City, correct?
A. City officials set the property assessment rolls, yes.
Q. So we know as a matter of fact that officials from the city and the state will take unknown actions in the future that will have unknown consequences for the revenues that you estimate for the City of Detroit, correct?
A. It's possible that city officials, their actions in the future affect the forecast.
Q. And the same as the state officials, correct?

A. State officials can affect revenue that the City receives.
MR. STEWART: Should we take a break? It's been going about 90 minutes.
MR. SMITH: Sure.
THE VIDEOGRAPHER: Off the record. The time is 3:06 p.m.
(Whereupon, a short break was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 3:14 p.m.
BY MR. SMITH:
(Document marked No. 16)
Q. Ms. Sallee, I'm going to hand you a copy of what's been marked Exhibit 16. Have you seen that document before?
A. What date is this?
Q. I believe this is the July one, the July version of the forecast.
A. Then yes, I've seen it.
Q. I just wanted to ask you about there's a disclaimer on the front of the document. Are you familiar with that?
A. It's always on there. I don't know if I've read every word of it.
Q. Okay. Well, I'm going to ask you about

it, so --
A. Okay. Let me read it then. Okay.
Q. Do you agree with all the statements in the disclaimer that's on Exhibit 16 in front of you?
A. Well, I don't know if I can agree to everything because some of it I don't know, say, what the attestation standards are.
Q. Okay. You don't know what the attestation standards established by the AICPA are, correct?
A. I don't know what they are, no.
Q. Okay. With respect to your projections, would it be fair to say that you express no assurance of any kind on the information presented?
A. I do not. That would be true.
Q. And then the next sentence, let me know if you agree with it. It is the client's responsibility to make its own decision based on the information available to it. Management has the knowledge, experience and ability to form its own conclusions relating to the client's 10-year financial projections.
Do you agree with those statements?
A. I'm okay with the statements.
Q. Do you agree with the next statement?

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected 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 forecasted results?
A. I think that's correct.
Q. Do you agree that accordingly, reliance on this report is prohibited by any third party as the projected financial information contained herein is subject to material change and may not reflect actual results?
A. I'm okay with that.
Q. I'm going to hand you -- well, you agree with that statement? When you say you're okay with that, you agree with it?
A. Well, I guess as an EY employee, I'm agreeing with this.
Q. Okay. And those statements go -- I mean, those are put together by experts at Ernst & Young; is that correct?
MR. STEWART: Objection.
THE WITNESS: I didn't write this.

BY MR. SMITH:
Q. Okay.
A. I don't know who wrote it. I don't know who wrote it.
(Document marked No. 17)
Q. Why don't I hand you what's been marked as Exhibit 17. Let me know if you've seen this document before.
A. I have not seen this.
Q. Okay. Do you see that it's the disclosure statement by the City, its fourth-amended disclosure statement?
A. Where does say that?
Q. On the front page. The title there in the middle, it says --
A. Fourth-amended, oh, I see. Okay.
Q. I just want to identify the document for you.
A. Great.
Q. You haven't done anything to, obviously, go through the disclosure statement and ensure that the statements in there are consistent with the assumptions in your projections, correct?
A. What's the date on the fourth disclosure?
Q. May 5, 2014 it was filed with the court.
A. Okay. I have not read through this

disclosure statement.
Q. Okay. So you haven't done an analysis to go through the fourth-amended disclosure statement 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 sure our numbers were accurate. I have not gone through this one.
Q. Okay. Have you actually read the text of any of the disclosure statements?
A. I have.
Q. Okay. Then I'd like to direct you to Page 97 of 197. It's down in the -- the pagination is down in the right-hand corner --
A. Oh, I see.
Q. -- that I'm going to refer to.
A. Okay. So Page 97.
Q. 97 of 197.
A. Okay.
Q. Do you see the section failure to achieve projected financial performance?
A. Okay.

Q. The disclosure statement says the projections are dependent upon the successful implementation of the City's budget and the reliability of other estimates and assumptions accompanying the projections.
Do you agree with that statement as it relates to your projections that you've made?
A. I guess I don't have an opinion about this sentence.
Q. Okay. The next page at the top of the page --
MR. STEWART: What language?
MR. SMITH: I'm waiting for the witness.
BY MR. SMITH:
Q. The next page, are you on the next page, Ms. Sallee?
A. I am not yet. Hold on. Okay.
Q. The top of the page, it says these estimates and assumptions may not be realized and are inherently subject to significant economic uncertainties and contingencies, many of which are beyond the City's control.
Do you agree with that statement as it relates to your projections?
A. I would agree with the statement.

Q. The next section, unforeseen financial circumstances affecting the City's future financial performance, do you see that, that section?
A. Okay.
Q. The disclosure statement says the plan and projections underlying the plan are based on certain assumptions about the City's future financial performance. Unforeseen events and circumstances may occur affecting the City's future financial performance resulting in those assumptions proving inaccurate and the City being unable to fulfill its obligations under the plan.
Do you agree with that statement as it relates to your projections?
MR. STEWART: Objection.
THE WITNESS: So in this case, I mean, so it's talking about the entire plan. So you know, we did revenue forecasts. And as you've -- this language and other language has pointed out, there can be unforeseen events and circumstances that can affect them, and we don't know what they are.
BY MR. SMITH:
Q. And so do you agree with that statement as it relates to your projections?
A. In that sense, the City being unable to

fulfill its obligations, that seems a little kind of not as applicable to the stuff that I did, but unforeseen events and circumstances may occur affecting the City's, say, future revenue collections, that applies.
Q. Okay. So you agree that there are unforeseen circumstances and events that may occur that affect the City's future tax revenues and revenue sharing payments?
A. Yes, I agree with that.
Q. And then the last sentence, no guarantee 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 agree with that statement as it relates to your projections?
A. I agree you cannot make a guarantee on the revenue forecasts that I've made.
(Document marked No. 18)
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 with fiscal year 2015 and going to 2023, can you tell me how you forecast the percent changes in the assessed value of real property?
A. So this is not my spreadsheet, so this is

prepared based on the analysis I provided.
Q. Okay. I'm just wondering how did you -- did you forecast the real property, personal property and Renaissance Zone numbers that are contained in this spreadsheet?
MR. STEWART: What exhibit number is this one?
MR. SMITH: It's 18.
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:
Q. Okay. Are the values that are under the heading change in assessed values your numbers?
A. They are not how I prepared it. They've calculated those based on the taxable values, and I put together the taxable values that are shown here.
Q. Okay. So the numbers that are in this spreadsheet are your numbers, but they're really taxable values and not assessed values; is that correct?
A. They're taxable values, yes.
Q. So somebody made an error in putting

together the description of this data in this spreadsheet, correct?
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, correct?
A. I would have used a different label.
Q. The taxable values shown here, they change from year to year, correct?
A. Taxable values change from year to year, yes.
Q. And can you tell me are all those changes numbers you picked based on your judgment?
A. So as we talked about, to come to these total taxable value numbers for each year, I did analysis for each tax base and selected the growth rates, and that modeling feeds into those total values.
Q. And the growth rates, all these growth rates vary in each year. Those were numbers you picked based on your judgment, correct?
A. After doing analysis, I selected certain growth rates, and I used my judgment, yes.
Q. So all these different numbers for each year and each category of property are numbers you

picked based on your judgment for the growth rate, correct?
A. After doing analysis, I selected growth rates for each of the tax bases, and I had to use 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?
A. Well, all of the analysis requires some sort of mathematical formula.
Q. But those growth rates that appear in the spreadsheet, those aren't generated by a mathematical formula, correct?
A. I guess it depends on mathematical formula. I mean, so math is used in the analysis.
Q. But you didn't -- the numbers that are chosen for the growth rate are selected numbers. They're not numbers that are calculated using a mathematical formula, correct?
MR. STEWART: Objection.
THE WITNESS: Ultimately all of the numbers, the growth rates, I had to select.

BY MR. SMITH:
Q. If we look at the General Fund collection rates, do you see where that is on this spreadsheet down kind of towards the bottom?
A. I do.
Q. Did you select the General Fund collection rates that vary from year to year for your analysis?
A. So those were built up, as we discussed 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 historical years, I was able to see what the total collection rate was and then going forward had to decide what that collection rate would be, so I had to use my judgment to ultimately select the collection rate going forward.
Q. Okay. So for future years, 2015 going forward, you selected the collection rates for the various categories based on your judgment, correct?
A. Based on my analysis of the different components and how they were being collected, I did use my judgment to select those rates.
Q. But the collection rates you used are numbers you selected, and they're not numbers that

were generated by a calculation from a mathematical formula, correct?

MR. STEWART: Objection.

THE WITNESS: Well, again, math is involved, so for this, if you -- you know, in the model, I've gone through and said what are the collection rates by different types of property based on data that the City provided, and I had to make an assumption about what that would look like during the forecast period. And then math is used then to get to the numbers that are here. At the end of the day, I had to select information that generates this number.

BY MR. SMITH:

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, correct?

MR. STEWART: Objection.

THE WITNESS: So the collection rates here are a product of my analysis and my judgment.

BY MR. SMITH:

Q. Okay. But they're not -- but the collection rates aren't rates that are calculated for each year based on a mathematical formula where

you plug in which year it is and then out pops a number for the collection rate, correct?

MR. STEWART: Objection.

THE WITNESS: Well, so all of these collection rates that are shown here, these were -- the various assumptions that build up to this were adjusted, and so in some sense, I guess they were calculated.

BY MR. SMITH:

Q. They were selected numbers, correct?

MR. STEWART: Objection.

BY MR. SMITH:

Q. That were selected after you made adjustments based on your judgment, correct?

A. Well, I don't know what you mean by adjustments.

Q. Well, you just mentioned that you were making adjustments to the numbers over time, right?

A. Well, I said I had to make certain 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.

Q. Okay. And my only point is the numbers that were generated each year for collection rates were not generated by a mathematical formula. They were based on your selection using your judgment, correct?

MR. STEWART: Objection. What is this, the 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 given before to that question?

MR. SMITH: Listen, stop coaching the witness.

MR. STEWART: It's not coaching at all.

MR. SMITH: You're engaged in speaking objections. What's the basis you have for making a speaking objection?

MR. STEWART: Because you've harassed the witness by asking the same question over and over, which is improper.

MR. SMITH: Well, the video will show the witness is smiling right now.

MR. STEWART: The video is going to show -- the video is going to show this abusiveness. You're arguing with the witness, and you ask the same question again and again and again and again. And

it's abusive, and it's improper. Now, she's going to answer it one last time. Then I'm going to instruct her after that because you've asked it how many times now?

MR. SMITH: Once.

MR. STEWART: No. That's what the video is going to show. Let's have it asked the sixth time, given the answer for the sixth time, and then we're going to move on. So let's reread the question.

BY MR. SMITH:

Q. I'll just ask it so we don't have to worry about finding it.

A. Okay.

Q. The collection rates are selected numbers. They're not calculated for each year using a mathematical formula, correct?

A. No. I mean, there are -- there is a calculation that underpins these numbers, and so I had to select inputs that -- this is true. I had to select inputs that feed into this, and then they were calculated.

Q. What's the mathematical formula that you used to calculate the collection rates for each year?

A. What kind of information or detail are you

looking for?
Q. Well, you're just said they're calculated numbers. I want to know the mathematical formula. What did you add up or multiply to get to the collection rate for each year?
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 have -- you multiply that by the tax rate, and you get the tax levy.
And then you have to say well, what percent is going to be collected on time for each of the tax bases. So the formula is assign a collection rate for each tax base and multiply the collection rate times the tax levy and then add those and then add in the net -- add in the Wayne County net revolving fund payments, and then you add that in. And then --
Q. I'm not asking --
MR. STEWART: Don't interrupt her answer.
BY MR. SMITH:
Q. I'm not asking for a calculation of the property tax revenue.

MR. STEWART: Finish your answer. He's not allowed to interrupt you.
THE WITNESS: So you have tax revenue, and if you divide tax revenue by total tax levy, that gives you the collection rate that's shown here. That's the mathematical formula.
BY MR. SMITH:
Q. Who prepared this spreadsheet, do you know?
A. I'm not certain who did this one.
Q. With the reinvestment scenario, the collection rates that you used there, those were not calculated values. It looks like they're all the same; is that correct? They differ some, but --
A. They do differ, so General City with the reinvestment scenario, the collection rate is higher than the without.
Q. And the values you used for collection rates in the with reinvestment scenario were not calculated values. They're numbers you selected, correct?
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

rates for each of the tax bases, and then this is the output of that same calculation I described a minute ago.
Q. So can you tell me why the collection rate is 87 percent for, it looks like, 2020, 2021, 2022, 2023?
A. So again, here, important sort of point 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 case, just like in the other forecast, there's an improvement to the collection rate, and it's being driven where certain people who weren't paying their property taxes decide to start paying them, and in here, looking at the higher percentage of residential taxpayers start to pay their property taxes.
Q. The improvement in collections you assumed in the reinvestment scenario is not based on any study or data, correct?
A. The improvement in residential tax collections after the appraisal is what you're asking?
Q. Yeah. It's not based on any study or data, correct?

A. So I had conversations with the City to help think about what might be realistic around it.
Q. And nobody from the City provided you any study or data supporting the improvement in the collection rate you assume for the reinvestment scenario, correct?
(Document marked No. 19)
A. Nobody provided any study or data to me.
Q. Let me hand you what's being marked as Exhibit 2 or Exhibit 19 rather. This is another spreadsheet. Let me know if you recognize this one.
A. Yeah.
Q. Do you know who prepared this spreadsheet?
A. It looks like mine.
Q. Do you know when you prepared that spreadsheet?
A. I don't know when this was from.
Q. What was the purpose of the spreadsheet?
A. I pulled historical taxable value, state equalized value information for the City of Detroit and the State of Michigan.
Q. And halfway down the page, there's a line, Case-Shiller change. Do you see that?
A. I do.
Q. What's the -- why did you consider it

useful to look at the history of the Case-Shiller Index?
A. So the Case-Shiller Index shows what is happening in the housing market for home sales, and so I wanted to see what trends the Case-Shiller Index was -- was showing and compare it to residential state equalized value and taxable value.
Q. And why did you want to do that?
A. I wanted to see if -- I wanted to see how similar or dissimilar they were.
Q. And were they similar or dissimilar?
A. They do not match.
Q. Which ones are higher, or how don't they match?
A. So if you look at the state equalized value in Detroit, the growth rates that are positive in certain years are higher than the Case-Shiller Index in most years and -- well, not every year, I guess, so for some of them. And then the Case-Shiller Index is more negative in some years, less negative in others, so they're different.
Q. In 2012, you have a 4 percent increase for the Case-Shiller Index. Do you see that?

A. I do.
Q. Did you ever update any of the numbers in this spreadsheet beyond 2012?
A. Yes, I did.
Q. Did you prepare another spreadsheet that's more up-to-date than this one or not?
A. I have 2013 data in the spreadsheet now, and as we talked about, I pulled -- I did look at Case-Shiller information part of it for 2014.
Q. And Case-Shiller continues to increase in 2013 and 2014, correct?
A. That's right.
Q. And the four numbers that are in the rightmost column, those percentages, what are those?
A. I don't know. I mean, I calculated some percentage change. I don't know what years, though.
Q. I mean, what were you trying to calculate there? What are the percentage changes representing?
A. So I was looking at the change in state equalized value during some period.
Q. Okay. Are all four of those numbers changes in state equalized value?

A. I would have to go check my formula. I don't know.
Q. Okay.
A. I mean, I could --
Q. Why were you calculating those numbers?
A. I'm guessing I -- so throughout the analysis, I wanted to see what was happening to state equalized value in Detroit, so I calculated multiple percentage changes for various times.
Q. Why did you want to know what was happening with state equalized value in Detroit?
A. So state equalized value in Detroit is equal to the assessed values, and as we've talked about, I wanted to see if the change in assessed 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 market trends.
Q. Okay. And did you find that assessed values generally did not track market trends or that they did track market trends?
A. So what you'll see, and this is well-known, is that assessed values lag the market, so it takes a couple years for either direction for assessments to follow the market.

Q. So if housing prices are increasing currently, you would expect that a few years in the future assessed values would increase, correct?
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 depends on where -- for each house how it's being assessed whether the market is above or below the assessment. It really depends on --
Q. But in aggregate --
MR. STEWART: Did you finish your answer, Ms. Sallee?
THE WITNESS: I did. Thank you.
BY MR. SMITH:
Q. In aggregate, if the home price index like the Case-Shiller Index is increasing, you would expect that within a few years, that would be reflected in assessed values, and assessed values would increase, correct?
MR. ALBERTS: Objection.
THE WITNESS: The problem why I don't want to say yes to that is that Detroit is in this period where they're reducing assessments, so even though you could -- even though you're seeing this positive increase in home prices, if you have a

house that's overassessed, you could have the 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 unusual situation for --

BY MR. SMITH:

Q. Historic --

MR. STEWART: Did you finish your answer?

THE WITNESS: I didn't. So where home prices have collapsed in such a way that you're seeing this unusual situation that really the system isn't designed to deal with.

BY MR. SMITH:

Q. Typically after an increase in -- how many years does it take for an increase in home prices to result in an increase in assessed values?

A. For Detroit, I don't know.

Q. Did you look at that at all?

A. What do you mean by did I look at it?

Q. In the data, did you look at how long it takes for an increase in home prices to translate into an increase in assessed values?

A. So there are general trends that can be observed. So you can see during the 2000s where you can see the market will pick back up, and it

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 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 right now because it doesn't mimic what's happened perfectly in the past.

Q. But you've used assessed -- you've looked at the data for assessed values in Detroit, correct?

A. That's right.

Q. And you looked at the Case-Shiller and other housing price indices for Detroit, correct?

A. I have.

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 data in Detroit that you've looked at?

MR. STEWART: Objection.

THE WITNESS: You know, as I said, typically I would say a couple years, and I don't know if that's -- I'll just say typically a couple years.

BY MR. SMITH:

(Document marked No. 20)

Q. Let me hand you what I've marked as

Exhibit 20. It's another spreadsheet, and you can tell me if you created this spreadsheet. Is that something that you created?

A. Yes.

Q. And why did you prepare that spreadsheet?

A. I wanted to see what was happening in the city of Detroit with existing home sales.

Q. And there's been -- for the most recent period, you looked at, was there a 28.03 percent year-to-year change increase in home sales?

A. So the spreadsheet has a 28.03 percent increase.

Q. And did you ever update this with more recent data?

A. I did.

Q. And has the increase gone up, or do you know what the magnitude of the most recent data shows the increase is?

A. Off the top of my head, I can't tell you.

Q. Okay. You're not -- I mean, is it basically comparable to what the data in this spreadsheet is?

A. I don't remember.

Q. And this is the Detroit realtors data that you relied on for your analysis that shows the

28.03 percent increase in home sales; is that correct?

MR. STEWART: Objection.

THE WITNESS: So the 28.03 is the change in average price of existing home sales, and this is the same type of data that I updated and used in my analysis.

BY MR. SMITH:

Q. Okay. And you said -- it says on this spreadsheet used existing home sales to forecast home prices and estimate uncapped TV. Did you, in fact, do that in forecasting property tax revenue?

A. So one of the analyses that I did was to think about the uncapping of taxable value on homes sell, and so that exercise that I mentioned before was looking at what would the taxable value -- likely the capped value be for homes that were purchased five, 10, 15 years ago in Detroit and what the taxable value would be if those homes sold today. And so I used this data to help do that simulation and that exercise, and that informed my residential taxable value -- part of the residential taxable value growth rate.

Q. Okay. And did you -- how did you take numbers from this spreadsheet, if at all, to do

that?
A. So this information was combined with some other information, and the average price was used to -- so the average price and the number of sales, those two pieces of information were used to model, you know, in a given year what a home purchased so many -- like, I said five, 10, 15 years ago what was the average price of homes sold during those periods, what would be then grown at the rate of inflation, what would be their taxable value and then looking at today, what is the average price of homes being sold in Detroit, and then what's the difference in taxable value when the home sells.
Q. Okay. If you look at the average price in 2006, it was 61,444, and it dropped to 16,068 in 2011. Do you see that?
A. Yes.
Q. What factors explain that drop in average housing during that time period?
A. Specifically, I mean, Detroit, like the rest of the U.S. was in a recession, and so as you -- I can't tell you exactly why homes fell, but you have sort of a poor economy. You have higher unemployment, and you have all those things that lead to people not buying homes.

Q. Do you think it's reasonable to expect that the owner of a home worth 64 or 61,000 in 2006 would sell it for 16,000 five years later?
MR. STEWART: Objection.
THE WITNESS: I would be speculating to answer that.
BY MR. SMITH:
Q. I mean, the fact of the matter is people hold onto their houses if the market price declines, right?
MR. STEWART: Objection.
THE WITNESS: I don't know. Some sell. Some don't.
BY MR. SMITH:
Q. You haven't investigated the extent which people held onto their houses in Detroit during the periods of decline in prices?
A. So the only data that I look at is sales, and you see -- you see sales in certain years higher than others, but you know, 2010, 2011, the number of transactions looking fairly similar to non-recession years, so that's the only piece of information I looked at.
Q. And at the bottom, you say -- you have a reference thinking about losses to taxable base.

Do you see that?
A. I do.
Q. Did you write that?
A. I think this is mine, yes.
Q. Why were you thinking about losses to taxable base?
A. So one of the -- the formula for calculating taxable value on a home is you have their taxable value from the previous year, and you do any additions to the base, losses to the base, and then you would multiple it by the rate of inflation or 5 percent, whichever is less. And so part of residential taxable value is what are their new additions, what we talked about earlier, or losses. And so this was -- so being part of a residential tax base, I thought about it.
Q. Did you think about -- what are the factors that would lead to gains in the taxable base?
A. So if you put an addition on your house, that would be an addition to the tax base. A new house being built would be an addition to the tax base.
Q. And where did you -- did you ever look into the data on those types of additions to the

taxable base?
A. So I looked at the building permit data.
Q. So the increase in building permit data that we saw before would show an increase to the taxable base or be indicative of one?
A. So I used the permit data to help me think about additions to the tax base, and I'll stop there.
Q. How did you use that to think about additions to the tax base?
A. So I pulled the construction costs in Wayne County, and then I apportioned the construction to Wayne County based on its share of taxable value and looked to see then that -- that would be a growth in the residential tax base of 1 percent, which would be a half percent in taxable value. When I say tax base, I meant to say it would be a growth of -- well, so the market value would be a growth equal to 1 percent. The taxable value would be half a percent, so that helped me think about well, what new construction activity is happening and what addition to the tax base helped me think through my growth rate.
Q. You have an assumed reduction in population in 2013 compared to 2012 and the effect

on residential taxable value. Do you see that? In that spreadsheet, there's a couple lines on that.
A. Yeah.
Q. And you do a calculation there?
A. Uh-huh.
Q. And the calculation assumes that there's a linear relationship between population decline and residential taxable value; is that correct?
A. In this analysis, yes.
Q. And is that a reasonable assumption in your view?
A. So is that a reasonable assumption? For doing -- you know, doing multiple analyses, that being one of the assumptions for analysis is, I think, fine.
Q. Did you do any testing of your assumption of a linear relationship between population decline and taxable value?
A. I did not do any testing of that assumption.
Q. How did you get the population estimates that were there on this spreadsheet?
A. They should be census numbers.
(Document marked No. 21)
Q. Okay. I'm going to hand you what's been marked as Exhibit 21. You let me know if this is a

spreadsheet that you prepared.
A. Yeah.
Q. And why was this spreadsheet prepared?
A. So before the City provided a breakdown of Renaissance Zone property by type of property, I took the information I had about the total Renaissance Zone property and the non-Renaissance property by property type, and I used that information to make certain assumptions and come up with an estimate of Renaissance Zone property by property type.
Q. And did you end up -- did these -- did this spreadsheet end up influencing your property tax value? I mean your property tax forecast.
A. So earlier iterations used some of this analysis, and ultimately the taxable value subject to general operating didn't change. And so property tax revenue -- well, for the first year. So this helped me think about the non-Renaissance Zone tax bases, and then I used some growth rates. But at the end of the day, I had the total Renaissance Zone property amount, which was subtracted from the total taxable value.
So what's subject to general operating didn't change. So in terms of property tax

revenue, this didn't have really any effect.
Q. Okay. Are the notes on the side assumptions that you are making in your analysis?
A. Yes. I mean, this has all been replaced once I got actual data.
(Document marked No. 22)
Q. Okay. Exhibit No. 22, another spreadsheet I'm wondering if you prepared.
A. Yeah, that looks like me.
MR. STEWART: I haven't had a chance to see it yet.
BY MR. SMITH:
Q. And why did you prepare --
MR. STEWART: Hold on. Just a second. I just got this. Don't answer any questions until I've had a chance to see it. Okay. Sorry. Go ahead.
BY MR. SMITH:
Q. Why did you prepare this?
A. It's the building permit data we talked about earlier.
Q. Okay. So this is a mechanism of estimating gains to the property tax base?
A. So I used this to help think about the residential property additions and helping me think about the growth rate for residential property.
Q. Did you update this spreadsheet with data

for 2013 and 2014?
A. I did update the spreadsheet, yes.
Q. And did the data show that permits and construction amounts continued to increase?
A. It did.
Q. And for 2012, there's a 41.2 percent increase for single family. Is that construction cost?
A. Yes.
Q. And then for -- there's a 40.5 percent increase for total buildings construction costs for 2012, correct?
A. Correct.
Q. Would it be fair to say there's a significant increase in construction in Wayne County based on the data that you've analyzed?
MR. STEWART: Objection.
THE WITNESS: There is an increase in Wayne County based on this data.
BY MR. SMITH:
Q. Why do you think there is an increase in the -- in construction in Wayne County in the last few years?
A. I don't know. I'd have to speculate.
Q. Well, you haven't investigated into the

reasons that there's increased construction activity?
A. So I haven't looked into the construction activity in Wayne County as a whole. I haven't been charged to do that, so no.
Q. Did you ask anybody at the City about new construction in the city of Detroit?
A. No.
Q. So you didn't investigate to find out whether construction is increasing in the city in recent years, correct?
A. I did not ask the City if construction had been increasing.
Q. You didn't ask the City for information about how many permits the City had been issuing for new construction?
A. I did not receive that data, no.
(Document marked No. 23)
Q. I'm going to hand you Exhibit No. 23. Let me know if this is a spreadsheet that you created.
A. Yes.
Q. Why did you create that spreadsheet?
A. It's the Case-Shiller Index.
Q. And did that Case-Shiller Index data influence your property tax revenue forecast?
A. I don't know what you mean by influence.

It was something that I looked at in forming my opinion,
Q. And did you ever update this spreadsheet?
A. Yes.
(Document marked No. 24)
Q. I'm going to hand you Exhibit 24, which are some summaries that were produced regarding the property tax forecast. Do you know who created these?
A. Yes. Yes, I do.
Q. Who prepared these?
A. So for some of them, I wrote them, and other ones Bob and Katie wrote them.
Q. Which ones did you write?
A. So I wrote Page 1, and I wrote the next one, the next two-page document. I wrote portions of the following document.
Q. One entitled Detroit Revenue Extrapolation?
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 portions of the last two pages.
Q. Okay. If an owner of a property has been delinquent in payment of taxes, does that mean that

no taxes will ever be collected from the owner or subsequent owners of that property?
A. Are you referencing something here?
Q. No. I'm just asking you a question. I'm done with that document for now.
A. Okay. Can you say your question one more time?
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 collected from that owner or subsequent owners of the property?
A. If you're delinquent for some time, that doesn't necessarily mean that you'll never have taxes on that property or from that owner.
Q. Do you agree that it's more likely that delinquent taxpayers own parcels of lesser value than those taxpayers who are actually paying their taxes?
MR. STEWART: Objection.
THE WITNESS: I don't understand the question.
BY MR. SMITH:
Q. Which -- do you agree that it's more likely that people who are not paying their property taxes own lower-value properties than

those who are paying their property taxes?
A. I don't know.
Q. In the document that I had handed you, the last exhibit, the first document, Changes to Detroit Property Tax Forecast, you mention conversations with the City. Who would you have been having conversations with that are reflected in this document?
A. So this one doesn't have a date on it, but I had conversations with Alvin Horhn, Gary Evanko, Michael Jameson, Linda Beatty. I think that's it.
Q. Do you know when this document -- the first page was created?
A. You know, I'm not sure. It would have been sometime between, you know, between the -- so we did an update in February, so it would have been around that February 2014 update.
Q. Okay. And then the next document entitled Changes to Detroit Property Tax Forecast Since June 2013 mentions you had discussions with the COD assessor's office. Do you see that?
A. Yes.
Q. Would those be the same people that you were having discussions with?
A. Yes. So here by February, I had had a

couple conversations with Alvin Horhn, and I had had at least one conversation with Gary, and he had provided some data to me.

Q. Do you have any familiarity with the methods used by municipalities to estimate the 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?

A. I don't know what -- I think it would vary from city to city, so I don't know what a particular city would do.

Q. Okay. But do you know -- are you familiar with the method -- the various methods that cities can use to estimate increases in revenue from a tax increase?

A. So there are, I would say, accepted methods of estimating tax changes and its revenue impacts.

Q. And what would be the accepted methods of estimating increased revenue from a tax increase?

A. So conceptually you would want to understand how -- and you said a tax increase?

Q. Yeah.

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 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 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 -- if you increased the tax rate, you would have to think about well, does that increase in the tax rate, how does that affect the tax base.

There's a number of things. You know, you would want to parse out sort of changes that affect your tax calculation, which would typically be your rate and your tax base.

Q. And are there -- you said there are a number of accepted methodologies for doing that type of analysis?

A. I would say I don't know a number of, but there is a way that you would go about doing it, which is you could set up your analysis of here's 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

of the software tools we talked about earlier like REMI to help you model changes to the tax base given a tax policy change, and that would be an accepted way of doing it.

Q. Would another method be IMPLAN or --

A. IMPLAN doesn't work for tax changes like that.

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?

A. So for rate of compliance, thinking about 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 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 compliance is and then what, obviously, is happening in terms of whether you're raising or lowering taxes. And there's literature on that as well, and you could consult that to help you think through what happens with compliance whether you're raising or lowering taxes.

(Document marked No. 25)

Q. Why don't I hand you what I'm going to

mark as Exhibit No. 25. It's some data from the Michigan Realtors Association on residential home sales.

Is this the type of data that you looked at in your analysis?

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?

A. Yes.

Q. So home prices based on the Detroit realtor data went up 42.13 percent in 2014 so far compared with the prior year. Is that accurate?

A. You said the year-to-date average price changed?

Q. Yeah.

A. Yeah, that's right.

Q. And you've updated your spreadsheets with data such as this; is that correct?

A. Uh-huh.

Q. Okay. But you didn't use the updated data in your actual analysis or calculations; is that correct?

A. So I used the data -- every time we updated, I looked to see if growth rates needed to be updated, so it's one of the things that I would

look at in doing updates.
Q. Why have home prices increase by 42 percent in Detroit thus far in 2014 compared to 2013?
A. I don't know.
Q. Do you know any of the factors that contributed to that increase?
A. I don't know why average home price sales have gone up that much. I don't know.
Q. Let me ask you this. I mean, can you identify any other cities that have had comparable growth in average home prices in 2014 to Detroit?
A. I haven't specifically looked at other cities, so I don't know.
Q. Historically in Detroit, has there ever been a period of time where home prices have increased by as much as 40 percent?
A. The period I looked at, there was not. I haven't -- I would have to speculate. I don't know before the periods I looked at.
Q. What period did you look at?
A. So I had consistent data from 2001 onward.
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

in Detroit; is that correct?
A. I think that's correct.
(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.
Q. Okay. And so this has some updated numbers just up to May 2014 of -- I guess there's a total of $68 million in construction cost for permits that have been issued so far; is that correct?
A. That looks to be correct, yes.
Q. And is that -- do you know if that's an increase compared to prior periods or not?
A. When I looked at it, the -- so the year-to-year change in the last few years had been positive.
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?
A. Let me look.
MR. STEWART: What exhibit number on this one?
MR. SMITH: 27.
(Document marked No. 27)
THE WITNESS: Yes, this looks to be the report.

BY MR. SMITH:
Q. On Page 15 of the report at the top --
A. Okay.
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.
Q. And you would agree that financial modeling is both a science and an art?
A. I do. I do agree with that.
Q. Over on Page 25, there's a section called the plan of adjustment.
A. Yeah.
Q. And she says 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 in our eyes are structured. Suffice it to say that the 10-year projections, the 10-year, 40-year projections and the restructuring and reinvestment initiatives form an unusual construct for a financial plan for an enterprise attempting to emerge from bankruptcy. Do you see that?
A. I do.
Q. You haven't ever participated in constructing financial projections that are similar to the ones that have been constructed in the Detroit case, have you?
A. I have not been involved in putting together -- what was the word you used?
Q. Projections similar to the type that are in this Detroit bankruptcy.
A. I have not been responsible for putting 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 on other experts for their own projections such as the reinvestment projections that were given to you from Conway MacKenzie?
A. So in work that I've done in looking at

the projections of, say, a particular project, I would often rely on information provided by a third party such as the planned construction costs for the project. So they would forecast how that would look like over that period of time, so I would have to take somebody else's work and use it, which is a little bit, I guess, similar to this situation where we were looking at information projections prepared by another group or expert.
Q. Page 27, the last paragraph, the second sentence says 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.
A. I see that.
Q. Were you aware that the projections that Ernst & Young had done had not been harmonized with the City budget?
A. I was not aware of that until I read this part of the report.
Q. Have you looked at the budget's projections at all in doing your work?
A. I looked at past City budgets. I have not looked at this June 5, 2014 budget.
Q. On Page 52, there's an analysis here, the sensitivity analysis for the revenue sharing. Do

you see that?
A. Yes.
Q. And she says at the end of the first paragraph the statutory payment of 5 percent change in the allocation would have a cumulative impact of 70 million to the General Fund during the fiscal year 2014-2023 period. Do you see that?
A. Yes, I do see that.
Q. In your view, is this sensitivity analysis that Ms. Kopacz has provided showing a 5 percent change in the statutory revenue sharing allocation would have a $70 million impact over the 10-year period, is that reasonable?
A. Yeah, it is reasonable.
Q. Then underneath the graph or the chart she says the City of Detroit reasonable saw its state's revenue sharing decreased significantly from a combined annual total of 267 million in fiscal year 2009 to as low as 173 million in fiscal year 2012.
Is that consistent with your understanding?
A. I don't have my spreadsheet in front of me, but that seems about right.
Q. Over on Page 61, at the bottom, it says for the without-RRIs scenario, every 1 percent

change in the 10-year assumption will result in approximately 21 million change in collected -- oh, that's income tax revenue. Never mind.
MR. STEWART: Sorry. Where are we?
MR. SMITH: Never mind. We're in a place that's not relevant for Ms. Sallee.
BY MR. SMITH:
Q. Do you have any plans to reserve -- to read the rest of the Kopacz report or not?
A. I guess I haven't thought about it. I don't know.
Q. Do you have any plans to do any additional work before you testify?
A. I will probably do some preparation before I testify, I'm guessing.
Q. But any additional changes to your forecast, are you planning those before you testify?
A. No, I'm not.
Q. In the historical data that you've looked at, has the City always been in poor financial shape?
A. I was not asked to look at the City's financial position in the past, and so I didn't do that. So I don't know.

(Document marked No. 28)
Q. I'm going to hand you what's been marked as Exhibit 28, which is an article entitled How Michigan's Revenue Sharing Raid Cost Communities Billions for Local Services. And in the third paragraph, it says over the past decade, lawmakers and governors from both political parties have used some 6.2 billion in sales tax collections to fill state budget holes rather than fulfill a statutory revenue sharing promise to local communities according to the Michigan Municipal League, which released a city-by-city analysis earlier this month.
Is that consistent with your understanding?
A. So it is true that the state has not in the past allocated what statute would say is full funding to municipalities. It hasn't done that.
Q. And the amount for -- in total, is it a reasonable to say around $6 billion over the last decade?
A. I don't know where that number is coming from or how they've calculated it, so I don't know if that's reasonable.
Q. The last paragraph says Detroit, which filed for bankruptcy protection last year, missed

out on 732 million between 2003 and 2013 for the report.
Does that sound like a reasonable estimate in the amount of revenue sharing that Detroit has lost as a result of the state's failure to fully 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.
BY MR. SMITH:
Q. I mean, you know it's been -- Detroit has lost out on hundreds of millions of dollars over the last decade as a result of the state not fully funding revenue sharing, correct?
A. So the state I know has not fully funded, and I don't know at this moment exactly what the impact on Detroit is -- has been.
Q. Well, you know that it would be at least hundreds of millions of dollars, correct?
MR. ALBERTS: Objection.
THE WITNESS: I would want to do the analysis before I would say that.

BY MR. SMITH:
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.
THE WITNESS: But I don't know what the year-end cuts are. I would want to see the data.
BY MR. SMITH:
Q. So nobody ever -- you never tried to figure out how much Detroit has lost out from the state's failure to fully revenue sharing; is that correct?
A. So in the work that I've done, I usually look to see what actual revenues the City has received, and so that's what I looked at, not the difference between state fully funding and what they received. I didn't look at that.
Q. The state's never changed the statute that sets out the full funding level for revenue sharing, correct?
A. My understanding is that the statute -- so for statutory payments, part of it expired. I think the statute still exists. I'm going off memory. It's being ignored is what I've been told.

Q. Okay. So the lawmakers are ignoring the statute that sets the full funding levels for revenue sharing; is that fair?
A. So I know part of it is expired, the formula, so I can't tell you -- I can't remember right now the exact relationship. What I do know is the legislature boilerplate language is allocating the EVIP money, and that's done each budget cycle.
Q. And you know that a lot of municipalities are upset by the cuts to the revenue sharing payments by the State of Michigan, correct?
A. So I've had conversations at my old job and through this project with Michigan Municipal League or others, and over the past decade through my conversations, municipalities have been upset that they've not received more revenue sharing money.
Q. And did you work with the Municipal -- what is it, the Michigan Municipal League in your prior job?
A. I -- they were -- well, so work with, yes, 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

anything.
Q. Is the Michigan Municipal League a reliable source of information on payments that have been made to the cities in Michigan?
A. I don't know.
(Document marked No. 29)
Q. Do you know Anthony Minghine? I'll just hand you Exhibit 29. Do you know the author of this paper?
A. I do not know Anthony Minghine.
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 Detroit or other cities as a result of not fully funding revenue sharing that the Michigan Municipal League has done, correct?
MR. STEWART: Objection.
THE WITNESS: I have not done an analysis of full funding of the statutory payment in the past and what cities have actually received in Michigan.
BY MR. SMITH:
Q. So you don't have any basis to dispute the Michigan Municipal League's conclusions regarding the amount that revenue sharing has been cut to Detroit or the other cities, correct?
A. I have not done the analysis, so I would

have to do that before I could comment on whether it was accurate.
Q. And in fact, the revenue sharing cuts are described as a heist in this paper, right?
A. That's what the title says.
Q. I mean, there's a lot of widespread publicity about the problems that the cuts in revenue sharing have had for Michigan cities, correct?
A. It is a topic in news articles and things that I've read.
Q. And isn't it true that the state has cut the revenue sharing payments and used the money to balance the state budget?
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, the state, correct?
A. Well, they always have a balanced budget. They're legally required to each year.
Q. Well, if you look at this article, the last sentence on the page or last couple sentences

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?
A. I do.
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 would have to say well, what do you mean by large. 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 sense.
Q. And do you know how much those surpluses were for the last two years?
A. Off the top of my head, no.
Q. Would it be fair to say that the fact the state is running surpluses has made the cities even more upset that the state isn't increasing revenue sharing payments?
MR. STEWART: Objection.
THE WITNESS: I wouldn't know. I haven't talked to anyone, so I don't know how they're feeling.

BY MR. SMITH:
Q. How about in Flint, Michigan, do you think they're upset that the state is running surpluses while they're not paying them the full amount of revenue sharing?
A. I did not ask them that question, so I don't know.
Q. What does the state do with all the surplus money?
A. I don't -- I haven't looked to see how they've used the money. I don't know.
Q. Do you know why the governor's budget ended up including the increase in revenue sharing that you've incorporated into your most recent forecast?
A. I don't know why the legislature passed the increase. I don't know why.
Q. Do you agree that you can't tell me what the property tax rate is going to be over the next 10 years?
A. I -- so property tax rates meaning all the different types of millages, I don't know what all the different types of millages are going to be over the next 10 years.
Q. Can you -- are you able to testify about

the funds that the City expects to receive from the State of Michigan in the future?
A. Not all funds, so the only thing that I've said that I will speak about is the state revenue sharing.
Q. That's the only source of funds you can talk about?
A. That's the only source of funds I'm going to talk about, yeah.
Q. And in terms of what the actual amounts that are going to be given to the state, not the forecasts in your forecast, have you done any investigation to find out what, if anything, the City knows about actual sources of funds that might be provided by the state over the next 10 years?
A. Okay. So I got lost in that. What's your question?
Q. Do you know who from the City deals with the state on revenue sharing?
A. No, I don't know.
Q. And so would it be fair to say that you haven't talked to the people at the City to find out what, you know, actually might happen with state revenue sharing over the next 10 years?
A. So I haven't talked with anyone at the

City about state revenue sharing. I'm not sure how that would mean -- how the City would be affecting state revenue sharing. I mean, there's two parts of it. The constitutional piece, I can't see how City officials can affect that directly. And the 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 give you what information they know about what might actually happen to revenue sharing over the next 10 years?
A. I have not had a conversation with anyone at the City about what they think might happen to revenue sharing in the next 10 years.
Q. Have had you a conversation with anyone at the state about what might happen with revenue sharing over the next 10 years?
A. Yes.
Q. Who did you have a conversation with?
A. Well, when you say state, I had a conversation -- I also had a conversation with Jay Wortley at Treasury, and I had a conversation -- several conversations with Jay Wortley, several conversations with Jim Stansell at House Fiscal Agency.

Q. And what did they tell you?
A. So Jim Stansell's pretty pessimistic about EVIP, thinks it's going to be eliminated next year, 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 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, I think, what we talked about there.
Q. Did he believe that sales tax revenue would be increasing over the next 10 years?
A. He did.
Q. And did he give you any numbers about how much he believes the sales tax revenue might increase over the next 10 years for Michigan?
A. So we used his -- the projections from his office for the 10-year forecast for constitutional revenue sharing.
Q. Did he identify any factors that might increase the sales tax revenues above what he's anticipated in the written document you're

referring to?
MR. STEWART: Could I have the question read 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.
BY MR. SMITH:
Q. Why is the EVIP going to be eliminated potentially next year?
A. In my conversation with Jim Stansell, that came up, and this is just his opinion. He's not a legislator. He thought that people in the legislature were not really in favor of the program and that there had been some statements about it saying that they wanted to change the program for something else.
Q. And what is -- did he tell you what he anticipates might be substituted for EVIP?
A. He didn't know.
Q. So right now the only person you talked to suggested that the EVIP program that you assume is going to continue for the next 10 years is -- may

be eliminated next year, correct?
A. So he's responsible for understanding those kinds of programs. It's his duty at the House Fiscal, and he thought that program might be eliminated. The money associated with it would still be distributed in some ways to the cities, villages and townships.
Q. Did the state official, though, you spoke with give you any idea about whether there would be increases or decreases in revenue sharing at any point in time?
A. He didn't comment on revenue sharing as a whole, increases or decreases, no.
Q. Right now the information you have, though, is -- I mean, the best information you have is EVIP is likely to be eliminated, perhaps, within about a year; is that correct?
A. So that was one piece of information I received, and you know, we've decided as others like Michigan Treasury to hold that funding for Detroit constant in our forecast given that it is uncertain. That program could be eliminated. It could be replaced with something else. And our most reasonable assumption is that that sort of type -- that amount of money would likely go to

Detroit in our period.
Q. Has anybody identified what EVIP would be replaced with if it's eliminated?
A. No.
Q. And is one reason that EVIP is going to be replaced is that people don't like jumping through all the hoops and requirements that it requires the cities to do in order to calculate how much money they're going to get?
MR. STEWART: Objection.
THE WITNESS: Well, so the legislators are the ones that control its destiny, and they seem to like that sort of thing.
BY MR. SMITH:
Q. I'm just trying to get an idea of why this state official you talked to thinks EVIP is going to be eliminated within a year.
A. He said there had been some statements on the record by different -- so the Speaker of the House, people in the senate, and they were saying they didn't care for the program. So I think that's what he was basing his decision on, and so that was -- in our conversation came up. And so he thought it would be replaced. There would be money going to cities, villages and townships. It just

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 the population levels that will be in Detroit for each year during the 10-year and 40-year forecast?
A. So a clarifying question. So population, I think I was identified as the person who can speak about those.
Q. Yeah, but you didn't do the actual forecast of population levels, though, did you for the Ernst & Young forecast?
A. So the population levels up until 2029 are SEMCOG forecasts, and then post 2029 I put those together.
Q. Did you ever talk to anybody at the City about what they anticipate population levels will be in the city?
A. Let me think. I might have. Some of the earlier conversations we talked about things like that. I don't know if I had a -- I don't know actually if I had a conversation with anyone at the City.
Q. So it would be fair to say you can't tell me what the City's view is regarding what the population levels are going to be for the next 10

or 40 years, correct?
MR. STEWART: Objection.
THE WITNESS: I don't know what the City thinks they're going to be for the next 10 or 40 years.
BY MR. SMITH:
Q. Have you ever forecasted population levels before?
A. Yes.
Q. In what context did you do that?
A. For specific projects that I worked on in the past for public and private clients.
Q. And did you ever -- have you ever forecasted population levels for a city before?
A. No, I don't think so. Is that right? Yeah I don't think I have.
MR. STEWART: We've been on the record about 90 minutes.
MR. SMITH: Okay. Let's take a break.
THE VIDEOGRAPHER: Off the record. The time is 4:46 p.m.
(Whereupon, a short break was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 4:55 p.m.

BY MR. SMITH:
Q. Ms. Sallee, would you like to know if people from the City believe that the Ernst & Young projections were unrealistic?
A. As a matter of just intellectual curiosity, yeah, I would be interested to know that.
Q. Well, wouldn't you also want to know that for purposes of making sure that your forecasts were done in a reliable way?
A. So the City's opinion doesn't mean something is reliable or not. I would be interested in knowing what they thought.
Q. Why would you want to know if the City thought that the forecasts were unrealistic?
A. As I said earlier, I would be surprised by that since I've had conversations with the City for the things I've looked at and received data from them.
Q. Are your property tax calculations assuming that certain activities by the City will occur over time?
A. What do you mean?
Q. Well, I guess collections would be one activity.

A. So my forecast assumes that the City does collect property tax.

Q. I mean, do you know how property tax collection is funded in the city of Detroit?

A. Do I know how property tax collections are funded in the city of Detroit to the physical logistical collections? No, I don't.

(Document marked No. 30)

Q. Let me hand you what's been marked as Exhibit 30, and you can let me know if you've seen this letter before.

A. I don't think I have seen this letter.

Q. Okay. The first -- it's talking about the projections that you've contributed to in this case, correct?

A. Let me read. Hold on. Okay. What's your question?

Q. This letter relates to the forecasting project that you've been involved in for the City of Detroit?

A. It appears, yes.

Q. And it says regarding the model, we wish to make clear the following: Number one, the model was constructed pursuant to the terms of the engagement. Is that your understanding?

A. So I never saw the statement of work or

the engagements, so I don't know the terms is what I'm saying.

Q. Okay. Do you have an understanding about whether the forecasting model that you've helped to create is constructed pursuant to the terms of an 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 I was brought on to do revenue forecasting. I don't know -- I haven't seen any of the documents pertaining to the engagement or the statement of work.

Q. Okay. It says the terms of the engagement do not require EY to update the model for events occurring subsequent to the production of the final version of the model which accompanies this letter. Do you see that statement?

A. I do.

Q. Is it your understanding that Ernst & Young is not going to be doing any further updating of the forecasting model?

A. That's what this says. I hadn't been told anything.

Q. The next statement says the City provided Ernst & Young with historical, projected and/or

forecast data. Assumptions for inclusion in the model and all such data assumptions are the responsibility of the City.

Is that consistent with your understanding?

A. So in the piece that pertains to me, the City did provide me with historical data, and we had conversations. And then this says it's the responsibility of the City. I don't have a comment on that.

Q. It says Ernst & Young accepts no responsibility to any third party in respect of the model or the results it generates. Do you agree with that statement?

A. It's consistent with the disclaimers elsewhere you had me read.

Q. And do you agree with that statement?

A. I agree with that statement.

(Document marked No. 31)

Q. Let me hand you what I've marked as Exhibit 31. Is this the Case-Shiller data that you had relied on in doing your forecast?

A. This looks like, yes, the Case-Shiller from FRED.

(Document marked No. 32)

Q. I'm going to hand you what's been marked as Exhibit 32. Can you identify this document for

me?

A. Yes. The City provides this report of -- these are non-delinquent property tax collections by type of property.

Q. Okay. And is it fair to say you didn't verify the accuracy or reliability of this information?

A. I had conversations with the City about what it meant, and I took efforts to reconcile this information with the collection rates that are reported in the audited comprehensive annual financial statement.

Q. Did you find discrepancies between the collection rates you were provided by the City and the audited statements?

A. So this is non-delinquent property tax collections by property type, and what's reported in the CAFR is property tax collections divided by tax levy. And so the CAFR collection rate is a different -- a slightly different measure than what's being presented here, and so I took steps to make sure I understood why they were different.

(Document marked No. 33)

Q. And -- okay. I'm going to hand you what I've marked as Exhibit 33, a document entitled Estimating Methodology Detroit Tax Forecast.

A. Okay.
Q. If you look on the second page of this document, at the bottom, it says Jay Wortley provided updated state aid spreadsheet to be consistent with any change in the state May sales tax forecast. Do you see that?
A. Uh-huh.
Q. And then it says Jay's estimates are about 30 percent lower than the MSU economists' estimates by 2022. Do you see that?
A. I do.
Q. Are you aware of estimates for sales tax revenues that are higher than the estimates that you used?
A. So at the very beginning of the project, 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 about that.
Q. I mean, did you write this document?
A. I wrote pieces of it. So I wrote pieces of this along with Bob Cline.
Q. Have you actually seen the estimates from the MSU economists on sales tax revenues that are

different from what you used in your analysis?
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.
Q. Okay. The relevance of the state sales tax revenues is because it can affect the level of state revenue sharing; is that correct?
A. So sales tax revenue funds constitutional revenue sharing, yes.
Q. Do you think that you were provided the MSU estimates, or do you just not remember?
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 them in probably a year.
Q. Do you know whether the MSU economists updated their estimates for sales tax revenue?
A. I have no idea if he's updated them.
Q. Eric Scorsone, was he the MSU economist?
A. He is, yes.
Q. Do you know whether those sales tax revenue estimates were used in the consensus revenue forecasts for the City?
A. I have no idea if -- so let me back up.

When you say consensus revenue estimates for the City, what exactly are you talking about?
Q. Well, do you know that there's a conference where there was a consensus revenue estimate put together for the City?
A. When was that done?
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?
A. Uh-huh. So I know there's a process. I have no idea if Eric Scorsone was involved.
(Document marked No. 34)
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 decline and --
MR. STEWART: Let me -- I got it. Go ahead. Sorry.
BY MR. SMITH:
Q. And it lists Akron, Cleveland, Detroit, New Orleans, Scranton, Syracuse, Toledo. Do you see that?
A. I do.

Q. And that's the data from that Brookings study; is that correct?
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?
A. What do you mean by prolonged?
Q. Well, at least a decade of population decline?
A. And you asked about cities?
Q. Yes.
A. So when you looked at the last 30 years, it identified two cities that have had a decade of population decline followed by some growth.
Q. Haven't there been more than -- it says the metro areas accrue after a decade of population decline, and it lists several cities here; is that correct?
A. So in this case, I looked at cities in metro areas where they had a decade or more of declining population, and then they had a decade of population growth overall. So cities that only had population decline aren't identified here.
Q. Okay. But there are a number of cities that have had a decade -- at least a decade of

population decline and then grew after that,
correct?
A. So in the sense that there are cities that have had a decade of population decline, there are cities, and then they might have had one or two years of growth, and they're not listed here because that wasn't the criteria that I was looking at.
Q. What was the criteria?
A. So I was looking at did a city or metro area have a decade of decline, and then did they have a decade where they experienced overall population growth so I could think about what a sort of long-run rebound in terms of population might look like and used that to help me in my analysis for Detroit.
Q. And one of the cities that has had a decade of population growth after a decade of population decline is Detroit, correct?
MR. STEWART: Objection.
THE WITNESS: So Detroit as a metro area had a decade of decline, and then they had a decade of growth following it. So the '80s, the metro area declined, so not just Detroit, but suburbs as well, and then it picked up in the following decade.

BY MR. SMITH:
Q. And the Detroit metro area had a long-term population growth after a decade of decline without the kind of restructuring or reinvestment activities that the City is proposing in this case, correct?
A. The Detroit metro area had a decade of good growth in the '90s when the auto industry was doing well.
Q. Okay. And so the Detroit metro area had a period of good growth without any restructuring or reinvestment expenditure by the City or anybody else, correct?
A. During the '90s, I don't know what expenditures the various cities, villages, townships, counties were doing during that period. I don't know.
Q. During the period of growth of the Detroit metropolitan area in the decade of the '90s, you're not aware of any city spending more than a billion dollars in restructuring activities, correct?
A. I haven't looked into it. I don't know.
Q. Would that surprise you?
MR. STEWART: Objection.
THE WITNESS: My understanding is that none of

the municipalities were in bankruptcy during that period.
BY MR. SMITH:
Q. None of the municipalities that experienced a decade of population decline that you've identified ever went into Chapter 9 bankruptcy, correct?
MR. STEWART: Objection.
THE WITNESS: Not that I'm aware of.
BY MR. SMITH:
Q. And you're not aware of any city that's gone into Chapter 9 bankruptcy and said oh, the remedy to our problems is to spend a billion more dollars that we don't have.
MR. STEWART: Objection.
THE WITNESS: I haven't looked at specific bankruptcies elsewhere.
BY MR. SMITH:
Q. Can you identify any other city that has ever been in Chapter 9 bankruptcy?
A. No.
Q. Detroit, though, had this period of growth that you identify in the 1990s, correct?
MR. STEWART: Objection. She said three times it's the metro area, not Detroit. You continue to

mischaracterize her testimony.
MR. SMITH: I'm just looking at the sheet that she has here. It says Detroit. On the document, it says Detroit.
MR. STEWART: It says the metro areas that grew. It says metro area. You're the one who's mischaracterized it again and again. Now stop it.
MR. SMITH: Okay.
BY MR. SMITH:
Q. The Detroit metro areas, it grew in the 1990s, right?
A. The Detroit metro area did grow in the 1990s, yes.
Q. And there are a lot of people that work in the city of Detroit that live in the Detroit metro area, correct?
A. What do you mean by a lot?
Q. Well, I mean, do have any idea how many people live in the Detroit metro area and work in the city of Detroit?
A. Off the top of my head, no.
Q. Certainly there are examples that you've identified of cities that have experienced a decade of population decline and reversed that without any restructuring or reinvestment initiative, correct?

A. So the analysis here, Chicago and Philadelphia, had decades of decline followed by a decade or more of population growth, and I don't know what activities they undertook in terms of reinvestment or restructuring. I don't know what they did.
MR. STEWART: Can you tell us when there's five minutes left.
BY MR. SMITH:
Q. On the second page of this document, you mention conversations with Jim Stansell, correct?
A. Uh-huh.
Q. Did you write this document?
A. I wrote portions of it.
Q. Okay. In this document, you didn't disclose that Jim Stansell had told you that EVIP may be eliminated within a year, correct?
A. This document was written, I believe, in January of 2013, and that conversation with Jim Stansell was after that.
Q. Have you had any conversations with anybody else at the State of Michigan other than Mr. Stansell and Mr. Wortley?
A. I don't think so.
Q. Were they individuals that you had known

before this case or not?
A. They were.
Q. And how did you know them?
A. I had -- so in my previous job, I did mostly work in Michigan. In a number of projects, I was either in meetings with them or obtained data or information from them.
(Document marked No. 35)
Q. Let me hand you what I'm marking as Exhibit 35 and let me know if you created this document.
MR. STEWART: I have two documents here. Is this also --
MR. SMITH: Never mind that one.
MR. STEWART: This is 35? Okay.
BY MR. SMITH:
Q. Did you create that document?
A. Yes.
Q. What's the purpose of that document?
A. Well, so do you want me to talk to about each of them or --
Q. Are these separate spreadsheets doing separate analyses?
A. Yes.
Q. Okay. Got it.
The second page of this document has the

building permits data, and then the third page has the realtor data, and it's not -- it's only going up until 2013 it looks like. Do you see that?
A. Uh-huh.
Q. Is this the most recent version of the spreadsheets you've created?
A. No.
(Document marked No. 36)
Q. I'm going to hand you what I will mark as Exhibit 36, and you can let me know if this is a document that you created.
A. This is not a document I created.
Q. Do you know why this was created?
A. So it says at the bottom prepared by the Office of Revenue and Tax Analysis Michigan Department of Treasury, so this is the analysis from Jay Wortley.
Q. And do you know how more Wortley put together this analysis?
A. Other than just being able to look at his steps here, that's all the information I have.
Q. And did you rely on this analysis in your revenue sharing opinion?
A. I used his projections for the constitutional piece in the 10-year forecast.
Q. When you see for fiscal year 2013, 2014,

2015, he has consensus written underneath there, do you know what that means?
A. I do.
Q. What does it mean?
A. So Michigan has a consensus revenue estimation process, and so these are the sales tax numbers, or sales tax revenue numbers shown here are the consensus estimates.
THE VIDEOGRAPHER: Counsel, we're at the five-minute mark.
MR. STEWART: And I have a couple of questions of my own.
BY MR. SMITH:
Q. Can you explain to me what exactly are the reimbursement mechanisms under the new legislation or that may or may not get passed related to personal property tax?
A. What's your question?
Q. Can you explain to me what the reimbursement mechanisms are under the proposed legislation or measure that would change the personal property tax?
A. So portions -- so there are several different ways that revenue is being replaced. One is a new use tax that's being created that would

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allow money through the use tax to then be sent to municipalities that meet certain requirements, and the municipalities themselves would be able to levy a millage on real property. And there's rules around how they can set that millage and what it applies to, and they can set that rate equal to raising enough revenue to cover essential service. Essential services isn't the word. It's more -- it's the police, fire, those kinds of services.
Q. The amount of reimbursement that the City receives under the personal property measure, is that within the control of the City to some extent?
A. Within certain parameters, the City should be able to levy a millage that replaces some of the lost revenue.
Q. And how would it do that?
A. Nobody really knows how all this is going to work, so I don't know how they're going to do that.
Q. Have you had any discussions with anybody at the City about what they're going to do if the personal property legislation ends up going into effect?
A. We've had conversations generally about the personal property tax. They haven't told me

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what their plan is going forward.
Q. Would it be fair to say that you've modeled in your revenue forecasts the imposition of a new tax that is not in effect yet under current law?
A. I think the right characterization of what 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 those two factors into account inform the adjustment made for the personal property tax repeal.
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?
MR. STEWART: Objection.
THE WITNESS: My understanding is that the City 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.
BY MR. SMITH:
Q. Okay. Have we covered all the areas that you plan to testify about, or are there any areas that we haven't covered?

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A. I think we've covered everything.
MR. STEWART: I have a couple of questions.
EXAMINATION
BY MR. STEWART:
Q. Ms. Sallee, you testified about population estimates that you made?
A. Yes.
Q. And some came from SEMCOG --
MR. SMITH: Objection.
BY MR. STEWART:
Q. -- in a certain period of time?
A. Yes.
Q. And others you came up with?
MR. SMITH: Objection. Leading.
THE WITNESS: That's correct.
BY MR. STEWART:
Q. Are you in a position to testify about the City's anticipated population changes by year as implied in the 10 and 40-year forecast?
A. Yes.
MR. SMITH: Objection. Asked and answered.
MR. STEWART: Thank you. That's all I have. We are we done.
MR. SMITH: I assume nobody on the phone has anything.

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THE VIDEOGRAPHER: Off the record. The time is 5:24 p.m.
(FURTHER DEPONENT SAITH NAUGHT.)

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

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

I, CAROLINE SALLEE, being first duly 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 deposition, consisting of pages 1 through 333 inclusive, and affix my signature to same.

____
CAROLINE SALLEE

Subscribed and sworn to before me this ________ day of ______________, 2014

____
Notary Public

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

I, GINA M. LUORDO, a notary public within and for the County of Cook County and State of Illinois, do hereby certify that heretofore, to-wit, on July 24, 2014, personally appeared before me, at 77 West Wacker Drive, Suite 3500, Chicago, Illinois, CAROLINE SALLEE, in a cause now pending and undetermined in the United States Bankruptcy Court, Eastern District of Michigan, In re CITY OF DETROIT, MICHIGAN.

I further certify that the said CAROLINE SALLEE was first duly sworn to testify the truth, the whole truth and nothing but the truth in the cause aforesaid; that the testimony then given by said witness was reported stenographically by me in the presence of the said witness, and afterwards reduced to typewriting by Computer-Aided Transcription, and the foregoing is a true and correct transcript of the testimony so given by said witness as aforesaid.

I further certify that the signature to the foregoing deposition was not waived by counsel for the respective parties.

I further certify that the taking of this deposition was pursuant to notice and that there were present at the deposition the attorneys hereinbefore mentioned.

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 thereof.

IN TESTIMONY WHEREOF: I have hereunto set my hand and affixed my notarial seal this 25th day of July, 2014.

____
NOTARY PUBLIC, COOK COUNTY, ILLINOIS
LIC. NO. 084-004143

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EXHIBIT 7

Malhotra Deposition Transcript (July 15, 2014)

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
\- - -

In Re:) Chapter 9

City of Detroit, Michigan,)

Debtor.) Hon. Steven Rhodes

____

The videotaped deposition of GAURAV MALHOTRA
Taken at 51 Louisiana Avenue, N.E.
Washington, D.C.
Commencing at 9:09 a.m.
Tuesday, July 15, 2014
Before: Gail L. Inghram Verbano
Registered Diplomate Reporter,
Certified Realtime Reporter,
Certified Shorthand Reporter-CA (No. 8635)

APPEARANCES:

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ALSO PRESENT:

ADAM MILLER, Videographer

JOHN POPEHN, Houlihan, Lokey

MARGUERETTE HOSBACH, Ernst & Young (Via telephone)

C O N T E N T S

E X H I B I T S

MALHOTRA

Washington, D.C.

Tuesday, July 15, 2014; 9:09 a.m.

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THE VIDEOGRAPHER: We are on the record at 9:09 a.m. This is the videotaped deposition of Gaurav Malhotra taken in the United States Bankruptcy Court, Eastern District of Michigan, in re: City of Detroit, Michigan, Debtor, Chapter 9, Case No. 13-53846, on Tuesday, July 15th, 2014.

We are at the location of Jones Day, 51 Louisiana Northwest, Washington, DC. My name is Adam Miller, the certified legal video specialist. The court reporter is Gail Verbano from Elisa Dreier Reporting Company, 950 Third Avenue, 5th Floor, New York, New York.

Will counsel please state their appearance and affiliation for the record.

MR. SMITH: Doug Smith for Syncora.

MR. STEWART: Geoffrey Stewart, Chris DiPompeo and Sarah Hunger, Jones Day, for the witness and for the City of Detroit.

MR. ALBERTS: Sam J. Alberts from

MALHOTRA

Dentons on behalf of the Official Committee for the Retirees.

MS. HUBBARD: Heather Hubbard from Waller on behalf of US Bank.

MR. KING: Ron King with Clark Hill on behalf of Detroit Retirement Systems.

MR. BHARGAVA: Michael Bhargava from Chadbourne & Parke on behalf of Creditor Assured Guaranty.

MR. POPEHN: John Popehn from Houlihan. Lokey.

MS. DiBLASI: Kelly DiBlasi, Weil, Gotshal & Manges, on behalf of FGIC.

MR. GUADAGNINO: Frank Guadagnino, also on behalf of the Retirement Systems.

MR. STEWART: Could the lawyers on the phone please give their appearances.

MS. HOSBACH: Marguerette Hosbach, Ernst & Young in-house counsel.

MS. HALADYNA: Kelley Haladyna of Dickinson Wright on behalf of the State of Michigan.

MR. NESTOR: David Nestor, Davis Polk, on behalf of Merrill Lynch.

MALHOTRA

MR. KEATLEY: Benton Keatley, Sidley Austin, on behalf of National Public Finance Guarantee.

MS. ENGLISH: Caroline English, Arent Fox, on behalf of Ambac Assurance Corporation.

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GAURAV MALHOTRA, having first been duly sworn according to law, was examined and testified as follows:

- - -

EXAMINATION

BY MR. SMITH:

Q. Good morning, Mr. Malhotra. You've been deposed several times before; correct?

A. That's correct.

Q. So you understand I'm going to ask you a series of questions. And you'll let me know if you don't understand any of the questions; correct?

A. Yes.

Q. And feel free to take a break any time or whatever you need. Okay?

A. Okay. Thank you.

MALHOTRA

Q. You know, you are working in this case as an expert in financial analysis. Is that fair?

A. Yes.

Q. You're not holding yourself out as an expert in urban policy; correct?

A. That is correct.

Q. You're not an expert in health benefits?

A. That is correct.

Q. Not an expert on government?

A. Government what?

Q. Government in general: function, operations.

A. That is correct.

Q. You're not an expert in tax policy?

A. That is correct.

Q. You're not holding yourself out as an expert in tax forecasting?

A. That is correct.

Q. You're not an expert on blight reduction?

A. Yes, I am not.

Q. Not an expert on art valuation?

A. That is correct.

Q. Not an expert on pensions?

MALHOTRA

A. That is correct.

Q. Not an expert on casinos or wagering revenue?

A. That is correct.

Q. Not an expert on information technology?

A. Information technology in terms of what?

Q. In terms of the systems, the type of systems, and implementing those systems and the cost of the systems.

A. I'm not an expert in that.

Q. You're not an expert on transportation systems for municipalities?

A. That is correct.

Q. You're not an expert in economics?

A. I'm not an expert in economics.

Q. You're not an expert on accounting?

A. What do you mean by that?

Q. Well, you're not a CPA, are you?

A. I'm not a CPA.

Q. And you don't hold yourself out as an accounting expert, do you?

A. Well, in my overall financial analysis expertise, my background in accounting and financial analysis is a part of that. So I don't

MALHOTRA

know what you mean by I'm an expert in accounting or not.

Q. Have you ever been qualified as an expert in accounting in any proceeding?

A. I have not.

Q. You don't -- did you do any auditing of financial statements?

A. I do not do auditing, no.

Q. You're not an expert in government grants; correct?

A. Well, government grants is a broad topic. What grants specifically are you talking about?

Q. Well, any government grants, federal or state. You're not an expert in government grants?

A. In what context? I mean, government grants is a broad topic. And how they relate to the City of Detroit, I can speak in-depth about; but I don't know what you mean by government grants in general.

Q. You've never been involved in applying for a government grant?

A. Actually, our team helped prepare the City for some of the fire and SAFER grants that

MALHOTRA

the City had applied for to actually help the City get the supporting information.

Q. Would it be fair that your only experience with government grants is in the context with the City of Detroit?

A. No. I have a couple other cases where our team has been heavily involved in terms of evaluating some of the grant-related revenues of other public sector entities.

Q. Okay. So would you hold yourself out as an expert on government grants?

A. Government -- like I said again, government grants is a broad topic. I can talk about the grants specifically, how they relate to the City of Detroit.

Q. Okay. You're not an expert on state revenue sharing, are you?

A. I understand the implications for the City of Detroit of state revenue sharing. I mean, they're broad questions. So if you ask me specifically about Detroit, I can be more specific.

Q. Well, you're not some sort of policy expert on state revenue sharing; correct?

MALHOTRA

A. The policy on state revenue sharing is generally set by the State, not the City. It's a State-driven mechanism.

Q. So you wouldn't hold yourself out as an expert on state revenue sharing based on your experience that you've had?

A. For what? For City of Detroit or just state revenue sharing for the State of Michigan in general?

Q. In general.

A. In general, different states have different mechanisms in terms of how State aid is spent. So I can't talk to different states. I can talk to how the state revenue sharing impacts the City of Detroit and the components and the elements of that.

Q. Have you ever done forecasting for a city before the Detroit matter?

A. We were working with two other cities right now in terms of helping them forecasting.

Q. Which other cities are those?

A. Those are confidential.

Q. I mean, just the name of the cities, you can't disclose to me?

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MALHOTRA

A. That is correct.

Q. And what period of time have you been doing that?

A. One of them has been over a year. One of them has been in the last, I would say, six months.

Q. Before you started your forecasting work for Detroit, you didn't have any experience doing a forecast for a city; correct?

A. We did it for Detroit Public Schools, which was another large government sector -- public sector entity. We did not do it for a city.

Q. Okay. So before your work for the City of Detroit, you had never done forecasting for a city specifically; correct?

A. Most of the -- that is correct.

Q. You're not holding yourself out as an expert on Chapter 9 bankruptcy, are you?

A. No, I'm not.

Q. This is the first Chapter 9 bankruptcy you've worked on; correct?

A. Yes, it is.

Q. And you'd agree with me that Chapter 9

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bankruptcy is extremely rare?

A. I don't want to comment on that.

Q. You're not going to answer that question?

A. Rare in context of what? Is it in context of Chapter 11 or is it in context to other bankruptcies? So you have to give me a relative point to answer that question.

Q. It's very rare for a city -- out of all the cities in the United States, it's very rare for a city to have entered into a Chapter 9; right?

A. Well, there are different state laws that impact the ability of cities to enter Chapter 9 or not. But I would say Chapter 9s are less common than Chapter 11s. I mean, I'm comfortable saying that.

Q. Okay. And it would be a minute fraction of cities that ever have entered Chapter 9; correct?

A. I don't understand minute or not. But I think the number of Chapter 9 filings is limited relative to Chapter 11 filings. I'm comfortable saying that.

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MALHOTRA

Q. You're not holding yourself out as an expert in risk management or insurance; correct?

A. Again, I'll ask the same question: Risk management, insurance for what? Because all of these points have specific implications on the City of Detroit and the financial analysis and forecasts for the City of Detroit.

Q. Okay. Well, I mean, you've never done any work in the area of risk management, have you?

A. I've looked at a lot of the expenses that the City of Detroit has been spending on risk management insurance claims over the last three years. So I understand where the City has been spending that money.

Q. Okay. Before your work for the City, you didn't -- you hadn't done any work on risk management; is that correct?

A. No. When it comes to specific other clients and you see where they are spending more and if risk management is -- or self-paying, self-insurance claims is a big component, you have to analyze those costs. So I have looked at them in specific instances where claims are a large part of a spend.

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MALHOTRA

But I -- so all I'm asking is, are you asking the question in the context of Detroit or just risk management?

Q. Risk management in general. You wouldn't hold yourself out as an expert in that; correct?

A. I would -- I could only talk about the risk management and insurance claims for the City of Detroit. That's what I would -- that's what I would be comfortable talking about.

Q. Were you involved in putting -- were there some forecasts with the creditor proposal that accompanied that?

A. Which creditor proposal?

Q. The one in, I think -- guess it was 2013, before the bankruptcy.

A. Yes, there were forecasts, and we were a part of pulling those together.

Q. And that was my question.

A. Thank you for the clarification.

Q. You were personally involved in that?

A. I was.

Q. Okay. In your opinions in this case, you're relying on some other experts, such as

MALHOTRA

Mr. Cline, Ms. Sallee, Conway MacKenzie, Buckfire, and Milliman; is that correct?

A. That is correct.

Q. And do you defer to Mr. Cline with respect to his analyses of the various taxes in his report?

A. When you say I defer to, I have looked at the assumptions and the details and some of the supporting information that Bob and Caroline have used and have conversed with them and had discussions with them about it. So I don't know your question about defer to them.

Q. Well, who is more knowledgeable about the analyses Mr. Cline did? Mr. Cline or you?

A. Mr. Cline did the analysis, so of course he would be more knowledgeable about the analysis.

Q. And Ms. Sallee would be more knowledgeable about the analyses she did than you would be; correct?

A. That is correct.

Q. Okay. And Conway MacKenzie would be more knowledgeable about their analyses than you would; correct?

A. In terms of the minutia and the detail,

MALHOTRA

the answer would be yes. But I have had discussions with each one of them in detail about the broad assumptions that are being used and the sources of data that are being referred to as the different teams have been pulling the information together.

Q. And Buckfire and Milliman would be more knowledgeable about their analyses than you would; correct?

A. People who have worked on their specific part of the analyses would be more comfortable with all of the detail and minutia in there, in their respective analysis.

Q. Why are you relying on other experts in putting together your forecast?

A. Because, as I said, that there is -- there are a lot of topics that are relevant in this case, and each subject matter requires a great amount of detailed information. And there are experts that we have on the case who are relying -- who are doing their work in that detailed analysis. But I understand most of the larger assumptions that are embedded in those analyses.

MALHOTRA

But, yes, the ones who have done the analyses will have better knowledge of all the details in them.

Q. In order to put together your forecast, was it necessary to use experts in different disciplines to assist you in pulling together the different pieces of the forecast?

A. Could you ask me the question again, please?

Q. In order to perform your forecast, was it necessary to use experts in different disciplines to pull together pieces of the forecast to help you put it all together?

A. Yeah, when you say "was it necessary," in my judgment, having the right subject matter expertise in various topics helps make the forecast more reliable versus less reliable.

Q. Okay. So you sought out experts in diverse subject matters to assist you with different components of the forecast; correct?

A. Yes.

Q. And that would include Milliman and Conway MacKenzie and Buckfire and your colleagues at Ernst & Young; correct?

MALHOTRA

A. That is correct. There were different team members who were charged for first understanding all of the detailed assumptions for a particular subject matter.

Q. And did you also rely on experts from the City of Detroit in putting together your analysis?

A. When you say "experts from the City of Detroit," who are you referring to?

Q. Well, I guess, you relied on -- did you rely on anybody from the City of Detroit?

A. Yes. The City of Detroit's management team was involved in helping pull together some of this information that is in the forecast.

Q. Okay. And were there people at the City of Detroit whose expertise you relied on for various assumptions or other information in your forecast?

A. I would say there was -- I don't know about expertise versus not. We had lots of 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

MALHOTRA

just don't know what you're referring to when you say expertise versus not.

Q. Well, did they have -- I mean, did they have expertise in various aspects of the City's operations, the people that you relied on?

A. The people that we talked to and relied on had, in their particular function, been doing a certain job for a long time and understood, as well, why some of the changes in the historical financials were either normalized or not.

So we had lots of discussions. I just don't know how I can answer on relying on their expertise versus not.

Q. Okay. You did rely on information from the City, though, in putting together your forecast; correct?

A. That is correct.

Q. And you know the emergency manager has characterized the City's operations as dysfunctional; correct?

A. I do not recall that specific comment.

Q. Well, a number of people have criticized the City's operations as dysfunctional; isn't that correct?

MALHOTRA

A. It depends on what time frame people are referring to.

Q. Well, they've done it all the way through -- in the last few years consistently called the City's operations dysfunctional.

MR. STEWART: Objection.

BY MR. SMITH:

Q. Correct?

A. I don't want to make -- that's -- I don't want to make a broad statement like that. I'm not comfortable saying yes or no to that.

Q. Okay. So you won't give an answer to that question?

A. I just -- I think if you could ask me the question about a specific revenue or an expense line item and with -- but just a general comment on operations, it's hard for me to make a comment on that.

Q. Okay. Are the City's operations today dysfunctional or not?

A. I'm not an expert on judging whether all the operations of the City are dysfunctional or not.

Q. What percent of your time is spent on

MALHOTRA

the Detroit matter?

A. I would say somewhere between 65 to 100 percent, depending on the week.

Q. And would it be fair to say that the Detroit matter is the most significant matter you're working on?

A. All of our clients are important and significant. I wouldn't say it's the most significant versus least significant.

Q. Do you get some sort of billing credit for the Detroit matter?

A. What does that mean?

Q. Well, do you -- is your compensation increased at all as a result of Detroit matter? Is it -- or not?

A. There is no direct correlation between Detroit's billing and my compensation.

Q. Okay. How many people at Ernst & Young are working on the Detroit matter?

A. Somewhere between 10 and 20.

Q. And has -- how much, total, has Ernst & Young billed the City for its work?

A. I would have to go back and check, but I think it's in excess of 10 million, but I don't

MALHOTRA

have the exact number.

Q. Would it be in excess of 20 million?

A. No.

Q. So someplace between 10 and 20 million?

A. That is a fair estimate. I don't have the exact number.

Q. The 10 percent holdback, whose idea was that?

A. 10 percent holdback on what?

Q. On Ernst & Young's compensation that you reference in your report.

A. It wasn't an idea. It was a -- a negotiation with these -- with the City and the State in terms of the fees.

Q. Okay. So in coming to your arrangement for working on the Detroit matter, you negotiated with both the City and the State; is that correct?

A. Yes. Our engagement letter was sent to the City, and it was also then sent forward to the State.

Q. And did the State or City request the 10 percent holdback or did Ernst & Young propose that?

A. It was a reduction in the fees. It

MALHOTRA

was -- it was, I think, brought up by either the State or the City. I just don't remember specifically.

Q. Does the 10 percent holdback -- do you have an arrangement like that in any other matter that you've worked on?

A. I would have to go back and check. We offer discounts in different engagements, and I would have to go back and check.

Q. But have you ever done a contingent fee arrangement before for your work?

MR. STEWART: Objection.

I'm sorry. You were about to answer.

I didn't mean to interrupt your question, Mr. Smith.

You have my objection, correct?

THE COURT REPORTER: I do.

THE WITNESS: Can you ask your question again? I'm sorry.

BY MR. SMITH:

Q. Have you ever had a contingent fee arrangement in any other matter that you've worked on?

MR. STEWART: Same objection.

MALHOTRA

THE WITNESS: Yes.

BY MR. SMITH:

Q. Have you ever had a contingent fee arrangement in any other bankruptcy matter you've worked on?

A. I would have to go back and check.

Q. Do you have any -- have you ever had a contingent fee arrangement in any other matter involving litigation?

A. I would have to go back and check.

Q. Does the 10 percent holdback apply to all fees that Ernst & Young has charged or a portion of the fees?

A. It would only be for the portion of the fees since the City has filed bankruptcy.

Q. Okay. And so it would cover the fees that you're charging for your expert work in this case, developing the report and testifying?

A. I believe so, yes.

Q. And it would also apply to the time that Mr. Cline and Ms. Sallee have been putting in working as experts in the case?

A. I believe so, yes, but I would like to reconfirm that.

MALHOTRA

Q. Okay. Are you aware of any formal studies by the City to ascertain whether it can increase revenues more than it already has?

A. There have been various consultant studies over the last few years, and so . . .

Q. Would it be fair to say that a number of consultants the City has retained have given it ideas for increasing revenues significantly over the last few years?

A. I don't know the definition of "significantly" in the context that you're referring to, but there's lots of consultants that have provided ideas to the City for increasing revenues.

Q. And the City has not adopted all the ideas it's been provided for increasing revenues as of today; correct?

A. Some of these consultant studies go back a long way, and I think some of them have been incorporated and some of them have likely not been incorporated. So I can't comment whether each and every idea that's been brought forward by a consultant to increase revenue has been incorporated.

MALHOTRA

Q. Okay. But you knew that there are ideas that have been brought forth by experts the City's retained to increase revenues that haven't been adopted by the City; correct?

MR. STEWART: Objection.

THE WITNESS: So I would just like clarification in terms of which experts you're referring to.

BY MR. SMITH:

Q. Well, you mentioned that there are a series of consultants the City has hired to look at increasing revenues; correct?

A. That is correct. And what I was referring to is historically, since this is going back -- we can go back 5, 10 years, you will find reports where, you know, people have ideas how to increase revenue.

Q. Yeah. And my only question is, the City hasn't adopted all the ideas for increasing revenue that have been provided by independent consultants; correct?

A. Sure. The City has -- has always had consultants that have provided ideas. Whether all of the ideas have been incorporated at a given

MALHOTRA

point in time, it's hard for me to say.

Q. Well, today -- as of today, you're aware of revenue-generating ideas that have been provided the City by consultants that it hasn't implemented; correct?

A. I mean, is there a particular example that you're thinking of? It would be a lot easier for me if somebody would say, "Has X, Y, Z been implemented?" I would have a better way to say yes or no versus just a broad statement, have ideas been incorporated by the City or not.

Q. Privatizing parking. It hasn't yet privatized parking?

A. That is correct. It has not been privatized yet. You're correct.

Q. Or leasing out the water and sewage function; correct? That hasn't been done yet, has it?

A. I believe there is active mediation going on in that, but you're correct. It has not been done yet.

Q. So there are a number of proposals for increasing revenue that the City has been provided by outside consultants that haven't been

MALHOTRA

implemented yet; correct?

A. You have listed two, and I agree that those two have not been implemented.

Q. Okay. And there are others you're aware that haven't been implemented; correct?

A. You know, if there's others that you have specific examples on, I'm happy to say whether they have or have not. But I would say those -- DWSD has not been implemented, and there's mediation going on on that; and parking, my understanding is that there's some active discussions going on, but it has not been done yet.

Q. Okay. The -- has the City ever asked Ernst & Young to look for ideas to increase revenues?

A. I don't recall if there's a specific item that talks about how to increase revenues that is in our scope, but we have had discussions with the City how to continue to improve the processes of collections and so on and so forth.

There was active discussions when the City increased the corporate tax rate from 1 percent and 2 percent. And although E&Y was not

MALHOTRA

involved in any policy decisions, but we were able to quantify the impact of what that was.

Q. Okay. But you haven't been specifically retained by the City to generate ideas for further increasing revenue; is that fair?

A. I would say that is fair in general, that we haven't gone to do a market study on specific rates and whether they should be increased or not.

Q. Whose depositions have you reviewed in this case?

A. Since when?

Q. Well, since forever. I'm trying to find out whose depositions you have reviewed in the case at any point in time.

A. Whose depositions?

Q. Yeah, deposition transcripts.

A. I do not recall. I -- I was -- I think I was sent Kevyn Orr's deposition from months ago. That just comes to mind. But I do not recall any specific depositions that I've reviewed.

Q. Have you reviewed Gary Evanko's deposition?

A. No.

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Q. Did you ever speak to Mr. Evanko in preparing the forecast?

A. I did not, but I know that there may have been some -- yes, I have not.

Q. And has anybody from Ernst & Young spoken to Mr. Evanko?

A. I think Caroline Sallee may have exchanged emails with him. I don't know if she's spoken to him or not.

Q. The actual model that you started with, where did that come from that you used for your forecast?

A. Came from Excel spreadsheet.

Q. Okay. Did you basically have to create the model?

A. Yes. It was -- it was supporting information like the historical, actual performance of the City, but it started from a clean Excel spreadsheet.

Q. Okay. So the model that's used in the forecasting that you've prepared for Detroit was created for purposes of this bankruptcy. Is that fair?

A. It evolved into what we are using in the

MALHOTRA

bankruptcy. We did not start off with a model that was created for a bankruptcy.

Q. Okay. Would it be fair to say that the model that you used for your forecasting was created for the City of Detroit; it didn't exist before your retention by the City of Detroit?

A. The model, the way it stands today, was -- that is correct. It did not -- it wasn't in existence before we started working on this engagement.

Q. Can you identify any Chapter 9 bankruptcy where an expert has done forecasting similar to what you've done in this case?

A. I have not gone and reviewed the Chapter 9 bankruptcy, so I wouldn't be able to comment if they have or have not.

Q. So in preparing the model, you didn't seek to ascertain what had been done in previous Chapter 9 bankruptcies so you could conform what you did to standard practices in Chapter 9 bankruptcies; correct?

MR. STEWART: Objection.

THE WITNESS: I don't know how other Chapter 9 bankruptcy financial models are

MALHOTRA

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 done any testing of your model compared to models that have been used in other Chapter 9 bankruptcies, correct, to ensure reliability?

MALHOTRA

A. Well, let me just -- yeah, I would like to understand that question better. Testing in what context?

Q. Any sort of testing. You never -- you don't even know what -- what was done in other Chapter 9 bankruptcies; correct?

A. Well, that's a broad -- I have some sense of what's going on in Chapter 9 bankruptcies around the country, but not from what's happening in their financial models.

So I just don't understand your question of testing a financial model for Detroit against a financial model for another Chapter 9. Is that your question?

Q. You don't know what financial models have been used in other Chapter 9s; correct?

A. I do not know the components of the financial models of other Chapter 9 cases; that is correct.

Q. Before Ernst & Young was retained, was the City doing any forecasting?

A. Forecasting for what? Budgets?

Q. Its revenues and expenditures, similar to the forecasts that you've produced in this

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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 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 longer or not. But -- and, overall, I would be comfortable saying that, broadly, there were one-year budgets, but there were certain elements

MALHOTRA

that were probably, you know, taken out longer to see what the impact of those revenues or expenses were.

Q. You can't identify any budget for the City of Detroit that's done forecasting over a period as long as 10 years; correct?

A. I do not recall of a 10-year budget that the City had at that point in time; that is correct.

Q. And the City's budgets, when they were doing their forecasting, were all one-year budgets; correct?

A. I thought I just answered that question, that they were -- they used to do a one-year budget in general, and there were certain items that I think they could have had revenues or expenses going on beyond one year.

But generally, you're right; the City generally does one-year budgets and now has started -- is going to start doing three-year budgets.

Q. Now there's a consensus group that's doing forecasting for the City; correct?

A. Consensus group in what way?

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?

(Telephonic interruption.)

MR. SMITH: Do you want to take a break to --

MR. STEWART: No.

MR. SMITH: Why don't we take a break. Let's get this phone straightened out.

THE VIDEOGRAPHER: Going off the record at 9:46 a.m.

(Brief pause.)

THE VIDEOGRAPHER: Back on the record at 9:47.

BY MR. SMITH:

Q. Mr. Malhotra, have you ever heard of a consensus forecast for the City of Detroit?

A. I do not recall hearing of a consensus forecast.

Q. Okay. What are the three-year forecasts that you were mentioning?

A. There is a triennial budget, and then there's a revenue conference that is used

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partially for the triennial budget. That's what I was referring to.

Q. Okay. And is there other -- and there's forecasts done for purposes of that triennial budget; is that correct?

A. The triennial budget is being developed in conjunction or, you know, similar to what the first three years of the financial forecast look like for the City.

Q. Okay. And so there's a -- are there a group of outside experts who were involved in reviewing that -- that budget and forecast?

A. I do not know of external parties reviewing the triennial budget of the City specifically.

Q. Do you work with Shavi Sarna?

A. I do.

Q. What's -- is it Mr. Sarna's role on that, on the project?

A. Shavi is one of our managers who is helping on various components of the project.

Q. What components?

A. He's been looking at Department of Transportation, looking at some of the revenue

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 time on the City of Detroit matter?

A. I believe so.

Q. And what, in your view, is the biggest source of untapped revenue for the City?

A. Assets sales.

Q. What asset sales are a source of potential revenue for the City that you're thinking of?

A. DWSD, the parking.

Q. Anything else?

A. Those are the tangible ones that come to mind, those that the City, you know, could potentially control that come to my mind.

Q. And I've seen reference by Mr. Orr that DWSD, if some of the operations were leased, could produce $47 million a year in revenue to the City.

Have you seen those estimates?

A. I have heard about those estimates, yes.

Q. Okay. And are those reasonable estimates?

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A. I can't comment on that.

Q. Why can't you comment on it?

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. Okay. And you mentioned it's in mediation right now. What exactly is going on there, based on your understanding?

A. I don't know.

Q. Your forecast doesn't include the 47 million that Mr. Orr has mentioned as a potential annual revenue source from DWSD; correct?

A. That is correct. We do not have $47 million a year from DWSD included in the forecast.

Q. And you don't have any money from privatization or leasing of DWSD in the forecast; correct?

A. That is correct.

Q. And you don't have any money from privatization of parking in the forecast; correct?

A. That is correct.

Q. Have you seen estimates of the potential

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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 year '14 to fiscal year '15. It's almost

MALHOTRA

$6 million.

Q. And that's in your forecast; correct?

A. It is.

Q. Are there any asset sales or privatization matters that are not contained in your forecast that you're aware that the City has looked at?

A. I'm sorry. It was too long a question.

Q. Are there other privatization efforts that the City has looked at that you're aware of that we haven't discussed?

A. Not any that I recall right now.

Q. Okay. In your view, what are the biggest untapped sources of cost savings for the City?

A. That are not -- that are already included in the forecast?

Q. That are not included in the forecast.

A. Oh.

Q. I'm thinking of untapped sources of cost savings. Are there -- what would be the biggest areas of potential cost savings that haven't been incorporated into the forecast?

A. I can't recall any off the top of my

MALHOTRA

head from the standpoint of what has not been incorporated. I'm sure if some of the assets are sold, there will be a corresponding reduction in 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 say 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 don't 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 City's track record. So I don't know whether it's correct or not. It has to be discussed with the unions, ratified by the union members. So it's not an action the City can take unilaterally.

MALHOTRA

Q. So in your experience, the emergency manager hasn't been effective in reducing labor costs?

A. The employees are working with a 10 percent wage cut.

Q. So, in your view, has the emergency manager been effective or not in reducing labor cost?

A. In overall labor cost, I would say the outsourcing of the solid waste helped reduce the labor cost, because those operations were outsourced, I believe. But that did help the reduction in labor costs compared to where they were earlier. And I would say -- so I think he has been effective in that in terms of implementing some of those outsourcing initiatives.

Q. Outsourcing and privatization is an effective mechanism, both of increasing revenue and reducing costs; is that correct?

A. Not always. It has to be in the construct of the level of service that it's provided.

Q. But outsourcing and privatization can be

MALHOTRA

an effective mechanism for increasing revenue and reducing costs; correct?

A. I thought I just answered that. It has to be in the construct of the level of service that has to be provided.

Q. Well, the City has used privatization and outsourcing as an effective mechanism of increasing revenue and reducing costs; correct?

A. Not always. In certain cases, the cost comes down, but the revenue does not go up.

Q. Okay.

A. And it all depends on the level of service.

Q. I mean, have there been any privatization efforts the City's undertaken that you believe have not been successful in either reducing costs or increasing revenues?

A. Can you ask me that again, please?

Q. Are there any privatization efforts the City has undertaken that you believe have not been successful in either reducing costs or increasing revenues?

A. Yeah. Again, I keep coming back. It's the level of service that has the determining

MALHOTRA

factor on both the costs, because in certain costs the costs will go up because the level of service is getting better. So it's hard for me to make that statement.

Q. Well, I know. But you -- I mean, I'm just interested in revenues and costs; right? And what the City has actually done.

So are there any privatization matters you're aware of where the City has failed to either reduce costs or increase revenues?

A. Like I said, it depends on the level of service, so I can't -- I'd be speculating as to whether it's --

Q. It's not --

MR. STEWART: Please let him finish his answer.

Finish your answer.

BY MR. SMITH:

Q. Okay. Go ahead.

A. Whether the cost comes down or not, it depends on the level of service. Whether the revenue goes up or not, it's also in conjunction with the level of service.

So like I said earlier, like, if DWSD is

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leased or something like that, the potential revenue stream that may come from that is not included in this forecast. It could be an opportunity.

Q. And I'm not talking about the privatization efforts that haven't occurred yet. I'm talking about privatization efforts or outsourcing that has occurred, like you mentioned the garbage collection.

A. That's correct.

Q. And I'm wondering, for the areas that have been privatized already, are there any where the City failed to realize cost savings or revenue increases from the privatization effort?

A. I do not know.

Q. You can't identify anything where -- any privatization efforts, sitting here today, where the City failed to realize cost savings or revenue increases; is that fair?

A. That's not fair. So it depends on the level of service that has been provided as a part of any outsourcing.

Q. Okay. Can you identify for me any privatization effort the City has undertaken

MALHOTRA

already where it failed to realize cost savings or revenue increases? Can you come up with an example?

A. I would not know that from the top of my head at this juncture because it would all be relative to the level of service.

Q. There have been proposals to move the Department of Transportation to a regional authority. You're aware of that; correct?

A. There was some discussions about that; that is correct.

Q. And the City believed that it could reduce the sums paid by the general fund to the Department of Transportation if it moved it to a regional authority; correct?

A. No, I don't think that's correct.

Q. We'll look at some -- why -- what was -- were there any benefits in terms of revenue or cost to the general fund from transferring the Department of Transportation to a regional authority?

A. The general fund subsidizes the Department of Transportation significantly. That is fact. If it were moved into a regional transit

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authority, it would depend on the level of service that had to be provided and what subsidy, if any, or in excess, the general fund would still be responsible for if that transition were to take place.

So it's that -- that would -- it would basically -- yes, the general fund continues to subsidize Department of Transportation.

Q. But by -- moving the Department of Transportation to a regional authority, the City could reduce or eliminate the subsidy from the general fund, depending on the level of service; correct?

A. No. Just because it moves the authority elsewhere, it doesn't -- it's hard to predict what that structure of the transaction would look like, because general fund also has the ongoing costs that it subsidizes DDOT, so -- the Department of Transportation. So I don't know whether the subsidy would be eliminated or not.

Q. While -- I'm just saying that it's possible -- it's a mechanism -- moving the Department of Transportation to a regional authority is a mechanism that could be used

MALHOTRA

depending on the circumstances and the level of service to reduce or eliminate the general fund subsidy to Department of Transportation; correct?

A. It could be explored, but I'm not sure whether the subsidy would be eliminated or reduced.

Q. Your forecast doesn't include any adjustment for moving the Department of Transportation to a regional authority; correct?

A. That is correct.

MR. SMITH: We can take a break. I think the court reporter wants a break.

THE VIDEOGRAPHER: Going off the record at 10:02. This is the end of Tape No. 1.

(Short break taken.)

THE VIDEOGRAPHER: Back on the record at 10:10. This is the beginning of Tape No. 2.

BY MR. SMITH:

Q. At some point Ernst & Young was looking at some ideas for cost cutting for the City; is that correct?

A. Yes.

Q. And are there any proposals for cost cutting that Ernst & Young raised that haven't

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been adopted by the City?

A. Nothing substantive that comes to the top of my head right now. If you have specific ideas, I could definitely say yes or no. But nothing big that comes --

Q. I mean, are you still looking at cost cutting for the City, or did that stop at some point?

A. I would say that after the wage reductions that were imposed on the employees with respect to the 10 percent wage cuts and the 12-hour shifts that were imposed, which were, again, big-ticket items with respect to wages, the -- there was an ongoing focus in terms of how to continue to reduce the costs also by -- in terms of the transition of the grid.

But I would say our focus was, in the last few months, has not been on more cost cutting specifically on wages, but it was because of all the imposition of the wage cuts that had already been made.

Q. The City also has made significant headcount reductions over the last couple of years; is that fair?

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A. Yes. In the -- in the combination of attrition and other cuts, the City has lost a tremendous amount of headcount.

Q. And those headcount reductions are an important mechanism by which the City has addressed its fiscal condition; would you agree with that?

(Discussion held off the stenographic record.)

THE WITNESS: Could you ask me the question --

BY MR. SMITH:

Q. Yeah, I can ask it again. The headcount reductions are an important mechanism the City has used to try to improve its fiscal situation; correct?

A. The headcount reduction has helped reduce cost, but the impact on the service levels in specific departments is the question. But reduction in headcount, at least on the surface, has resulted in lower wages or payroll-related costs compared to the past.

Q. How much has the City saved in its headcount reductions in terms of costs, a ballpark

MALHOTRA

figure?

A. I can't give you a ballpark figure.

Q. Would it be hundreds of millions of dollars?

A. Over what time frame?

Q. Over the last year or two.

A. Last year or two?

Q. Two years. Since Ernst & Young has been working for the City, how much has the City been able to save by headcount reductions?

A. It would be hard for me to give you a specific number. And the reason for that is, there is also grant-related positions that have been reduced and grant-related positions, of course, a net zero impact because the grant-related revenue has gone down as well.

So just looking at the payroll line item, it's hard for me to give you an answer from the top of my head.

Q. Do you agree that the City engaged in headcount reductions for the specific purpose of reducing its costs and improving its fiscal condition?

A. My answer would be similar to my earlier

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one. The City has reduced its payroll-related costs compared to two years ago. But a lot of that has also come through attrition. And whether not replacing them, what impact that has had on the quality of service the City has provided, I don't know.

Q. That wasn't quite my question. My question is, the City engaged in headcount reductions to cut costs to improve its fiscal condition; isn't that correct? I mean, there was a policy of the City that it put in place to reduce headcount to save costs and improve the fiscal condition; correct?

A. The biggest focus was wages, not headcount. The biggest focus was the level of wages.

Q. Okay. But then a secondary focus of the City was to reduce headcount to save money, correct, and improve the City's fiscal position?

A. I don't know if that was how the attrition was being replaced. So I'm much more comfortable saying that attacking the wages was something -- or focusing on reducing the wages was something that the City was much more focused on.

MALHOTRA

There could be instances where department -- specific department headcount for a particular department was focused on. But I remember that there was a focus actually not to reduce the headcount at public safety.

So I can't answer that question on the headcount specifically.

Q. You would agree with me that headcount reductions by the City in the last two years have cut City costs; correct?

A. The level of headcount by the City is lower today than it was two years ago, which has resulted in lower payroll cost.

Q. How many people at the City contributed to your forecast?

A. When you say "contributed to the forecast" --

Q. Provided you with information for your forecast.

A. I'd say there were several. I don't have a number off the top of my head. Some more detailed than the others.

Q. Would it be more than 10 or 20?

A. It depends. I mean, there were -- if

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you look at -- I would be much more comfortable if I had the forecast in front of me to look at by line item and say what information we would have gotten from where. It's hard for me to just say that it was 10 or 20 people giving us this forecast.

Q. All right. So you can't tell me the number of people from the City who have contributed to your forecast, sitting here today; correct?

MR. STEWART: Objection.

THE WITNESS: That is correct. I don't have the exact number of people that helped us pull together on the forecast.

BY MR. SMITH:

Q. And you couldn't identify all the people that helped you from the City in preparing your forecast; correct?

A. I could identify this some of them, yes.

Q. But you can't identify all the people from the City who helped you prepare your forecast; correct?

A. I could identify some of the people.

Q. But not all of them; correct?

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A. Well, maybe actually if we sit down and go through the line items, maybe I could identify all of them.

Q. How many people from Conway MacKenzie assisted in preparing material for your forecast?

A. I don't know of the exact number of Conway MacKenzie team members. But they have roughly, I would say, between five and seven key people that we were interacting with and -- in terms of getting the information on the reinvestment and restructuring component of the forecast.

Q. Would it be fair to say your forecasting depends on the inputs of numerous people at a number of different organizations?

A. What do you define as "numerous" versus "a number of different organizations"?

I can tell you who we talked to at Conway MacKenzie, on which line items of the restructuring and reinvestment forecast.

Q. That's not my question.

MR. SMITH: And, you know, this kind of answer, Geoff, is, again, obstruction of the deposition. You know, we can take the

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transcript to the Judge and ask him if he thinks it's reasonable, but I can't get an answer to that question.

MR. STEWART: Let's do it. I'm happy to -- I'd be delighted to do that. He said what do you mean by "numerous," and you haven't answered him.

BY MR. SMITH:

Q. Okay. More than 40 people. Would you agree that more than 40 people have contributed inputs to your model?

A. I don't think so.

Q. And more than 30 people?

A. I would have to take time to think about this, because of the -- the different input levels that have come about. I don't know about the number of people, whether it's more than 30 now. I don't think --

Q. Yeah. So sitting here today, you can't identify the number of people who have contributed inputs to your model; correct?

A. I can identify the number of firms or organizations that have helped. The number of people that work at each one of those firms, I

MALHOTRA

cannot talk about.

Q. Okay. Would it be fair to say that your model is a complex model that depends on inputs by a number of people?

A. I don't know if it's complex or not, but it has required the input of three or four of the main firms that have been dealing with this situation to pull the plan together for the City.

Q. When did you first create your forecast?

A. Which forecast?

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

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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 five-year forecast sometime probably two-plus 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.

Q. And did you actually complete a forecast -- a five-year forecast for the City?

A. When you say "complete," I mean, we may have had different iterations. I don't know if there was ever something that was complete or not.

Q. So you had more than one iteration of a five-year forecast for the City?

A. Absolutely.

Q. Okay.

A. We would have had different inputs and

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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? Or was it different?

A. I don't recall. I don't recall. This is a long time ago.

Q. Did the same people work on the five-year forecast? I mean, obviously you worked on the five-year forecast; correct?

A. Yeah. I mean, I think on the five-year forecast, if I go back, it was much more -- it was just looking at how large the expenses side would be in terms of the ongoing legacy costs. So I don't recall specifically. I mean, could go back and try and figure out, but this was a long time.

MALHOTRA

Q. Have you ever been asked to produce the five-year forecast in this case?

A. So -- no, I do not know if we have or have not.

Q. Okay. The -- okay. On the 10-year forecast and 40-year forecast, there have been many different versions of that. Would that be fair to say?

A. That is fair. Yes.

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-year10-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.

Q. And the five-year forecast, who chose five years for the length of time of the forecast?

A. It was likely somebody at the City. I don't remember.

Q. Okay. The five-year forecast, did you conclude that the City had positive revenues

MALHOTRA

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.

Q. Can you give me an estimate of how many times?

A. Well, it's a dynamic model. So as the assumptions change and get updated, we save a different version. And whatever we have, I guess, has been produced already. So I have not gone back and counted the number of versions.

Q. How many -- are there major changes -- major iterations of the model that have been done? I mean, you mentioned there's one for the plan. There's the July 2nd one. Are there major -- are there other periods -- times when it was

MALHOTRA

revised in a major way? I don't know how you would characterize those.

A. Sorry. Can you ask -- just repeat what --

Q. Well, let me ask again. You say that the -- you had one version of the ten-year forecast in the plan of adjustment; correct?

A. That is correct.

Q. Okay. And then the July 2nd revision. You had another version of the 10- and 40-year forecast; correct?

A. That is correct.

Q. What were the big changes between the forecast in the plan and the July 2nd?

A. So we've created a bridge that walks through the changes, but I'll go off the top of my head of what I recall. The forecasted revenues were updated based on the updated information we had. We updated the potential LTGO settlement. We updated the economics of the -- the potential economics of a DPOA and DFFA change.

We updated the timing and, I think, the cost of the reinvestment and restructuring initiatives. And I think we updated the

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?

A. I don't know if there was a significant -- I don't know how you define "significant."

Q. Weren't there hundreds of millions of dollars in reduction or not?

A. It would be easier if I had this document in front of me, because there were some of the changes that were more -- maybe operations-driven versus -- or, you know, capex-driven.

Q. Would it be fair to say that you've engaged in a process of continually updating the forecast since you first created it?

A. As the City has reached settlements with different creditors and we have updated those on a continuous basis.

Q. Would it be fair to say that you've made hundreds of changes to your forecast since it was

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first created?

A. I do not know that it's hundreds of changes or not. I mean, I don't know what you -- is a -- is a change in an assumption a change that you're referring to?

Q. Yes.

A. I don't know if there's hundreds of changes in the assumptions from what -- but I don't know. It's hard for me to define what are the key elements that have changed. I mean, we've got -- we have produced the information when we have updated information, we reflect that. And the same thing with the settlements.

Q. So you can't tell me how many changes you've made to your forecast since it was created; correct?

A. I can tell you about the broad assumptions that have changed since we created the forecast. The exact number of changes, you're correct; I cannot say. But I can talk about the main assumptions that have changed since we had developed the forecast.

Q. And would it be fair to say that in order to ensure the reliability of your forecast,

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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?

A. There is some ongoing work that Ernst & Young will continue to do after the bankruptcy, yes.

Q. What work?

A. We have some work in terms of helping the City implement or review its HR technology systems. And we're having discussions with the City about an ongoing role in terms of assisting with cash management. So it's something that's being discussed.

Q. Have you entered into any arrangement to continue updating your forecast after the bankruptcy is confirmed?

A. Not as of yet.

Q. Okay. But there's -- has there been discussions about that or not?

A. I have to schedule this -- I have to schedule a discussion, which we were trying to do

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with the CFO and even likely the mayor, about E&Y's role after the bankruptcy is over.

Q. Thus far, there haven't been any discussions about E&Y continuing work on its forecast after the bankruptcy; correct?

A. There have been discussions about cash management and cash forecasting. So when you say -- if you're referring to the 10-year and 40-year forecast, that is a part of the plan of adjustment. I have not had a specific discussion on that as of yet.

Q. Yet. But as of yet, there's been no discussion about Ernst & Young continuing to update its 10-year and 40-year forecast after the plan is confirmed; correct?

A. That is correct. We have had discussions about updating or talking about cash flows and cash management and some of the other work streams that I've mentioned. But we have to -- and John Hill and I have to sit down with the mayor and get more specificity around what we will be doing going forward.

Q. Would it be fair to say that the scope of Ernst & Young's role after the bankruptcy, has

MALHOTRA

been confirmed, has not been agreed upon yet?

A. That is correct.

Q. Do you have any idea when you might work that out with the City? Or is nothing scheduled right now?

A. No. We have been actually trying to schedule something, and it has gotten changed in the last couple of weeks. But -- it's something that we need to do and get done.

Q. Did the City folk cancel a meeting with you?

A. No. It was just our -- John and my schedules didn't meet

Q. Well, you know, John is going to be in town this week; right?

A. I do.

Q. Do you have any plans to talk to him about Ernst & Young's role this week while he's in town?

A. I think John will have his hands full, so, no.

Q. Okay. The -- there are a number of assumptions in the -- in your forecast that you describe in your expert report; correct?

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A. That is correct.

Q. And some of those assumptions are assumptions that were provided by other parties, such as Conway MacKenzie or the City or other parties; correct?

A. Some of the assumptions, yes, were provided by the other parties, but I'm generally aware of the broad assumptions that are in there, even for those provided by the other parties.

Q. And some of the assumptions for your forecast you created; correct?

A. Yes.

Q. And as you mentioned, the assumptions for your forecast have changed over time, as you've done different iterations of the forecast; correct?

A. Well, the assumptions have changed because of the settlements that have reached. So based on the terms of the settlements, you know, we have updated those. Some of the other assumptions, which are also really extrapolations of run rates, are -- they are generally what they are.

So, yes, as the assumptions -- we have

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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?

A. It depends on which line items you're talking about, because the settlements reflect certain line items, not all.

So, you know, it's --

Q. Well, the -- I'm thinking about the entire results, the results from the 10-year and 40-year forecasts that you initially created would no longer be accurate; correct?

A. Could you be more specific on results? Which results are you talking about?

Q. Well, the total numbers for the revenue and costs of the City would no longer -- generated by your original forecast would no longer be accurate; correct?

A. I don't know whether -- I'm just trying to think about the individual line items that have changed to make sure that I can answer your question accurately.

I would say that the latest -- yes, the

MALHOTRA

latest updates are probably the best information we have as of date.

Whether that makes all of those forecasts -- and I think you used the word "inaccurate." That's -- it's just we have better information today than we had earlier.

Q. Okay. Your more recent forecasts would be more reliable than your first forecast; is that fair?

A. I would say, yes, the most recent forecasts are the best picture we would have as of date, yes.

Q. Would it be fair to say that the longer the forecast, the less reliable the forecast?

A. It depends on specific line items and assumptions. But the further you get out there, the -- there is more uncertainty whether each one of those assumptions will play out the way they are in the forecast.

Q. And would you agree that the greater the number of assumptions in your model, the more uncertainty and potential for unreliability there is with the model?

A. No, because --

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Q. Well, all the other things being held constant, do you agree that the more assumptions that you have in a model, the greater the potential for uncertainty and unreliability?

A. No.

Q. Why is that?

A. Because different assumptions can also offset each other.

Q. Did you rely on any scientific or technical literature in creating your forecast?

A. I'm sorry? What is --

Q. Well, is there any scientific or technical literature that lays out the methodology you used in your forecast?

A. The financial forecast, the way it's been developed is how it's generally developed by all financial advisory firms.

Q. But that's not my question. Is there any scientific or technical literature you can identify for me today that lays out the methodology that you used in creating the forecast for Detroit?

A. I do not know of any scientific methodology. Technical methodology is generally

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well documented all over about financial advisers, how to create projections, look at the historical performance.

So, yeah, that's generally technical in nature, but not scientific.

Q. But so the -- but is there any treatise or other publication that you can identify for me today that lays out the technical methodology you used for the Detroit forecast?

A. I would say any financial journal that you will pick up, from a financial adviser's standpoint, has tons of articles written on how to build good -- develop reasonable forecasts.

Q. But can you identify one article, sitting here today, that contains the specific methodology you used in the Detroit forecast?

A. I do not recall one off the top of my head, no.

Q. Before the Detroit matter, what was the longest period of time you ever did a forecast of revenues or expenditures for?

A. I would say somewhere maybe between five and ten years.

Q. And you've never done -- I think you

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testified you'd never done a forecast for a municipality before Detroit; correct?

A. No, I did not testified to that. I testified that I've done it for Detroit Public Schools. I've developed a forecast for Detroit Public Schools.

Q. But for an actual city, municipality, you've never done a forecast before Detroit's; correct?

A. For a city, that is correct.

Q. You did some forecasting for the Detroit Public Schools?

A. That's right.

Q. What was the length of time that you forecast for the Detroit Public Schools?

A. I would have to go back and look. It could have been up to five years. It was probably somewhere in that neighborhood or shorter. I would have to go back and check.

Q. Are your forecasts that you've created in this case based on the business judgment of any City officials?

A. I would say yes.

Q. And yet you -- which City officials

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would -- who exercised their business judgment are your forecasts based on?

A. In terms of whether -- understanding the assumptions that were in here, Kevyn Orr, you know, John Hill. So, I mean, Brent, who is a former budget director. There were several folks who at least understood the broad assumptions that are in the forecast.

Q. And how does the business judgment of Detroit officials impact your assumptions, or in what way were you using that?

A. Could you repeat that question for me, please.

Q. How did business judgment of City officials play into your forecasts?

A. So -- and maybe I should have asked this earlier. Can you just -- what do you mean by "business judgment of the City officials" in the context of the forecast? Can you just give me a --

Q. Well, I read your prior depositions, and I think you had said that you relied on the business judgment of City officials. So I'm trying to use your term, and I'll ask you to

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elaborate on that.

A. Okay. So could you ask me the question again, please.

Q. I'm just asking, how did -- I guess what -- what -- when -- it would be fair to say that the assumptions in your forecast depend on certain policy choices by Detroit officials; correct?

A. Yes.

Q. And, currently, the City is being run by an emergency manager; correct?

A. That is correct, for -- the -- for some part. I think they're sharing with Detroit's mayor and city council for certain aspects, but, yeah.

Q. And the emergency manager is going to leave in the fall; is that your understanding?

A. That's what's reported in the press. That's what I read.

Q. Is that consistent with whatever information you have working for the City?

A. I do not have any other information other than what I've read in the press.

Q. And in the future during the ten-year

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period, there may be different decision-makers who are responsible for determining Detroit's policies than the current decision-makers; correct?

A. That's right. I think there's going to be some form of a govern -- an advisory board. But, yes, there will be -- you know, as people transition into new roles, with any organization, there would be new people coming in to fill those roles.

Q. And the new people who are in charge of Detroit during the 10-year period may decide to embark on different policies choices than you've assumed in your forecasts; correct?

A. They may or may not. I cannot speculate what they decide to do.

Q. It would require you to speculate to determine what policy choices Detroit's future leaders will make during the next 10 years; correct?

A. That's right. It would be speculating on that point.

Q. And, in fact, it's possible that there will be corrupt individuals who will be making policy choices for Detroit in the future; correct?

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A. I cannot answer that.

Q. That's a possibility, isn't it?

A. Anything is a possibility.

Q. And, in fact, in the past, there have been corrupt individuals who have made policy decisions for the City of Detroit; correct?

A. I read what's in the press, but I do not know what policy decisions have been made in the context of the general fund, so I cannot comment on that.

Q. Well, I mean, there have been people that have went to jail who were leaders of the City of Detroit in the recent past; correct?

A. I've seen the press on that.

Q. And so it's not outside the realm of possibility that there might be individuals who are engaged in criminal activity or corrupt practices who are making policy decisions for Detroit during the next 10 or 40 years; correct?

A. You can make any possibility that you want. I do not know about any -- I don't want to comment on that specific possibility or -- which is just, you know, a possibility of anything.

Q. Okay. But you'd agree it's possible

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that corrupt or criminal activity may be engaged in by Detroit's leaders during the period of your forecast; correct?

A. You know what? There's a possibility. Anything can happen.

Q. The assumptions in your model you mentioned had changed because of certain settlements; correct?

A. That is correct.

Q. Are there changes that have been made to the assumptions in your model over time that are not the result of settlements?

A. Yes.

Q. And what kinds of changes in the assumptions would those be?

A. It's based on getting updated information. So, for instance, the stated -- the state budget was approved for fiscal year '15 just recently, because of which we had not initially updated the State aid number. But we went ahead and did so in the July 2nd update because we received confirmation from the State that the budget had been approved. And the incremental State aid appropriation used the same methodology.

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So the methodology did not change from what it was in the past; but basically now that we had a source of data that had been confirmed, we updated that.

We updated the assumptions with regards to what the City would offer potentially for DPOA and DFFA, even though there was not a settlement with them, but using the assumption that the cost would be the same as it was with DPLSA and DPCOA. For property taxes, we received the latest information with respect to the State equalized value and updated the model based on that latest information that we had received. Again, not changing methodology.

So when we receive updated information with respect to firming up a recent trend better so that we can extrapolate, those are some of the examples that we've used.

Q. Would it be fair to say that there have been a number of material changes in the model since you first created it for your forecast?

MR. STEWART: Objection.

THE WITNESS: How do you define "material"?

MALHOTRA

BY MR. SMITH:

Q. Well, I guess -- I guess I'm asking you: How would you define "material"?

A. Well, settlement, the settlements we have reached or the City has reached are material.

Q. Are there other material changes?

A. I would have to go back and look at the bridge. But in my view, the major changes that have happened are in context of the settlement. And, of course, there have been changes, some that make the forecast better, some that make the forecast slightly worse so -- which at times may or may not fully offset.

But the big changes that have been incorporated into the forecast that I know of are the settlements. Some of the timing of the expenses have changed. But the biggest crux of the changes have been the settlements.

Q. Okay. But outside of the settlements, there have been big changes to the model that don't have to do with the settlements; is that fair?

MR. STEWART: Objection.

THE WITNESS: Could you define what you

MALHOTRA

define as "big" in this context.

BY MR. SMITH:

Q. Well, you just mentioned we're talking about big changes, so --

A. So we're talking about big settlements, I thought. Those are the big changes.

Q. What are the most significant changes to the model outside of the settlements that have impacted the dollar amounts?

A. So I would say we have gone ahead and updated the State aid revenue. We have gone ahead and updated the property tax revenue. We have updated the casino taxes. We have updated from what we received, some of the reorganization and reinvestment timing. And these are, again -- you know, compared to the plan of adjustment that was filed on May 5th.

We've updated some of the financing changes in terms of the assumptions on the financing.

I'm trying to think what else is not settlement-related.

Those are the big ones that come to my mind right now.

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Q. And when you say "the financing," are you talking about the exit financing?

A. That's right.

Q. Those assumptions for the exit financing have changed since the plan of adjustment; is that correct?

A. The assumptions with respect to the term of the amortization, yes, has been changed.

Q. Okay. As far as you know, has the City secured exit financing from anybody?

A. Not as of now, is my understanding, but Miller Buckfire has a better idea of that.

Q. And an assumption of your forecast is the City will be able to obtain exit financing on the terms you assume; correct?

A. That is the current assumption in the forecast; you are correct.

Q. And the forecast, would it be fair to say, would change by hundreds of millions of dollars if no exit financing were obtained?

A. If you can be more specific. The revenues would change, but over what time frame?

Q. I see what you're saying. I mean the exit financing is necessary for the City to emerge

MALHOTRA

from bankruptcy; correct?

A. I don't know about necessary or not necessary. I can talk about the assumptions that have been made with respect to the sources and uses of the financing. But I wouldn't comment on the necessary for exit versus not.

Q. Were the assumptions for the exit financing you used just numbers that were given to you by Miller Buckfire?

A. The exit financing, yes. We had some discussions with Miller Buckfire and with Jim Doak from Miller Buckfire that I spoke to several times. And then we used the input that was provided by them to come up with the exit financing that's in --

Q. But you haven't actually spoken with any potential lender who is interested in giving Detroit exit financing; correct?

A. I have not; correct.

Q. And you can't identify any potential lender who is interested in giving Detroit financing, can you?

A. That is something Buckfire is running.

Q. But you don't have knowledge, even can't

MALHOTRA

identify any creditor, any lender that's willing to offer the City exit financing on the terms you've assumed; correct?

A. The RFP just went out last week, but I do not know of any as of now.

Q. Did you have any role in the RFP for the exit financing? Did Ernst & Young have any role?

A. It -- just to clarify and, you know, talked to the Miller Buckfire team about the assumptions that were in the forecast overall, but we did not create the RFP.

Q. Okay. But you've reviewed the RFP?

A. I have looked at some of the main items that were sent out -- that were going to be sent out as a part of the RFP. I have an email on that, yes.

Q. But have you reviewed the entire document or not?

A. I have reviewed some of the terms, but I do not know if I've reviewed the entire document. I can't recall.

Q. Would it be fair to say that you would expect that if you if you were doing your forecast a year or two from now, that the results of the

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forecast would be different than your current forecast?

A. It depends.

Q. There's no way you can tell me whether the forecast that you have today will be the same in a year or two from now; is that fair?

A. Yeah. It depends. Revenue -- if some of the revenues change, do the expenses change or do they offset? I don't know, but that's what -- after two years, a forecast becomes an actual. And then you have actuals. You don't have a forecast for two years.

Q. Yeah. But the forecast, I mean, for the remaining eight years, for example, I mean, there's no way you can represent to the Court, for example, that, you know, a year or two from now your forecast would be the same for the remaining years in the term of the 10-year period; correct?

A. I cannot -- I cannot say that after two years ever single line item will be exactly the same as what it is in the forecast; that is correct.

Q. And you can't say that the total amounts for revenue and expenditure will be the same;

MALHOTRA

correct?

A. Two years from now, I cannot predict that every single line item of revenues and expenses will be exactly the same as it is in the forecast today.

Q. And you also -- you can't predict that two years from now the total amount of revenue and expenditures will be the same as it is in the model today; correct?

A. In two years I cannot say whether the exact total of the revenues for that 10 years will be exactly the same or if the exact -- expenses will be exactly the same or if they offset each other. I cannot tell.

Q. How many inputs and assumptions are there in your model?

A. There are -- we can go through the line items, and I can talk to you about the assumptions. But there's a lot of line items, and there's assumptions in there. So --

Q. Well, are there --

A. -- I don't have the number of assumptions.

Q. Are there more than 100 assumptions and

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inputs?

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.

THE COURT REPORTER: I thought it was about an hour, and I --

MR. STEWART: It's okay, but we can't

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keep breaking on the hour. There are lots of questions and people have planes to catch.

(Discussion off the stenographic record.)

THE VIDEOGRAPHER: Going off the record at 10:59.

(Short break taken.)

THE VIDEOGRAPHER: We are back on the record at 11:05.

BY MR. SMITH:

Q. Mr. Malhotra, can you identify any time where Ernst & Young has ever done a forecast for a city that's as long as 10 years?

A. I have not. I do not know about Ernst & Young. I mean, request practice or other tax practices --

Q. Sitting here today, though, you can't identify any such instance; correct?

A. I do not know what -- it's a large firm, and I do not know -- I can tell you that -- I have not done a 40-year for a city before.

Q. And in your forecast, you haven't included funds necessary for Ernst & Young to update the ten-year forecast after the bankruptcy;

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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 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 that we would have to work through.

But I do not have a specific line item, and the restructuring professional fees line for

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ongoing assistance beyond the bankruptcy if there is ongoing work and if there's a possibility that within the different projects those fees get absorbed, I do not know yet.

Q. As the forecast stands now, you don't have any money in the forecast currently for ongoing work after the bankruptcy by Ernst & Young or Conway MacKenzie; is that fair?

A. I thought I just answered that: If it isn't -- if it could be embedded in the individual implementation projects of the restructuring, that's something we'll have to see.

You are right. I do not have any restructuring professional fees in that line item, any more fees beyond the restructuring period.

Q. Okay. I mean, there's no -- you're not assuming that -- Ernst & Young or Conway MacKenzie will continue work for the City after the bankruptcy, in your forecast?

A. That's not true.

Q. Okay. How are you -- I mean, are you assuming one way or the other?

A. Well, EY, as I've already mentioned to you, is going to continue work on the HR

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implementation project, and the fees for that will likely come out of the HR implementation budget.

Q. What is the HR implementation project?

A. It's to help the City transition its existing payroll systems to a new system.

Q. Is the City -- the City is still producing one-year budgets, correct? Is that correct or -- or not?

A. I think they are still going through this interim process of a one-year budget, I believe. But I need to make sure that they're still doing one year or is it just the three years and the one year is a component of that.

Q. In the ordinary course of its business operations, the City is currently doing only three-year budgets or potentially one-year budgets; is that correct?

A. That would be correct.

Q. Do you agree that there's some restructuring and restructuring activities the City is planning to undertake that don't cost any money, such as changing policies or things like that?

A. Changing what policies?

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Q. Well, any -- I mean, some of the, quote/unquote, restructuring activities I've seen are things like make operations more efficient or, you know, things like that.

A. Things like what?

Q. Well, why don't I ask you this: Do you agree that there are some restructuring activities the City is planning to undertake that would save money?

A. Yes.

Q. And do you agree that there's some restructuring activities the City is planning to undertake that would, on balance, lead to increases in revenue for the City?

A. Could you ask me that again.

Q. Are there some restructuring activities the City is planning to undertake that would, upon balance, lead to increases in revenue for the City?

A. There are some restructuring and reinvestment initiatives that will lead to increased revenues for the City.

Q. And there are restructuring activities that will bring in more revenue than they will

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cost; correct?

A. It depends on what time frame.

Q. Well, but there were some restructuring activities the City is going to undertake where the benefits in terms of increased revenue, where a reduction in costs outweigh the costs of the initiative; correct?

A. It depends on what time frame, because you have to see when -- the overall result in increased revenues compared to the costs incurred.

Q. Yeah. At the end of the -- over the course of your projections; right? Over the course of your 10-year projection, there are restructuring activities where the benefits outweigh the costs of the restructuring activity; correct?

A. I'm not sure about that. There's a billion four in restructuring and reinvestment costs. And I don't know if over the ten years if there is a billion four of revenue.

Q. Okay. So the City isn't -- you would agree with me that the City is engaging in some restructuring activities that have a -- that have a negative cost benefit; correct?

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A. Maybe over 10 years, but it probably changes over 40 years to -- for the revenues to get better.

Q. You agree -- you know that the City is planning to spend hundreds of millions of dollars on blight reduction; correct?

A. That's correct. There's $420 million in the current forecast, 50 million of which is going to be reimbursed by the hardest-hit funds.

Q. Okay. And do you know -- has the amount of blight reduction funding decreased over the course of your forecast, the various iterations?

A. I believe we had a number of, close to $500 million earlier. That went down to 420 million.

Q. Do you know why there was a reduction?

A. There was a reduction because of the overall level of contributions the City was committing to the pension systems.

Q. Okay. So did the -- the blight-reduction funds, were they reduced because the City was increasing contributions to pensions?

A. I don't know if it was only that or if it was the -- I don't know if that was the only

MALHOTRA

reason. But, yes, that's one I recall in which the $500 million went down to 420.

Q. Was one factor in the reduction of the blight expenditure the City's decision to increase money to the pensions?

A. It was to not increase money to the pensions. It was for the City to reach a settlement on the pensions and the amount of money that was required.

Q. And are you incorporating into your forecast any increase in revenue or decrease in the costs attributable to blight-reduction efforts by the City?

A. I believe that in the restructuring and reinvestment scenario, there is an overall increase in the revenues that has been assumed from the overall restructuring and reinvestment initiatives.

Q. Do you agree that the costs of the blight reduction outweigh any revenues or cost reductions that you've incorporated into your forecast?

A. Over what time frame?

Q. Either the 10- or 40-year period.

MALHOTRA

A. Over the 10-year period, I do not -- of the net 350 million that the City is spending, I would have to go back and look exactly how much increased revenue between all of the different initiatives has been included.

But over 40 years, if you were to extrapolate, you know, I think the increased revenues would be higher. But I do not know exactly. It would be easier to look at the exhibits and then walk through it.

Q. Okay. But sitting here today, you understand that over the 10-year period, the costs of blight reduction exceed any benefits; correct?

MR. STEWART: Objection.

THE WITNESS: No, I don't. Exceed any benefits?

BY MR. SMITH:

Q. You agree that the costs of blight reduction exceed any revenues for cost reductions that the City attributes to blight reduction over the 10-year period; correct?

A. In a direct financial standpoint from what I can relate it to, the answer is correct. Because there's probably indirect benefits of

MALHOTRA

blight removal, which I cannot talk about.

But from a direct-blight standpoint, it's -- I know the City has increased revenues towards the last five years of the first ten. If you look at that run rate, it's the -- the blight expenditures that have being spent could theoretically be reimbursed -- you know, be recuperated sooner.

But -- so it's just -- I don't have a direct answer, because you're spending the money over 10 years and there's increased revenues over the first 10 years; but the run rate in the last five years is much higher than it is in the first five years. I don't know if that answers your question.

Q. Yeah, but the total amount, if you calculate up the total amount -- well, first, let me ask you this. You say increase in revenues. There's -- is there a line item for increase in revenues specifically from blight reduction, or is it increase in revenue from all the reinvestment activities?

A. It's the latter. It's broken out -- well, there's three items. There's a discrete

MALHOTRA

line item for increased revenue due to the operational-driven initiatives. There is a discrete line item, then, of increased tax revenues because of overall restructuring and reinvestment initiatives, which also includes blight.

Q. So there's no line item specifically quantifying any revenue increase from blight reduction in your model; correct?

A. There is not a discrete line item. It would be a combination of the increased revenues as a part of the restructuring scenario.

Q. Okay. But some of the increase in revenue is attributable to other restructuring activities other than blight; correct?

A. That would be a fair assumption.

Q. And so you haven't tried to quantify the increase in revenues or decrease in costs solely attributable to blight reduction; correct?

A. That is correct.

Q. And so sitting here today, the cost of blight reduction looks like it will be greater than any revenue or cost reductions attributable to the entire reinvestment initiative?

MALHOTRA

A. No.

Q. Would it be fair to say that you can't represent to the Court that the cost of blight reduction will be lower than any revenues or cost reductions attributable to the blight reduction?

A. You got to ask me that again.

Q. Well, we've already established you haven't done any analysis of the revenues or cost reductions attributable to blight reduction; correct?

A. I don't know. That's -- that's -- if -- I don't know about that.

Q. Okay. And so sitting here today, I mean, there's no analysis that the City has done that shows that the costs of blight reduction are outweighed by revenue increases or cost reductions due to blight reduction; correct?

A. No. Over what time frame?

Q. I mean, you haven't done any analysis of the revenues solely attributable to blight reduction; correct?

A. The overall -- I thought I said this. The overall restructuring and reinvestment initiatives in the revenue -- in the increase in

MALHOTRA

revenues, blight is a part of those reinvestment expenditures.

Q. But nobody -- you haven't done any analysis specifically on blight reduction, correct, to find out what -- what amount of revenue generation or cost reduction is specifically attributable to blight reduction; correct?

A. It's a part of the overall restructuring and reinvestment initiatives.

Q. So you haven't done that analysis; correct?

A. If you're saying is what is the discrete item about blight, I would have to go back and look at it as to which line items it would likely impact and over what time frame.

Q. But you haven't done that analysis?

A. Well, not -- not in a direct fashion, no.

Q. Okay. And so you're not aware of any analysis -- I mean, Mr. Moore in his report, do you recall what he says? You can't quantify the amount of revenue that might be attributable to blight reduction?

MALHOTRA

MR. STEWART: Objection.

BY MR. SMITH:

Q. Do you recall that?

A. Which report?

Q. His expert report in this case.

A. I have not read his expert report.

Q. Have you read the expert reports of Cline or Sallee?

A. I have them. I've not read through them.

Q. Have you read the expert reports of any expert in this case?

A. I glanced at Ken Buckfire's report.

Q. Is that the only one?

A. That's the only one that comes to mind.

Q. Okay. The baseline forecast is a steady-state forecast that depicts the City's financial projection in the absence of restructuring or reinvestment; correct?

A. That is generally true. It's based on the recent extrapolated results, assuming they hold, yes.

Q. Okay. And the baseline forecast assumes no reinvestment or restructuring expenditure;

MALHOTRA

correct?

A. In the baseline model, those restructuring and reinvestment initiatives are broken out separately. So I don't know which line item you're referring to. But on that particular page, at least the one that comes to my mind, the restructuring and reinvestment initiatives are broken out separately.

Q. Okay. I'm just trying to figure out whether the baseline scenario assumes that the 1.25 billion, or whatever the amount is now for restructuring and reinvestment, will be spent or not.

A. No. That assumption was that that amount will not be spent directly.

Q. Do you agree that the baseline model doesn't include reinvestments like blight reduction; correct?

A. Yes. I mean, if -- it does not discretely, if there was -- any additional funds that -- like the hardest-hit funds that were made available in the form of grants, those funds would now be put into baseline because those hardest hit funds aren't available. But the north of billion

MALHOTRA

dollars of reinvestment expenditures were not included in the baseline.

Q. So the separate number of hundreds of millions of dollars for blight reduction that's in the restructuring scenario is not included in the baseline scenario; correct?

A. Those expenses were not included in the baseline scenario; that is correct.

Q. The City has been engaged in blight reduction for a few years; correct?

A. Yes. The City has had different initiatives in terms of reducing the amount of blight; however, new blight keeps coming up. So I don't know whether the City actually ever gets ahead or not.

Q. Yeah. And one problem with blight is that blight is always generating more -- there's always more blight being created; correct?

A. It depends when you have, you know, a -- there is a churning effect, if that's what you're talking about, that sometimes new blight does replace old blight. But it -- yeah, that's -- that's accurate.

Q. And the City has received grants from

MALHOTRA

the state and federal government to fund blight-elimination efforts; correct?

A. I know about the hardest-hit funds that are in the forecast. I do not know of other specific blight-removal funding.

Q. And the hardest-fit funds is $52 million that the City had access to for blight reduction; is that correct?

A. Yeah. I don't know if the City has access to directly -- I don't know the exact funding mechanism; but that's the assumption, that that money will be available to the City.

Q. And the City has already been spending money on blight reduction; correct?

A. Yes.

Q. And there's been nobody, to your knowledge, who has quantified any benefit in terms of revenue increase or cost reduction from the blight-elimination efforts the City has been engaged in so far; correct?

A. The increased revenues are a part of -- include a return on the restructuring and reinvestment initiatives, which include blight.

Q. Yeah. But in the blight-elimination

MALHOTRA

efforts that have already been undertaken, there's no study or data showing that those have increased City revenues or decreased costs, is there?

A. So of the blight-removal efforts that have already been undertaken -- can you specify? What time frame are you going back? Is it --

Q. Over any time period. You've never seen any study or data that shows that blight-elimination efforts in the City of Detroit have resulted in revenue increases or cost reductions; correct?

A. I do not know of a direct study if how -- taking down some of those properties has had an impact on some of the property taxes or not, if that is a study that directly correlates it. I have not seen a study like that.

Q. Okay. The baseline model that you've calculated assumes there won't be substantial investment in information technology; is that correct?

A. When you say "substantial," it does not include -- the IT expense that's mentioned in the restructuring and reinvestment initiatives is not included in the baseline.

MALHOTRA

Q. Does the baseline forecast include any cost savings the City has received as a result of the breathing spell provided by the bankruptcy petition?

A. The baseline model was used to reflect a no-bankruptcy scenario and did incorporate the 10 percent wage cut that the employees have already taken. So that was already reflected in the baseline.

Q. And the baseline scenario is not intended to be a measure of what happens if the bankruptcy petition is dismissed; correct?

A. Well, you have to look at the individual line items, because I would say some of those line items, it will be reflective of what happens maybe if the bankruptcy proceedings are dismissed.

Q. And some of the line items in the baseline scenario will not be reflective of what happens if the bankruptcy petition is dismissed; correct?

A. I would have to think through which of those line items will and will not get impacted by the bankruptcy proceeding. So some will; some will not.

MALHOTRA

Q. But, overall, you would have to make changes to the baseline scenario to create a scenario where you had the bankruptcy petition dismissed; is that fair?

A. I don't know. I would have to look at this. It would be easier to have the baseline in front of me. I would have to look at it to say whether we would have to change the entire baseline or not.

Q. There have been times where you received reports of cash collections from the City that were not properly categorized; correct?

A. Yes.

Q. And there have been times where you received questionable reports regarding accounts payable from the City; correct?

A. When you say "questionable," it's -- I'm just -- they were not -- they were not fully complete.

Q. And Ernst & Young still -- you haven't audited the City's financial data; correct?

A. That is correct.

Q. Would it be possible to audit the City's financial data?

MALHOTRA

A. You should ask KPMG that.

Q. Are they responsible for auditing the City's financial data?

A. They are.

Q. You don't dispute that the City could continue to cut costs if the bankruptcy petition were dismissed; correct?

A. Could you ask me that again, please.

Q. There are cost-cutting measures the City could take if the bankruptcy petition were dismissed; correct?

A. Like what?

Q. Well, it could reduce headcount. That's one; correct?

A. Unlikely. The City is already at a low point in terms of the amount of headcount it already has.

Q. Well, here's some things that could happen. You could privatize some of the City services if the bankruptcy petition were dismissed; correct?

A. I don't know about that. Again, I mean, I don't know if the City can cut more costs now.

Q. You haven't been asked to do any

MALHOTRA

analysis of the costs and revenues to the City if the bankruptcy petition is dismissed; correct?

A. We do not -- we do not have a scenario of what happens if the City's bankruptcy proceedings are dismissed; that is correct.

Q. Have you been party to any conversations with the City where there have been discussions about what might happen if the bankruptcy petition is dismissed?

A. Not directly, no.

Q. Do you know if there's any contingency planning by the City about what might happen if the bankruptcy petition is dismissed?

A. No.

Q. Has the City already begun restructuring efforts that fall within that restructuring and reinvestment plan that your forecast is based on?

A. Some of the initiatives that are a part of the restructuring and reinvestment budget have been started already.

Q. What would those include?

A. You would have to talk to Conway MacKenzie about that, because there's a detailed risk of the items that are already -- or John

MALHOTRA

Hill, actually, of the items that are already underway.

Q. And would the costs and revenues from those activities be incorporated in both your baseline and your restructuring scenario or not?

A. No. It's a part of the restructuring scenario. We are operating as one scenario now that includes the restructuring and reinvestment initiatives; so, yes, those costs and -- would be a part of the restructuring and reinvestment budget as laid out in the plan.

Q. Okay. But I'm wondering, did you update the baseline scenario or not really?

A. I would have to go back and check, if any of the items would be reflective -- what change in the baseline. We are much more focused on the overall restructuring scenario.

Q. Okay. So sitting here today, you don't know whether or not you've incorporated costs from restructuring activities that have already started in the baseline scenario?

A. I would have to go back and look at that.

Q. Okay. Is that apparent on the face of

MALHOTRA

the 10-year and 40-year forecasts? Or do you have to go back to the Excel spreadsheets or some other source to figure that out? Or is it something that Conway MacKenzie would have to tell you?

A. I'm just thinking. I think the -- it would be in the overall restructuring and reinvestment scenario, because the timing of some of the expenses had changed. So my guess is that it would be reflective in the update, to the best of our ability.

Q. And -- but would it be in the update of the baseline scenario?

A. I don't think it would be in the baseline cells, but we are -- like I said, we are looking at this as one restructuring scenario. It continues to be the focus.

Q. But your assumption in your forecast is that there would be no restructuring or reinvestment outside of chapter -- if the plan were not confirmed; is that fair?

A. Can you please repeat that.

Q. Is one of the assumptions of your forecast that there would be no restructuring or reinvestment if the plan were not confirmed?

MALHOTRA

A. The baseline assumes that those billion four of expenses are not in the baseline. So that's what I'm comfortable telling you, that those billion four of expenses are not in the baseline.

Q. You've been working with the City since May of 2011; is that correct?

A. That sounds about right.

Q. And you know that there was a financial stability agreement between the State and the City; correct?

A. That is correct.

Q. And that was a consent agreement between the State and the City; correct?

A. And the city Council. Yes.

Q. And the financial stability agreement imposed mutual obligations on the City and the State to try to help restructure the City's financial situation; correct?

A. There were some annex additions that were a part of the agreement in which both the State and the City had certain obligations, yes.

Q. And did the financial stability agreement establish the financial advisory board

MALHOTRA

and revenue conferences that are still ongoing?

A. I think it was a part of the financial stability agreement, yes.

Q. And the City agreed to operational reforms in the financial stability agreement?

A. Yes. There were some operations changes. I don't recall which ones, but --

Q. And then the emergency manager was appointed by the State; correct?

A. Yes.

Q. And the emergency manager put together an operating plan. Do you recall that?

A. I do.

Q. That was around May of 2013; correct?

A. I don't remember the exact date.

Q. And you agreed that the emergency manager had indicated that the financial stability agreement was the starting point for the emergency manager's plan?

A. I do not recall that.

Q. Do you agree that the emergency manager's operational plan, that was produced before the City went into bankruptcy; correct?

A. That is correct.

MALHOTRA

Q. And that operational plan, again, discussed reforming and restructuring the City's operations to improve the City's fiscal condition; correct?

A. I would have to go back and look at that report.

Q. Has the City -- have the City and State recognized that the main issue facing the City's government and its fiscal situation are the legacy costs from the pensions and healthcare coverage?

A. That's -- can you repeat that question, please.

Q. Based on your work with the City and State, do they recognize that the main fiscal challenge to the City and State are the legacy costs --

A. I'm sorry.

Q. -- from the pensions?

A. Who is they?

Q. The City and State officials that you've worked with, did they recognize that the main challenge to the City and its fiscal situation are these legacy costs from the pension and healthcare?

MALHOTRA

MR. ALBERTS: Objection to form.

THE WITNESS: I don't think that's the only issue. I mean, it's declining population, which is a significant issue that has faced Detroit. So I don't know. You would have to ask the State and City officials that question.

BY MR. SMITH:

Q. Based on your work with the City before the bankruptcy petition was filed, is it your view that the City's efforts to restructure and improve its fiscal operations before the bankruptcy petition was filed were reasonable and good efforts?

MR. STEWART: Objection.

THE WITNESS: Could you just repeat the question, please.

(Thereupon, the requested portion was read back by the reporter as above recorded.)

THE WITNESS: So I still don't understand the last part of that question. The City -- I mean, if you can just rephrase the last part of your question, it will just

MALHOTRA

make easier for me to answer it.

BY MR. SMITH:

Q. Okay. Before the City filed its bankruptcy petition, it was already engaged in restructuring efforts to improve its fiscal condition; correct?

A. That is correct.

Q. And in your view, were the efforts the City took before the bankruptcy petition was filed to restructure its operations and improve its fiscal condition, were those good efforts and reasonable efforts by the City?

MR. STEWART: Objection.

THE WITNESS: There were several efforts the City took in order to cut costs, some temporarily. Some were just deferrals. And so, you know, there were several initiatives the City was working on. I would say the City did undertake several initiatives to cut costs, cut the cash disbursements by either deferring outflows or, in some cases, imposing some wage cuts on employees.

BY MR. SMITH:

Q. So one strategy the City used to improve

MALHOTRA

its fiscal situation before bankruptcy was to defer expenditures; correct?

A. The City was deferring contributions to the pension systems in order to just cash flow day to day.

Q. And was that lawful?

MR. ALBERTS: Objection.

THE WITNESS: I don't know about that.

BY MR. SMITH:

Q. In your forecast, there's no deferral of contributions to the pension system, is there?

A. In which forecast?

Q. In any of your forecasts.

A. In the plan of adjustment, I do not believe we are contemplating deferring pension contributions.

Q. And deferral of pension contributions is a strategy that a number of cities have used to improve their fiscal situation; correct?

A. I can't -- I don't know about that.

Q. You haven't done any investigation to determine what measures other cities have taken to improve their fiscal situation have been, have you?

MALHOTRA

A. What do you mean? In what particular context?

Q. Well, have you done any investigation of other cities to find out what efforts they've made to increase revenues or decrease costs to address fiscal distress?

A. I've kept up with what other cities are sometimes doing to improve revenue initiatives.

Q. One successful strategy cities have used to improve revenues is to raise tax rates; correct?

A. I do not know about that. I'm sure if you increased tax rates -- I don't know what the impact is on collections. So I don't know if that is successful or not successful.

Q. Okay. Do you agree that one strategy that cities have used to increase revenues is to raise tax rates?

A. If tax rates are increased and the collection levels do not drop and the wage levels remain the same, one could imply that collections were going up. But I do not know -- I can tell that in Detroit, the City increased the corporate income tax rate from 1 percent to 2 percent. And

MALHOTRA

so that did result in higher collections.

Q. Another strategy that cities have implemented to improve their fiscal situation is to increase fees for services; correct?

A. Yes. And it depends on the level of service and the collectability of those increased fees.

Q. And another strategy cities have used to improve their fiscal situation is improve collection of taxes; correct?

A. If the collection rates improve and everything else remains the same, that would improve the taxes.

Q. A number of cities, in order to deal with fiscal distress, have cut services; correct?

A. Like what?

Q. Like a lot of different kinds of services, city services. There have been cities that have cut police and fire service in order to address fiscal distress; correct?

A. I can't talk about one that specifically comes to mind where police and fire has been cut significantly.

Q. Are you aware that there have been

MALHOTRA

cities that have cut services in order to address fiscal distress?

A. Yes. In fact, Detroit's been doing it probably for a long time.

Q. And there are cities that have engaged in privatization in order to improve their fiscal situation; correct?

A. Cities have privatized assets all over the country. Whether it improves their fiscal position or not, I can't comment on that.

Q. Are you from Chicago?

A. I live in Chicago, yes.

Q. Okay. Well, we have something in common. You know the City in Chicago privatized its parking system; right?

A. A lease -- and turned to a long-term lease agreement.

Q. And received more than a billion dollars for doing that; correct?

A. Yeah, I don't remember what the exact revenue was, but that may sound reasonable.

Q. And the City of Chicago has also cut, you know, its costs in other ways in order to address fiscal distress; correct?

MALHOTRA

A. Like what?

Q. Well, I think it's cut some wages and probably cut headcount.

A. I don't know about that.

Q. You know that the City of Chicago is contemplating a significant increase in property taxes?

A. I don't know what "significant" is.

Q. Well, you know the City of Chicago is planning to increase property taxes, correct, in order to address its fiscal situation?

A. I don't know how much of that is driven by the State versus the City. I haven't paid too much attention to those taxes going up.

Q. Okay. Well, you must not live in the city.

A. I do live in the city.

Q. So do I. I've been paying attention.

You're aware, though, that there are plans to increase property taxes, whether they're driven by the State or they're driven by the City, in Chicago in order to address the fiscal situation; correct?

A. Yeah, I read about that.

MALHOTRA

Q. And you're aware that Chicago city pensions are significantly underfunded; correct?

A. Underfunded compared to what?

Q. Well, compared to Detroit, Chicago's pensions are much less funded than Detroit's pensions are; correct?

A. I don't know the assumptions that City of Chicago is using, and so I don't know exactly what that funded status is.

Q. Would you agree that there are a number of cities in the country that are having to deal with fiscal distress and fiscal crisis?

A. I know of two other cities -- Stockton -- that are in Chapter 9. So, I mean, I don't know what you mean by a number of cities all over the country facing fiscal distress.

Q. Have you done any investigation into the fiscal condition of any other cities?

A. Yes.

Q. And you're aware that there are other cities in the country experiencing fiscal distress and crisis; correct?

A. There are some other cities in the country facing financial distress, yes.

MALHOTRA

Q. Did -- before its Chapter 9 filing, had the City put together a restructuring plan? Say around March of 2013?

A. I do not recall if it was a restructuring plan or the City -- I'm sure had pulled together some short-term like -- five-year forecast at that point in time to, say, lay out what the expense side could be or at least get a better handle on it.

Q. The City did make a proposal to creditors that would have accomplished a restructuring outside of Chapter 9; correct?

A. That was the June proposal in terms of laying out what the financial resources available to the City were to meet its legacy liability of legacy obligations.

Q. Are you involved in communications directly with the State of Michigan in your work on -- for the City of Detroit?

A. Off and on, and not on a day-to-day basis.

Q. Do you keep the State of Michigan informed about the City's activities with respect to its financial situation?

MALHOTRA

A. Not on a day-to-day basis. That's something that, you know, the emergency manager is doing.

But if there are specific questions on assumptions or on the forecast, yeah, I speak to the State on that.

Q. Okay. So the City -- the emergency manager keeps the State apprised on a day-to-day basis of the City's financial condition and efforts at fiscal improvement; correct?

MR. STEWART: Objection.

THE WITNESS: You would have to ask the emergency manager that.

MS. FOX: Object to form.

THE WITNESS: You would have to ask the emergency manager that.

BY MR. SMITH:

Q. Are you aware of any funding the State's provided to the City to support its restructuring or -- and investment plan?

A. There's $194.8 million coming in from the State in terms of pension that's coming in.

Q. But does the State -- oh, okay. So the State has agreed to contribute to the pension

MALHOTRA

funds for City workers; is that fair?

MR. ALBERTS: Objection to form.

THE WITNESS: It's a part of the grand bargain.

BY MR. SMITH:

Q. Other than contributing to the pension fund, has the State provided any funding to support the City's restructuring and reinvestment plan?

A. I think the State had also assisted with some portion of the professional fees.

Q. And other than paying professional fees and the pension and contributing money to pensions, has the State provided any funding in support of the City's restructuring and reinvestment plan?

A. Well, just to be clear on the first one, as you just asked the question, as a part of the contribution to the grand bargain, that money does not have to be put into the pensions by the City. So the City is having funding available for the restructuring and reinvestment plan. I just want to make that clear.

Other specific projects, I would defer

MALHOTRA

to Conway MacKenzie in terms of that billion four, if -- what assistance is being provided, if any, by the State, because I know the State does continue to provide specific grants that work through the different departments.

Q. You're not aware of any special funding that State has designated for reinvestment and restructuring Detroit?

A. I believe the hardest hit funds of the $50 million -- $52-1/2 million I think are coming through the State. I'm not sure.

Q. Is it your understanding that the 194 million that the City is receiving from the State doesn't have to go into the pension fund but could be used to pay other creditors?

MR. STEWART: Objection.

THE WITNESS: No, that's not my understanding.

BY MR. SMITH:

Q. Okay. It has to go into the pension fund?

A. Yes, that is my understanding.

Q. Okay. And is that the way your forecast treats that money? Is it accounted for in your

MALHOTRA

forecast?

A. Yes.

Q. Would it be fair to say that the emergency manager made significant progress in cutting costs and increasing revenues before the bankruptcy petition was filed?

A. What did you mean "significant"?

Q. Well, use your definition of "significant."

Would you say that the emergency manager had made significant progress in cutting costs and increasing revenues before the bankruptcy petition was filed?

A. I don't know what your definition of "significant" is. I will say that the emergency manager -- I don't know about the revenue initiatives, but -- in my view, I think there was some ongoing cost cutting even continuing then.

Q. Okay. So using your definition of "significant," did the emergency manager make significant progress in cost cutting before the bankruptcy petition was filed?

MR. STEWART: Objection.

THE WITNESS: I would have to go back

MALHOTRA

and look at the projections or the actual costs before and after to be able to answer that.

BY MR. SMITH:

Q. Okay. Did the City initiate plans to improve tax collection before filing the bankruptcy petition?

A. The City has been working on trying to improve tax collections the entire time. I mean, it's an ongoing process to improve the process, you know, collection efforts in any fashion possible.

Q. There is significant revenues that are owed in taxes that the City has not collected each year; correct?

A. I do not know about that.

Q. Well, how much in revenue -- do you know how much in revenue the City is not collecting each year in taxes?

A. I do not.

Q. So you haven't done any analysis that -- in your forecast to try to quantify amount of revenue that could be obtained through increased tax collection?

MALHOTRA

A. EY has not done an analysis on delinquent taxes today and what efforts could be made to collect those delinquent taxes. I know the City has been working on, you know, providing relief so that people come out and -- or amnesty programs, and we know that the City has made good efforts on those.

I do not -- we have not gone out -- EY has not gone out to try and come up with a collection effort for any delinquent taxes.

Q. But over the 10-year period of your forecast, you haven't quantified the amount of taxes that will go uncollected if current trends continue; correct?

A. We have a collection-rate assumption in the forecast that continues to improve over the forecast period. So I would have to go back and see if we can quantify what -- your question. But I know that we are assuming that the collection rates would actually increase over the forecast period.

Q. Is that true for all taxes?

A. Well, at least in the big one where -- in property taxes, I believe that is the case. We

MALHOTRA

can go down the line. On casino taxes, there is no issue because the collection rates are fine. On the income taxes, I would have to go back and check.

Q. As far as you're aware, on the income tax you haven't incorporated an estimate in your forecast for an increase in revenue that would occur if there were withholding for reverse commuters or if there was piggybacking with state taxes; correct?

A. That is correct. We have not got a -- we do not have in the baseline an initiative specifically on the reverse-commuter tax issue.

Q. And it's not in the restructuring scenario either; correct?

A. I do not think it is, but I would -- you should confirm that with Conway MacKenzie.

Q. Okay. Or would it be Mr. Cline that did that, or --

A. On the specific reverse commuter, if it's -- if that revenue has been -- if that revenue has been included in the restructuring and reinvestment operating initiatives, you would have to talk to Conway MacKenzie about that.

MALHOTRA

Q. Okay. So sitting here today, though, as far as you're aware, it's -- there's not been a specific addition for implementing income tax withholding or piggybacking with the state tax; correct?

A. That is correct. Not that I know of.

Q. And there have been no -- you haven't attempted to forecast what would happen if tax rates increased; correct?

A. Which tax rates?

Q. Any of the tax rates. You haven't built in an increase for any tax rates in your forecasting model; correct?

A. That is a policy question. Yes, we have not baked any increases in the tax rate, because I think they're already at the max in certain cases. But we have left tax rates where they are today.

Q. But the State and the City, in the cooperation, could raise any of the tax rates; correct?

A. I don't know what legislation is required for that. You would have to ask the State or the City. It's a policy question.

Q. Are there any policy -- potential policy

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changes that you have factored into your forecast?

A. I would have to go back and check. Not -- nothing that comes to mind specifically. If you were to ask me a more detailed question, I'd be able to answer.

Q. Over the 10-year period, one thing that can obviously impact your forecast is if there are changes in policy, such as change in tax rates or other policy changes that affect revenues or costs; correct?

A. If you change the assumption, the numbers will change. You are correct.

Q. Where did you get the assumption to hold tax rates constant?

A. That was the -- discussion with the emergency manager.

Q. Where did you get the assumption to -- as far as you're aware, not incorporate, you know, withholding for the income tax or piggybacking with the state tax?

A. I do not recall. My -- I do not recall specifically because there was not enough substantive information that was available to judge what, if any, that impact was. But I was

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not a part of those discussions.

Q. Do you agree the City is able to pay its bills right now?

A. What bills?

Q. All of its bills. I mean --

A. Well, under the restructuring scenario, it's different. So you have to be more specific about what bills. While the City is in bankruptcy or . . .

Q. You included in your forecast, I think it is called, a contingency fund or something like that. Do you recall that?

A. A contingency reserve.

Q. Or reserve. And how much is that?

A. We used about -- we used 1 percent of revenues.

Q. And how much money does that work out to?

A. On almost $11 billion of revenues -- on more than $11 billion of revenues, it's about $100 million of contingency.

Q. And before the City went into bankruptcy, did it have a contingency reserve?

A. It wasn't discretely called out. I do

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not know, in the budget, if there was a specific contingency reserve or not. I would have to go back and check.

Q. Sitting here today, though, you're not aware of any contingency reserve the City had before entering bankruptcy; correct?

A. I don't know if it was entered into specific line items or if it was not. So -- but I do not recall of a specific contingency reserve that was at least in the budget. The City always tries to budget for deficit elimination to basically account for the previous year's deficit, but I don't know if it's a line called "contingency reserve."

Q. Was there a contingency reserve in the version of the forecast you did for the fourth plan?

A. I'm sorry?

Q. Fourth plan. Fourth amended plan.

A. I would have to go back and look at the fourth amended plan.

Q. Okay. Have there been prior --

A. Oh, yes. I'm sorry. That was the plan of the adjustment filed. Yes, there was a

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contingency.

Q. And was it in the same amount or not?

A. I think it was -- the amount of the contingency was pretty much the same because it was driven off 1 percent of revenue.

So if the revenues changed slightly, the contingency would have changed slightly. But the methodology was the same: It was 1 percent of revenues.

Q. Were there versions of the plan where you had no contingency reserve?

A. I would have to go back and look.

Q. You don't know whether the contingency reserve was in all versions of your plan, sitting here?

A. I don't know if it was -- the 1 percent was in all versions or not.

Q. You agree that if the petition is dismissed, some blight-reduction efforts would continue; correct?

A. It depends on the amount of money the City has available to fund. Something that is grant-funded, like the $50 million, if it is still available, presumably it would be spent.

MALHOTRA

Q. Do you agree that if the petition is dismissed, efforts to increase tax collections will continue?

A. I do not know, because it would -- the City would require funding for all these initiatives.

Q. So you don't know one way or the other?

A. I do not.

Q. If the petition is dismissed, would it be fair to say that the City will continue to try to increase revenues?

A. Yes.

Q. If the petition is dismissed, will the City continue to try to cut costs?

A. I do not know about that.

Q. If the petition is dismissed, will the City continue to use privatization efforts to improve its fiscal situation?

A. I do not know about that.

Q. If the -- would it be fair to say that you just don't know what -- what will happen if the petition is dismissed, because you haven't investigated what specific activities will continue or not?

MALHOTRA

A. Yeah. If the petition is dismissed and the City has to continue to pay its legacy bills as they were prior to the bankruptcy, that's going to be a problem for the City; based on which, I do not know what the City will have the ability or will not have the ability to do. I have not fully looked at that.

Q. You haven't been asked to look at what would happen if the petition is dismissed by the City or the State; correct?

A. That is correct.

Q. And you're not offering any opinion about -- have you reviewed Syncora's objection to the bankruptcy petition?

A. No.

Q. So you're not offering any opinion about the analysis in Syncora's objections which shows how much money it believes creditors could receive if the petition were dismissed; correct?

A. That's correct.

Q. The -- and nobody's asked -- nobody has asked you to do such an analysis, from the City or State; correct?

A. That is correct.

MALHOTRA

Q. Can you identify any city in fiscal crisis that's planning to spend approximately a billion dollars in new reinvestment spending?
A. I do not know of another city which is probably in the same condition as Detroit, but that would be -- I do not know.
Q. Can you identify any city that's planning to spend approximately a billion dollars in new reinvestment while not raising tax rates?
A. I do not know.
Q. Can't identify such a city?
A. I haven't done the analysis to go out and take a look.
Q. So you can't identify any examples?
A. I just said I do not know.
Q. Can you identify any cities that are planning to spend hundreds of millions of dollars on blight reduction?
A. I do not know.
Q. Can't identify any such a city; correct?
A. I haven't gone out and done this particular analysis, so I do not know.
Q. You agree that not every city has a municipal income tax; correct?

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 there won't be any new taxes that don't currently

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exist; correct?
A. Or may replace existing taxes in some fashion.
Q. And where did that assumption come from?
A. We've left the tax policy the same as it is today.
Q. And did that come from the emergency manager?
A. That's what I thought I said earlier.
MR. SMITH: Okay. Why don't we take a break.
THE WITNESS: Okay.
THE VIDEOGRAPHER: Going off the record at 12:12 p.m. This is the end of Tape No. 2.
(Short break taken.)
THE VIDEOGRAPHER: We are back on the record at 12:21. This is the beginning of Tape No. 3.
BY MR. SMITH:
Q. Mr. Malhotra, you agree that it's possible to increase the money available to pay creditors by changing the assumptions in your forecast; correct?
A. If you change the assumptions, the

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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 particular scenario there's more revenue and

MALHOTRA

everything else is the same, yes, there will be more money.

Q. And you're not claiming that it's impossible for the City to pay creditors more money than is reflected in your forecast; correct?

A. You say "impossible." It's -- I mean, the City has -- if you change the assumptions on any of these items, the money could go up or the money could go down.

Q. And so it's certainly possible -- well, we covered that already. And we've also covered that you're not doing any comparison between the scenario of the dismissal of the petition and the restructuring scenario; correct?

A. Well, like your question was, have I been asked to do a dismissal scenario? Not directly. But the baseline scenario, if you look at some of the line items, they're going to be the same as in a dismissal scenario, likely, which is going to make the baseline scenario reflective on some of those line items what the City is likely to face.

Q. And some of the line items would be different in the baseline scenario and dismissal;

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correct?

A. There could be. It would be -- if I look at each one of those line items, some of the assumptions, for instance, on pension, right, may or may not change. But, you know, for instance, some of the retiree healthcare projections, I mean, if you look at the baseline scenario -- and again, going by memory, even if you are to add the reinvestment expenditures in there, you're looking at somewhere close to a $5 billion deficit based on the assumptions that were in there in the baseline. And some of them will just get replicated for a dismissal scenario.

Q. And there are some things you don't -- you don't know what's going to happen after dismissal, right, because you haven't investigated it; correct?

A. I have not done a specific analysis on each of a dismissal scenario; but I can say that, you know, the payroll assumptions will not change that much. Payroll is what it is. The revenues are -- generally are what they are. The -- I'm trying to go by memory.

Retiree healthcare will continue to be,

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you know, increasing. And there may be some changes in pension. DDOT subsidy will continue to go as is. So --

Q. Well, you agree that there's a large disparity in the recovery between the bondholder creditors and the retiree creditors under the plan; correct?

MR. STEWART: Objection.

THE WITNESS: I don't know what you define by "large disparity."

BY MR. SMITH:

Q. Well, there's a large numerical disparity in terms of percentages that bondholders recover versus the retirees; correct?

MR. STEWART: Objection.

MR. ALBERTS: Objection.

THE WITNESS: A large disparity? I would say that based on the assumptions that are shown in the 40-year, based on those assumptions, the pension recoveries under those assumptions are higher. OPEB is the same as some of the other unsecured creditors.

BY MR. SMITH:

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Q. But my client you know is getting a lot less than other creditors in the bankruptcy; correct?

A. The COPs are getting the same treatment as OPEB and -- in terms of the numerical recovery under the assumptions we've used and the other unsecured creditors.

Q. What's the percent recovery of OPEB versus its claims?

A. I think it's roughly 10 percent.

Q. And other unsecured creditors, who are you thinking about?

A. Yeah. Those are the general other unsecured creditors, which is about 10 percent as well.

Q. And the percent of recoveries, you can't represent that those would remain the same in a dismissal situation if you don't know what percent recovery would be; correct?

A. Yeah. I would not know for each one of the classes what that would mean, because in a dismissal, I have not thought through how each class would get impacted. But what I can say, based on that baseline scenario, is the City's

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access to funds, I mean, the City is likely to have huge deficits from that baseline scenario assumption.

Q. You can't -- you can't --

MR. STEWART: He didn't finish his answer.

BY MR. SMITH:

Q. You can't --

MR. STEWART: Mr. Malhotra, did you finish your answer?

THE WITNESS: I was just about -- I wanted to just make clear that the City was showing huge deficits based on the assumptions in that baseline scenario, and some of which are going to be very similar to a dismissal scenario.

BY MR. SMITH:

Q. And some of them will be different; correct?

A. Some of them, yes. Like pension comes to mind, may or may not be different. I would have to look at that.

Q. And it's certainly possible some of the creditors may receive higher recoveries under the

MALHOTRA

dismissal scenario; correct?

MR. STEWART: Objection.

THE WITNESS: I don't know. I haven't done that math.

BY MR. SMITH:

Q. Nobody from the City has asked you to do that kind of analysis; correct?

A. That is correct.

Q. Has the City already implemented a software system for improved tax collections?

A. I do not know.

Q. You'd agree that it's possible for the City to reduce overtime if the petition is dismissed; correct?

A. I'm sorry. Can you please repeat that.

Q. The City can reduce overtime costs if the petition is dismissed; correct?

A. How?

Q. Not have as many overtime hours. I mean, it's within the City's discretion how many overtime hours that it has its workers work; correct?

A. No. It depends on the level of service that has to be provided and the manpower you have,

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so --

Q. And the City decides the level of service; correct?

A. Yes. It's the City and it's what the citizens require for some level of service. So I don't know if the City will be able to reduce overtime it the bankruptcy is dismissed.

Q. The City certainly has the power to reduce overtime if the bankruptcy is dismissed; correct?

A. It would depend on the level of service and the staffing. And my guess is within that comes in the collective bargaining agreements, so I'm not sure I can answer that, that the City can -- whether the City can or cannot reduce overtime.

Q. So you haven't looked into whether the City can reduce overtime if the petition is dismissed; correct?

A. Yeah. It's -- we have assumed that in a baseline scenario, for instance -- maybe if I can refer to that -- that the level of overtime is reflective of the current overtime run rate the City is experiencing. So if the case is

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dismissed, I don't know what impact that actually has on that overtime.

Q. Can you identify any Chapter 9 bankruptcy where a City claimed that it could reliably costs -- costs -- forecast costs and revenues over a period as long as 10 years?

A. I have not looked at the other Chapter 9 plans. But this is the best information we can pull together, at least for Detroit.

Q. So there's no City that you're aware of that is claiming that it could forecast costs and revenues for a period as long as 10 years reliably; correct?

A. I do not know whether they do or do not. I haven't done -- I haven't looked -- I haven't undertaken an exercise to go out and look at what other cities would be doing in this context.

Q. So you haven't looked to see whether, No. 1, other cities even try to forecast costs and revenues for a period as long as ten years; correct? That's not something you've investigated?

A. I have not, no.

Q. And you also haven't looked --

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investigated what methods, if anything, a city that has been -- that might attempt to forecast costs or revenues over a period as long as 10 years has used to ascertain what reliable methods are out there that have been used?

A. I'm sorry. That was way too long a question.

Q. You haven't done any investigation to identify whether there are methods that have reliably been used to estimate costs and revenues for a City for a period as long as 10 years; correct?

A. Cities' revenues are made up of taxes. And if you keep the tax policy essentially the same, the rest of it is pretty straightforward. Expenses, mostly the City's expenses are headcount and legacy liabilities-related.

So there isn't -- I mean, there's articles out there in financial journals on municipal accounting and municipal budgeting, so -- you know, which I read off and on. So I think through a methodology standpoint, there is no scientific methodology in this -- in Detroit that would be different for any other city.

MALHOTRA

Q. Can you identify one article on municipal budgeting that you've read?

A. Not off the top of my head, but there's governing publications that I get every week, and there's -- also articles, I think -- or there's articles that talk about long-term budgets potentially. But I haven't studied it in detail.

Q. And there's no literature cited in any -- in your report that would support your methodology; correct?

A. That's right, because as I mentioned, the methodology is pretty straightforward for a municipality when you look at the taxes -- when you look at revenue base and you look at the expense base. If you keep policy assumptions aside, it's a pretty straightforward analysis. Just like you would do with any other corporation, it's just financial forecasting.

Q. Have you published any publications on forecasting?

A. I have not.

Q. Are there -- in your forecasts, have you included any sums attributable to new fees imposed by the City that it's not currently imposing?

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A. That would be a question for Conway MacKenzie, because I know there's some fees in the restructuring of the investment initiatives, operational revenue line items. So that would be a question for them, whether they have.

Q. You agree that Detroit has the power to raise additional revenues by implementing new fees; correct?

A. No. It depends on whether you can collect those fees and what the expenses are to collect those revenues and what you are levying fees on.

Q. Okay. But there's the potential for additional revenue to be generated by implementing new fees; correct?

A. As long as the new fees -- the expenses incurred to generate new fees don't exceed the fees. I mean, I don't -- if there's a specific fee that you're referring to, it would be easier for me to comprehend. But it's just -- if you increase any new fee, depends on whether you're going to collect it, the costs you're going to incur to collect it.

Q. And you may have included additional

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revenues from new fees in your forecast; you just don't know, sitting here today; correct?

A. No, I did not say that. I said in the Conway MacKenzie revenue initiatives that were specifically highlighted, there are fees. I just don't know if they're new fees or not. But I think that would be a question to ask them.

Q. Okay. So you don't know whether your forecast is assuming there will be new fees or not, sitting here today?

A. I would have to go back and look at -- if I had the exhibits, I would be able to go back and look at the details and try and ascertain if they are new or not.

Q. Okay. That would be details that were provided to you by Conway MacKenzie that you would have to look back to?

A. Yes. Those are line items I would look at.

Q. Do you agree that the City of Detroit has a long history of fiscal mismanagement?

A. I would say that the City historically has run deficits. Fiscal mismanagement, you know, I don't want to comment on that. I would say the

MALHOTRA

City has historically run deficits.

Q. Do you agree that the City has been in poor fiscal condition for decades?

A. I wouldn't be able to comment on decades. I've looked at the last four or five years, that's what I can comment upon.

Q. Has the City been in poor fiscal condition for the last four or five years you've examined?

A. The City has been actually, yes, suffering deficits. And so that is what I can comment upon. The City's expenses have exceeded its revenues over the last four or five years.

Q. Before the current petition for bankruptcy was filed, are you aware of anybody in the City of Detroit suggesting that it should file for bankruptcy within the last four or five years that you've examined?

A. I'm sorry. Can you say it again.

Q. If you've looked at a four- or five-year period during which Detroit had a poor fiscal condition, are you aware of anybody recommending that Detroit enter Chapter 9 bankruptcy before the current petition was filed?

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A. I do not know. And when you say "poor fiscal," I just want to be clear: Detroit was running deficits. Its expenses exceeded its revenues. In terms of -- and your second question was about filing for bankruptcy prior to -- can you please repeat me. Sorry.

Q. If the four or five years that you've looked at when Detroit was running deficits, are you aware of anybody recommending Detroit enter Chapter 9 before the current petition was filed?

A. I don't know if somebody had or had not recommended. But four or five years is a long time. I looked at the financial results of Detroit during those four or five years. I was not around in Detroit for the last four or five years.

Q. But you were not aware of anybody recommending that?

A. During what time frame?

Q. The last four or five years.

A. Before the bankruptcy? I don't know. It could have been. I mean, there was always discussions that you can -- what happens in Chapter 9 versus what doesn't? People were just

MALHOTRA

getting educated with the financial constraints that Detroit was feeling.

Q. Are you aware that there are other cities of Michigan that are under the supervision of an emergency manager?

A. Yes.

Q. How many cities?

A. I don't know.

Q. It's approximately six or so. Is that --

A. I don't know.

Q. Don't know.

And there are other cities in Michigan that are facing fiscal distress; correct?

A. What's your definition of "fiscal distress."

Q. Well, significant enough that they've triggered an emergency manager under the statutory scheme; correct?

A. If that's what your definition of "fiscal distress" is and there is an emergency manager, yeah, likely.

Q. What's your definition of "fiscal distress"? I mean, do you have one or not?

MALHOTRA

A. Not off the top of my head right now. But I just want to make sure I'm answering your question appropriately when you ask fiscal distress. I mean, your previous question was about an emergency manager, which there are cities that have emergency managers.

Q. Are you aware of any other city in Michigan that's in Chapter 9 bankruptcy?

A. No, I am not.

Q. You mentioned that you had done some work for the Detroit Public Schools; correct?

A. Yes.

Q. And the -- did the Detroit Public Schools undergo a restructuring?

A. Not a formal restructuring from a Chapter 9 perspective, no.

Q. But did the Detroit Public Schools undergo a restructuring in the sense of cutting costs and improving revenues in order to improve their fiscal condition?

A. There was some -- there was some restructuring that did go on at Detroit Public Schools, but the issues were sort of different.

Q. Okay. Were you involved in that

MALHOTRA

restructuring?

A. To a certain extent, yes.

Q. What extent -- what was your role in the restructuring of the Detroit Public Schools?

A. All of the -- we were assisting the schools in terms of looking at the cash-flow projections, looking at their assumptions in terms of what the student count would be and how the district would have to address its short-term and long-term obligations and what some of the options were.

Q. And the Detroit Public Schools cut costs in order to improve their fiscal situation; correct?

A. Yes.

Q. And nobody from -- in the Detroit Public Schools suggested that they enter Chapter 9; correct?

A. There were -- in any distress situation these days, you always have discussions on what a Chapter 9 could or could not mean.

Q. Okay. But the Detroit Public Schools successfully restructured without entering Chapter 9; correct?

MALHOTRA

A. I wouldn't say that.

Q. Why wouldn't you say that?

A. I don't know what your definition of "successfully restructuring" is.

Q. Okay. Well --

A. Detroit Public Schools hasn't filed Chapter 9 in the last three years, but I don't know what your definition of "successfully structuring" is.

Q. Okay. The Detroit Public Schools improved its fiscal condition; correct?

A. If you followed the budgets of Detroit Public Schools in the last couple of years, they have not improved that significantly.

Q. The Detroit Public Schools has -- they -- are they in bad fiscal shape, or are they in good fiscal shape?

A. I can't comment on that. You should look at their budgets to ascertain whether they are or are not.

Q. I get to ask the questions, and then you can give me your comment on it.

A. I don't want to comment on what the fiscal condition is of an ongoing client that is

MALHOTRA

not the City of Detroit.

Q. Okay. Is the Detroit Public Schools, have they been operating in a deficit situation?

A. For what year?

Q. For the last -- for the years during which you've been working for them.

A. Well, I was working for them three years ago.

Q. Oh, okay. For the last three years, have the Detroit Public Schools been operating at a deficit?

A. I would have to go back and look.

Q. The Detroit Public Schools haven't entered Chapter 9; correct?

A. Sorry?

Q. The Detroit Public School System has not entered Chapter 9; correct?

A. That is correct.

Q. And does the Detroit Public Schools owe money to the general fund?

A. To the City's general fund?

Q. To the City's general fund.

A. I think so. But I would have to go back and check. But I think there is a reconciliation

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between what the City owes Detroit Public Schools for some tax payments and what the Detroit Public Schools owes the City for some utilities. So there's back-and-forth on some reconciliations.

Q. And is that reflected in your forecast?

A. I would have to go back and check in the public lighting department revenues, if there's any past-due reconciliation.

But it would -- at least ongoing future amounts would continue to get reflected in the revenues that would be forecasted.

Q. Are all outstanding debts owed to the general fund reflected in your forecast or not?

A. If all delinquent bills that Detroit may have or the general fund may have are -- you know, I do not know what those amounts are, how much of those amounts hold any merit. So I do not recall of any specific bad-debt collection, for instance, that is baked into the forecast.

Q. Are all amounts owed to the general fund from other funds or public entities in the City of Detroit reflected in your forecast?

A. To the best of our ability, the "due to, due froms," other funds would constantly get

MALHOTRA

updated, yes.

Q. But delinquent debts are not reflected in your forecast; correct?

A. I don't know what those delinquent debts are. So . . .

Q. Why is it that you don't know what the delinquent debts owed to the general fund are?

A. From whom?

Q. From -- are from the people that you're not incorporating into your forecast. I guess -- the ones that, you know, are owed to the general fund, why can't you just ask the City what debts are owed to you? Give me a list of them so I can plug them into my forecast.

MR. STEWART: So what's the question?

BY MR. SMITH:

Q. I guess my question is, why is it that the City can't tell you what debts are owed to it?

MR. STEWART: Objection.

THE WITNESS: Let me start with looking at the components of the revenue. All right?

When you look at income taxes in terms of what the income tax collection process is, what the City's best estimate for its

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estimated revenues are, and then the City's internal process to send reminders and notices for those people that have not filed income tax returns; after that, the City also goes through a process in which it provides amnesty programs. So that's income taxes.

When you look at the property taxes and you look at the residential component, the City sends out its property tax bill. Within that property tax bill, if the property owner has not paid the property taxes, that receivable doesn't just become delinquent, because that then gets transferred to Wayne County.

Wayne County actually advances the City pretty much what that delinquent receivable was. And after a process in which they can even foreclose on the property or not and if they have recovered enough taxes or not, they basically do a charge back to the City.

So in the first -- it's sort of -- it's a delinquent tax revolving fund. But my point is you have to look at every component. When you look at past-due parking fines and

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fees, again, there's amnesty programs that are offered so that people are caught up.

So it's not as easy as going to a corporation and running an accounts receivable aging report and saying, you know, Let's go have -- collect these taxes. The City does try its -- at least its efforts to go out and improve collections.

But, I mean, I could -- we could walk through each one of the line items in more detail.

BY MR. SMITH:

Q. I get it. So it's not possible, given the information you have, to estimate how much the City is owed in delinquent debt obligations; is that fair?

A. Yeah, I do not have that information; that's correct.

Q. The Detroit Public Schools, are you aware that there was an emergency manager appointed to supervise them?

A. Yes.

Q. And are you aware that the Detroit Public Schools depend on property tax revenue for

MALHOTRA

their operations?

A. As one of the revenue sources that Detroit Public School has, property taxes is one of them.

Q. And grant revenue is another source of funding for the Detroit Public Schools?

A. Yes, and State aid.

Q. And why are you no longer working for the Detroit Public Schools?

A. I have recently been reengaged by Detroit Public Schools.

Q. When was that?

A. Last month.

Q. And who hired you?

A. The emergency manager.

Q. And have you looked at the Detroit Public Schools' most recent budget?

A. Yes.

Q. Okay. And are the Detroit Public Schools running a surplus?

A. You would have to look at their CAFR for that. Their budget generally is always balanced.

Q. And from reviewing their budget, you're aware that they've been cutting costs; correct?

MALHOTRA

A. No.

Q. You don't know -- I mean, do you know one way or the other whether the Detroit Public Schools have been cutting costs under the supervision of the emergency manager?

A. I wouldn't be able to comment on that.

Q. Do you know that there have been school closings in the City of Detroit Public Schools?

A. Yes; and the student headcount has also dropped consistently in terms of reduced revenues.

Q. And you agree that as population declines, there's some services for which you can reduce expenditures, because there's a reduced population; correct?

A. It depends over what time frame and what level of service you want to provide.

Q. Yeah. But you agree with me that there are some services that if population declines, then the need for those services declines and you can reduce the costs of the services; correct?

A. No. And the reason for that is, you have to look at which services you're offering and how much of that is actually almost a fixed-cap cost and how much of a population reduction have

MALHOTRA

you suffered, if it's a small population decline or if it's large, or what time frame or what area you have to provide that service.

And so I just want to make it more defined in terms of what population decline and -- or what time frame. In general, if you are providing less services, the assumption would be that those should cost less. I'm comfortable saying that.

Q. Okay. So if you have a large population of clients, such as you say that Detroit has suffered, you can afford to reduce some City services, correct, because there's less population?

MR. STEWART: Objection.

THE WITNESS: As the City has already -- the City has already done that.

BY MR. SMITH:

Q. Okay. And so there are some services that you may want to continue at the same levels even if there's a population decline; correct?

A. I'm sure that that could -- I think so, yes.

Q. And then there are some services that

MALHOTRA

you can reduce without adverse impact to the citizens as the population declines; correct?

MR. STEWART: Objection.

THE WITNESS: I don't know about that. It depends. It depends. You have to look at this almost on a department-by-department basis, is an easier way to look at it.

BY MR. SMITH:

Q. Yeah. I'm asking just some. There are some services like that.

A. Why don't you just ask me that question again, please. I'm sorry.

Q. There are some services that you can -- that are -- that are tied to the level of population that you can reduce as population declines; correct?

MR. STEWART: Objection.

THE WITNESS: As population declines and if you decide -- and if the City decides to reduce the level of services, it may or may not be. I mean, you have -- the reason I'm saying this, if you look at the public lighting department and you're still buying electricity on the grid, so you just have to

MALHOTRA

look at it on a piece-by-piece basis, which is just --

BY MR. SMITH:

Q. Yeah. I'm not saying all services.

MR. STEWART: Let him finish his answer.

THE WITNESS: There may be -- if the level of service from the City declines, there is a possibility that the level of cost that the City has to incur will be less, I'm comfortable saying that.

BY MR. SMITH:

Q. Yeah. And as population declines, there are some services that a City can reduce and reduce its costs; correct?

A. It's possible.

Q. Before the Chapter 9 plan, did the City ever look at ways to reduce its pension liabilities?

A. Not directly in terms of what -- the City was deferring pension contributions; but I don't know if the overall magnitude of the liability as such was being reduced.

But I do recall that the City was continuing to defer pension contributions, but I

MALHOTRA

would have to go back and think if the liability reduction was a part of it or not.

Q. Did the City lobby the State for additional funds since you've been working with them to help it improve its fiscal situation?

A. I do not know. I mean --

Q. Okay. You're not --

A. If the City -- if the administration or council did, I do not specifically know.

Q. Well, you agree that the State could improve the fiscal situation of the City by contributing additional funds to the City; correct?

A. I do not know about that. If -- if the City -- if somebody provides the City more money, the City will have more money.

Q. Okay. And its fiscal situation would be better than it otherwise would; correct?

A. If -- if all these other assumptions are held constant, that's just a net add. If the City would have more money -- the reason I'm being clear about this, the fiscal situation of the City is not just a one-year situation. It's a long-term situation that deals with its legacy

MALHOTRA

liabilities. But if you're saying that -- that the assumption is the City has more money, that's better for the City. Yes.

Q. Yeah. And increasing revenue sharing, if the State did that, that would be better for the City; correct?

A. If the revenue-sharing amount were higher and everything else were held constant, you could -- that assumption would result in more money for a particular time frame. I don't know what time frame, because the State aid is no longer -- the portion of the State aid is no longer driven by the legislature in terms of having a specific appropriation every year.

So you have to look at these things over what time frame, whether it's short- or long-term.

Q. Any additional money that the State provides the City will improve its fiscal situation; correct?

A. Any additional money that the City gets, with everything else being constant, is better for the City, yes.

Q. And any additional money the federal government provides the City will improve its

MALHOTRA

fiscal situation; correct?

A. Any additional money over the assumptions in the current forecast with the current assumptions; because new -- I want to make clear: If there's new federal money or new state money and there's new expenses, that does not improve the financial profile.

So what I want to make clear is, if you hold everything else constant and you just add more money into the mix, yes, it makes the picture better. But I want to make sure that distinction is clear, that if there is new funding that's available but there are new expenses that need to be funded, then the position doesn't -- does not get better.

Q. Are you aware that Detroit has had to return money to the federal government that it received in grants because it didn't utilize the funds in a timely manner?

A. I do not know about that specific example. I would have to go back and look into that.

Q. Okay. You don't know what the treatment is in your forecast in terms of if there are these

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clawbacks of federal funds, how those were treated going forward in your forecast, whether they're assumed to continue at the same rate or not?

A. I would have to go back and look at that. If the general fund is responsible in any way for any clawback, I would have to look into that.

Q. Are there actions that you're aware of that we haven't discussed yet that the City has discussed potentially taking in the future that would increase revenues or decrease costs, potentially?

A. Nothing that comes to the top of my head right now.

Q. Are you generally included in discussions regarding actions the City might take to increase revenues or decrease costs?

A. It depends on how substantive the item is.

Q. So you're not always included in those discussions?

A. I wouldn't be included in every single discussion that happens at the City about revenues and expenses.

MALHOTRA

Q. What project are you undertaking for the Detroit Public Schools that you've just been retained for?

A. That's confidential.

Q. Does it have anything to do with this case?

A. It does not have anything to do with this case.

Q. And how was it that you came about that engagement? Did that have anything to do with this case?

A. No.

Q. In your view, was the creditor plan a viable plan, the one that was proposed before the bankruptcy?

MR. STEWART: Objection.

THE WITNESS: I think it was the best information the City had, so -- and -- about the amount of resources the City would have over the next 10 years.

BY MR. SMITH:

Q. And the City concluded that it could, in the creditor plan, implement its restructuring initiatives outside of Chapter 9; correct?

MALHOTRA

A. If everybody had agreed and the City could have moved forward, in terms of having consensual agreements with its creditors.

Q. Have you done any runs of your forecast where you changed assumptions or inputs to see how those affected the total revenues or expenditures in your forecast?

A. I'm sorry. Can you repeat that.

Q. Have you done any sensitivity analyses or alternative scenarios for your forecast to see how changing different inputs in the forecast impact the results?

A. We run the various iterations of the model, which I'm sure all of you already have. So, I mean, those are all different iterations.

Q. What are the biggest drivers of City revenues?

A. It's the top five revenues, which is property taxes, income taxes, sales and charges for services, State aid, casino taxes.

Q. What are the biggest drivers for the City's costs?

A. Salaries -- well, I'm sorry. Under what scenario? Under post -- under the plan of

MALHOTRA

judgment scenario projections?

Q. Why don't we start currently. What are the biggest drivers for the City's costs?

A. Salaries, wages -- I'm sorry. Salaries and wages. Historically it's been retiree healthcare, pension, debt service, the Department of Transportation subsidy. Those are sort of the big ones that come to mind.

Q. And under the restructuring scenario, the biggest drivers for the City's cost, do they change?

A. Yes, they do.

Q. Okay. What are the biggest drivers for the City's cost under the restructuring scenario?

A. It would be salaries, wages, pension, the reinvestment expenditures. City does not -- the OPEB and unsecured debt obligations are reduced.

Q. Are the unsecured -- I mean, are the OPEB, is that still a big cost driver under the restructuring scenario or not?

A. It is not. It's -- it is -- it's been reduced significantly.

Q. But the City adds a large cost driver

MALHOTRA

under the restructuring scenario in terms of the restructuring and reinvestment expenditures; correct?

A. Yes. But also, again, I would like clarity. Are you talking about 10 years or 40 years?

Q. Well, either 10 or 40 years. I guess the reinvestment moneys, are they all spent in the 10 years?

A. They are. So for the 10 years, I would like to draw clarification, because the top five revenue items would be the property taxes, the sale taxes for services, the income taxes, but also the proceeds received from the grand bargain, which are significant over the first 10 years, and the moneys coming in from the assumption of the Detroit Water and Sewer Department. And the expenses are really not as high on pension because they're being funded by an alternate source in the first 10.

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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the City's, you know, revenues and expenses are slightly different than when you look at it over a 40-year picture.

Q. I mean, the pension costs aren't being significantly cut under the restructuring plan; correct?

A. No, that's not correct.

Q. Well, they're being funded from a different source; is that correct?

A. Well, there's two separate questions. If you would just rephrase your question.

Q. Well, I mean, forget about the State aid. I mean, just the pension costs are not being cut significantly under the restructuring scenario; correct?

MR. ALBERTS: Objection.

THE WITNESS: Well, I don't know what your definition of "significantly" is. So if you ask me a specific question, I can give you a perspective on the pension cost.

BY MR. SMITH:

Q. I'll use your definition of significantly. Are the pension cost --

MR. STEWART: You interrupted his answer

MALHOTRA

again. I'd ask you just to wait a second, Mr. Smith, and let him finish his answer before you ask your next question.

BY MR. SMITH:

Q. Did you have anything else to say?

A. No. Could you just ask me your question again now, please.

Q. In your -- under your definition of "significantly," are -- the pension costs are not being cut significantly under the restructuring; correct?

A. I think the pension cuts are the value of the liability.

So for General Retirement System, just based on the value of the freeze, that's a $95 million cut in the liability. The value of the COLA that is being eliminated is roughly 467 million, of a cut. The value of the 4-1/2 percent reduction is an estimated $125 million. You add the ASF to that, that's another couple of hundred million dollars.

So all in, we're looking at somewhere between -- I haven't done the math -- 900 million to a billion.

MALHOTRA

Based on the assumptions that we have from Milliman, you look at PFRS, the value of their COLA is almost 350 to $400 million. The value of their freeze is roughly another $55 million. So you have roughly $400 million right there.

But that's, you know, some of the context of the cuts -- and I know there's probably additional details, but that's -- in my mind, conceptually, the cuts that have taken place in pension.

Whether you define it as significant or not, I don't know.

Q. Do you agree that the level of services the City provides is a matter for the business judgment of the City leaders?

A. The level of services is with the City leaders of the new transition board or in the context of even the amounts available for the City to spend. So I think you sort of -- it's a balancing act between the services as well as the amount of money available to expend.

But that's probably with the mayor and city council, the emergency manager, the board.

MALHOTRA

That's potentially where I would think it is with probably input from others. I don't know.

Q. So your position is that the level of services within the City is a matter for the business judgment of the City leaders in power at the time; correct?

A. In conjunction with, I would say it's the supervisory board and what level of funding is available. So, you know, it's not just saying one group can only decide all the levels of services regardless of what financial ability the City has or does not have from a resources standpoint.

Q. Do you agree that any of the assumptions in your model can change over the 10-year and 40-year periods you forecast?

A. Can any of the assumptions change? Yes.

Q. Do you agree that the timing of the reinvestment expenditures could change from the assumptions in your model?

A. Yes.

MR. SMITH: I'm going to mark as Exhibit 1 a copy of this 10-year financial projection.

(Exhibit Malhotra-1 was marked for

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identification.)

MR. ALBERTS: Would you please recite the Bates numbers.

MR. SMITH: It's POA00706519.

BY MR. SMITH:

Q. You got it?

A. Yes, I do.

Q. Okay. On the front of the projections that you prepared, there's a disclaimer by Ernst & Young; correct?

A. That is correct.

Q. And you state that "There will usually be differences between forecast and actual results because events and circumstances frequently do not occur as expected and those differences may be material."

Do you agree with that statement?

A. I do not.

Q. And "E&Y takes no responsibility for the achievement of forecasted results."

Do you agree with that statement?

A. Yes.

Q. And it says, "Accordingly reliance on this report is prohibited by any third party as

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the projected financial information contained herein is subject to material change and may not reflect actual results."

Do you agree with that statement?

A. Yes. I have in-house counsel on the phone. But yes.

Q. And is this type of disclaimer and set of statements attached to any forecasts that Ernst & Young makes?

A. We try our best to. Sometimes we miss, but that's -- we generally -- yes.

Q. And this statement is based on a consensus view of experts at Ernst & Young regarding forecasts; correct?

MR. STEWART: Objection.

THE WITNESS: I do not know the exact basis of where the exact statement has come from.

BY MR. SMITH:

Q. Okay. You always put this statement on any forecast that you would create. Is that your general practice?

A. Like I said, we try to, but it's -- at times we miss.

MALHOTRA

Q. Okay. And it's the policy of Ernst & Young to always put this disclaimer on its forecast. Is that fair?

A. Generally, yes. I mean, it's -- the -- yeah. Generally, yes.

Q. And that's because forecasts don't give you information about what actual results will be; correct?

A. That's why it's a forecast.

Q. So that's correct; correct?

A. A forecast is not an actual; that is correct.

Q. And there are a number of things that can change that can make forecasts deviate materially from actual results; correct?

A. Yeah. "Materially" is depends on sort of what assumption is changing. But as -- information in the future can change materially as well.

Q. Okay. And there are a number of factors that could change that could cause the forecasts you've done for the City of Detroit to change materially from the actual results that are achieved; correct?

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A. Yes. If there are -- of course, changes that are unforeseen that we don't know about that can have an impact on the forecast, yes.

Q. And that's why you've told third parties that they shouldn't rely on forecasted results you've prepared for the City of Detroit; correct?

A. I think that the information is specifically highlighting what could happen with any forecast. And so I think for the parties to look at this, they have to realize what they're looking at.

Q. Okay. And you caution third parties that they should not rely on your forecasts; correct?

A. It says that from a forecast standpoint, it is subject to change. And so third parties have to sort of understand what they're looking at. That's what I would say. And beyond that, it's probably a legal question which I cannot answer.

Q. Well, your forecast, you put right on the front of it that "Reliance on this report is prohibited by any third party"; correct?

A. That's what it says.

Q. And the reason that reliance on your forecast is prohibited is because you recognize that circumstances can change and the forecast may deviate materially from actual results; correct?

A. That is what is written here, yes.

Q. And you agree with what's written there; correct?

A. I do.

Q. Have you done any investigation to determine if there are any cost-cutting measures that could be undertaken that are not reflected in the forecast?

A. From a cost-cutting standpoint -- from a further cost-cutting standpoint, most of the initiatives, I believe, are in here in terms of the outsourcing -- I'm just trying to think if there are any other initiatives from an opportunity standpoint. I would have to give that some more thought on a department-by-department basis.

Q. You said that the Department of Transportation, the subsidy it gets from the general fund, is a significant cost driver; correct?

A. It is. It's -- it has been a big cost driver for the general fund, historically.

Q. And the City has been attempted to implement cost-cutting measures in the Department of Transportation; correct?

A. That is correct.

Q. And the City has also attempting to implement revenue-increasing measures in the Department of Transportation; correct?

A. I believe so, yes.

Q. And the City recognizes that further cost can be cut from the Department of Transportation; correct?

A. I don't know about that.

Q. Well, they're planning to implement some cost-cutting measures. You know that; correct?

A. Well, as I said earlier, it has been a big driver of a subsidy. They have been driving new revenue initiatives. They have cut costs historically. And -- but that has come at the level of a larger decline in services.

And, in fact, some of the revenues for the Department of Transportation are going done versus up in the near future as is reflective in

the bridge between the plan of adjustment and the June 2nd financials.

Q. The City recognizes the Department of Transportation is charging fees that are below market rates; correct?

A. I wouldn't be able to comment on that whether they're below market or not.

Q. Okay. You haven't done any investigation into that at all?

A. I have not studied that particular piece in terms of the level of service compared to the fees; but I do know that, in the forecast, there are some increased fees that are forecast.

Q. And you're -- and in the last year or two, the City has reduced the subsidy from the general fund to the Department of Transportation; correct?

A. Yes, for a short while while the level of service was down and when the general fund paid on behalf of the Department of Transportation some self-insurance claims.

So although ideally, from an accounting standpoint, the City should have reflected those self-insurance claims still being paid by the

Department of Transportation and then the general fund subsidy being higher, I think the way at least the accounting was shown is that the general fund was paying the self-insurance claims directly. So it artificially lowered the subsidy when that's not the case in reality.

That being said, the subsidy was lower than historical levels because of reduced service.

Q. Okay. But if you take all the payments that the general fund made to the Department of Transportation, have they been reduced?

A. Compared to what time frame?

Q. Compared to the past. I mean, I'm trying to figure out -- you were just talking about two separate payments, the subsidy and the insurance charge. And I'm just wondering if you take the payments together, were the general fund payments to the Department of Transportation, have they -- were they lower or not?

MR. STEWART: Objection.

Just read the question, please.

(Thereupon, the requested portion was read back by the reporter as above recorded.)

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THE WITNESS: I believe the Department of Transportation has had a lower subsidy in the last year or two compared to that same time frame before that. I can look through this and get a more precise answer.

BY MR. SMITH:

Q. The -- your forecast, though, assumes that the subsidy to the Department of Transportation will increase; correct?

A. Because of the lower revenue based on how the new revenue sharing agreement is set up for the Department of Transportation.

Q. What's the new revenue sharing agreement?

A. So our -- the State has a new way of dispersing transportation-related grants to all of the various transportation departments throughout the state; and that, in fact, caused a reduction in the Department of Transportation's annual revenue by almost 6 to 6-1/2 million dollars annually. And that was a significant impact to the forecast. In addition, we have some additional subsidiaries required for the People Mover.

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But to offset some of those increased costs, the City has incorporated some opportunities in order to not fully have to bear the cost of that decreased revenue from the State and some increased funding for the People Mover.

Q. Okay. So the State -- during the pendency of the bankruptcy, the State has reduced funding to the Department of Transportation; is that correct?

A. There is -- it's not just for the Detroit Department of Transportation. There is, based on this new legislation -- which is, I think State Operating Act 51 -- an assumption of a 6-plus-million-dollar decline annually for the Department of Transportation.

We have only incorporated that impact for the first ten years and have assumed that the Department of Transportation has to find other ways to mitigate that impact beyond the first ten years.

Q. Okay. If I follow you, the State cut funding for the Department of Transportation and other departments around the state, and that required the general fund to make greater

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expenditures than it otherwise would have. Is that fair?

A. Yes. We have a change based on the updated information we have, yes.

Q. Okay. Is there any portion of the increased subsidy to the Department of Transportation that's not due to this legislation from the State?

A. I believe it is a small portion that's related to an increased subsidy to the People Mover. But I would say the biggest change is the one change driven by the State.

Q. And I'm going to hand you a copy of Exhibit 2, which is a copy of the disclosure statement.

(Exhibit Malhotra-2 was marked for identification.)

BY MR. SMITH:

Q. If you could turn to Page 82, please.

MR. STEWART: This is absolute 82, not 82 of '197; right?

MR. SMITH: Yeah.

BY MR. SMITH:

Q. At the bottom there's a section called

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"Failure to Achieve Projected Financial Performance."

Do you see that?

A. Yes.

Q. Okay. And the disclosure statement says, "The projections are dependent upon the successful implementation of the City's budget and the reliability of other estimates and assumptions accompanying the projections."

Do you agree with that statement as it relates to your projections you've done for the City of Detroit?

A. Yes.

Q. And when you say implementation of the City's -- well, you didn't put this together, but -- why don't I ask you this: Have you used information from the City's budget in your forecast?

A. Yes.

Q. Okay. And then if you turn to Page 83 at the top, it says, "These estimates and assumptions may not be realized and are inherently subject to significant economic uncertainties and contingencies, many of which are beyond the City's

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control."
Do you agree with that statement as it pertains to your projections you've done?
A. Yes.
Q. And then if you look at the next section, Section K, the second sentence: "Unforeseen events and circumstances may occur affecting the City's future financial performance, resulting in those assumptions proving inaccurate and the City being unable to fulfill its obligations under the plan. No guarantee can be made as to the City's future financial performance due to a variety of unforeseeable circumstances that may affect such a performance."
Do you agree with that statement -- those statements as they relate to your projections?
A. Yes, I do.
Q. In your analysis, in your projections that you do, is there any time-series analysis that you do or not?
A. For which particular line items?
Q. For any of them.
A. Not generally.

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Q. You agree that there's no scientific literature or data quantifying any increase in municipal revenue as a result of a restructuring or reinvestment effort like Detroit's; correct?
MR. STEWART: Objection.
THE WITNESS: I do not know if there is or is not.
BY MR. SMITH:
Q. You're not aware of anything you can cite, sitting here today; correct?
A. I can't cite -- make a specific citation on that, no.
Q. You agree that there's no scientific literature data demonstrating an increase in population associated with a reconstruction or reinvestment proposal such as that Detroit is making here?
A. I don't know what you mean by "scientific." It's the -- it's the assumption of a safer and cleaner city, being able to hold on to its population or increase it over the long-term compared to where we are today.
Q. But there's no study of any kind or data showing that a reconstruction or reinvestment

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proposal like Detroit's results in increased population; correct?
A. Well, what particular part of the proposal are you referring to of Detroit's proposal?
Q. Any of it. I mean, there's no study showing that any part of the restructuring and reinvestment proposal Detroit is making is associated with an increase in population; correct?
A. I do not know about the -- direct linkage that you're talking about but -- of a scientific study. I don't know what a scientific study is out there that would address this particular issue.
Q. Okay. You're not aware of any such study you can cite sitting here today; correct?
A. I'm not aware of a scientific study of such sort that I can cite.
MR. STEWART: It's about 1:30. Whenever you want to break for lunch.
MR. SMITH: Yeah, we can break.
MR. STEWART: If you just finish whatever your line of questions is.

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MR. SMITH: No, we can take lunch now.
THE VIDEOGRAPHER: Going off the record at 1:29. This is the end of Tape No. 3.
(Luncheon recess from 1:29 p.m. to 2:03 p.m.)
THE VIDEOGRAPHER: We are back on the record at 2:03. This is the beginning of Tape No. 4.
BY MR. SMITH:
Q. Do you agree that Detroit's Chapter 9 plan will put them in a better fiscal position than many other comparable cities?
A. I don't know about comparable cities. I think Detroit will be in a better position than it was before it entered into Chapter 9.
Q. Will Detroit be in a better position among other cities once it emerges from Chapter 9 under the plan?
A. Which other cities are you referring to? Any specific ones?
Q. Well, cities of comparable size.
A. I haven't done that analysis.
Q. There are several enterprise funds that are associated with the City. You're aware of

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that; correct?

A. That is correct.

Q. And the general fund makes payments to those enterprise funds; is that correct?

A. No. I --

Q. Well, we were talking about the Department of Transportation subsidy.

A. Yes, the Department of Transportation, yes.

Q. Are there any other enterprise funds that the general fund subsidizes?

A. I think the airport, but that's about it that the general fund subsidizes.

Q. Are there any enterprise funds that pay the general fund money on balance?

A. Yes, for central service fees, Detroit Water and Sewer Department, I believe the street fund. But I would think -- the parking department for other admin-type services, the general fund would provide to these other enterprise funds.

Q. Does your forecast assume that payments to the general fund from enterprise funds will increase or decrease?

A. They are kept consistent with where the

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rates are; and if there are any increased reimbursements, it would be -- it's generally a pass-through. So if the costs go up, the reimbursements will go up.

Q. You haven't done any investigation to determine what measures the enterprise funds can take to either increase payments to the general fund or decrease payments out of the general fund?

A. Because enterprise funds are supposed to be net neutral. So we've already talked about the Department of Transportation, but we can talk about that again more specifically. Because that is the department that has a subsidy that's compared to the other enterprise funds.

Q. But you haven't done any analysis to ascertain whether the Department of Transportation can cut costs more or increase revenues so that the subsidy from the general fund can be decreased; correct?

A. No, that's not correct. We've looked at the -- spent time with the Department of Transportation to understand what cost components there are, what revenue estimates they have. That's one of the ways that we understood about

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the new changes with the state revenue being declined. So it's -- we have done an analysis.

Q. And you understand that there's been a study the City had done that shows that the fees charged by the Department of Transportation can be increased?

A. I don't recall the study specifically, but I heard about this. And I believe there are increased fees in their operating initiatives and their restructuring and reinvestment initiatives.

Q. You know that the City transferred 16,000 properties to the Detroit Land Bank recently; correct?

A. I am not close enough. I do not know specifically.

Q. Okay. I mean, there's nothing in your forecast that takes into account any potential reimbursement from the Detroit Land Bank for properties that the City may give it, is there?

A. Not that I am aware of.

Q. As far as you're aware, the City didn't get anything in return for the 16,000 properties it transferred to the land bank; correct?

A. I'm not sure about the 16,000 properties

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being transferred to the land bank, so I cannot speculate on what reimbursement the City did or did not get.

Q. Do you have any understanding exactly of what financial relationship there is between the general fund and the land bank?

A. No, I have not -- that -- I'm not close enough to that.

Q. You know that the City of Detroit collects only about half of the property taxes that are owed; correct?

A. No, that's not correct.

Q. What percent is your understanding in value that the -- of property taxes the City collects?

A. I have to look at the capital. But it's a higher percentage when you take into consideration the delinquent taxes that the City receives from Wayne County at the end of every fiscal year. There's a settling-up concept that goes, but I believe the amount is higher than the 50 percent that you just stated.

Q. Do you know what percent of the income tax is collected?

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A. I would have to go back and look. But on the commercial and industrial, on the corporate side it would be a high number. But I do not know specifically of the exact percentage collection.

Q. You don't know what the percent collection is for the individual income tax; correct?

A. Well, even the individual income tax has different components between residents working in the city, residents working out of the city and nonresidents. And I do not know off the top of my head what the collection rate is for each one of those components.

Q. Do you know how many companies actually pay the corporate tax?

A. I do not. It's -- I do not.

Q. Do you know if there are -- do you have any information about exceptions or reductions in taxes available to corporations or other entities within the City?

A. There is the -- the renaissance zone, but that's probably more in relation to property taxes. In terms of corporate income taxes, I'm not aware of any specific incentives that would be

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provided by the City.

Q. What is the treatment of property taxes within the renaissance zone?

A. I believe that it is more in the context of properties that are in the renaissance zone will have a slightly different taxable value that is associated with it versus the properties that are not in the renaissance zone. And that, however, the properties in the renaissance zone make up a small component of the overall total properties and the total property taxes, but I would have to look through the details to kind of explain the exact structure.

Q. The property tax in the renaissance zone, is it lower?

A. Well, I don't know if it's the rate or the assessed values. I would have to go back and check how the mix is built up.

Q. Do you agree that under your forecast, over the course of the next 10 years, the City will bring in billions of dollars of revenue?

A. Over the next ten years, the City's projections are about $11 billion in revenue.

Q. Over the course of the next ten years,

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the City will also have billions of dollars in expenditures; correct?

A. That would be consistent with what the forecasts are, yes.

Q. Do you have any understanding about what the amount in terms of dollars is of the reduction in the COPs claim under the plan?

MR. STEWART: Objection -- pardon me. Objection.

THE WITNESS: Well, as a part of the plan, the COPs claim is -- the claim is roughly a billion four forty, and the estimated recovery based on the assumptions in the plan are roughly 10 percent.

BY MR. SMITH:

Q. What are the most -- what are the key assumptions of your forecast being modeled?

A. They are -- they're -- we can walk through each one of the line items in the key assumptions there.

Q. Well, how about I ask you this: Are the key assumptions of your forecasting model reflected in your expert report?

And I'll hand you a copy of it in a

MALHOTRA

second, which I will mark as Exhibit 3.

(Exhibit Malhotra-3 was marked for identification.)

THE WITNESS: Could you please repeat the question.

BY MR. SMITH:

Q. I could just ask the question again.

Are the key assumptions in your model reflected in your expert report, or are there some key assumptions that are not in the report?

A. If I may, I would say the majority of the assumptions are in the expert report or have been mentioned in the assumptions of the model that are exhibits or -- to the expert report. So . . .

Q. Does your expert report contain a complete and accurate account of your expert opinions in this case?

A. Yes.

Q. Do you anticipate doing any further work before the confirmation hearing?

A. Further work on what?

Q. On the forecasts or developing any other opinions?

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A. If we reach more settlements, we will update the forecast as those settlements come along.

Q. What settlements are in process that you're talking about?

MR. STEWART: Before you answer, Mr. Malhotra, I just simply caution you to remember that you're not permitted by the judge's order to disclose anything that's been going on in mediations. Subject to that, please answer the question.

THE WITNESS: All right. Thank you.

We're working on the Detroit Police Officers Association and with the Detroit Fire Fighters Association to hopefully wrap up those negotiations.

BY MR. SMITH:

Q. And what are specifically the issues that you're trying to wrap up there?

A. That's --

MR. STEWART: Once again, please answer with that same admonition about mediation.

THE WITNESS: That's subject to mediation.

MALHOTRA

BY MR. SMITH:

Q. Okay. Is there anything that's not subject to mediation that you could talk about relating to settlements in the works or not? Or is it all part of mediations?

A. It's generally the discussions are part of mediations.

Q. Okay. In your expert report you mention -- on Page 1 you say you've forecasted revenues and expenses for the City's general fund; correct?

A. That is correct.

Q. You haven't attempted to forecast revenues and expenses for the entire city; correct?

A. That is correct.

Q. And if you look at -- why did you perform a 40-year forecast?

A. It was to get a longer-term view of the liabilities that the City was signing up for in terms of the various settlements to ascertain and understand the City's ability to meet the obligations that it was signing up to.

Q. On Page 2 of your report in the middle,

MALHOTRA

you say that your projected revenues and expenditures are reasonable forecasts.

Do you see that?

A. Yes.

Q. You'd acknowledge that other independent experts could come up with reasonable forecasts that differ from your forecast; correct?

A. I don't know what other experts would come up with. It's up to them.

Q. I know. But my only question is, there could be reasonable forecasts of the general fund's revenues and expenditures that are different from the forecasts you put together; correct?

A. I don't know about that. I feel that these are reasonable forecasts, and I can't talk to what other forecasts would be reasonable or not reasonable that are not generally the forecasts that I have in front of me.

Q. You're not taking the position that your forecasts are the only reasonable forecasts of general fund revenues and expenditures that could be made; correct?

A. I am taking the position that based on

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the assumptions we have in here, these are the forecasts that I -- I seem or deem are reasonable. So I can't talk to what other forecasts may or may not be reasonable unless I understand assumptions and so on and so forth.

Q. My only question is, is your forecast the only reasonable forecast that's possible of the general fund revenues and expenditures?

A. I don't know. I can talk to these forecasts being reasonable. I don't know whether other forecasts are reasonable or not.

Q. Over on Page 4 of your report, you identify some of the experts that you're relying on; correct? Such as Mr. Cline and Ms. Sallee.

A. That's correct.

Q. Page 7 of your report at the bottom of the page, you talk about the assumptions, some of the assumptions that you made. Do you see that? There's a section called "Assumptions."

A. That's correct.

Q. And it would be fair to say that your forecasts are based on a series of assumptions; correct?

A. Yes.

MALHOTRA

Q. And among the assumptions you rely on are the analyses provided to you by Mr. Cline and Ms. Sallee regarding the City's tax revenues; correct?

A. That is correct, after I've had discussions with them and conversations and looked at what they've done and their sources they've used, yes.

Q. And then you mention that you have -- over on Page 8, you based your forecasts and sales and charges for services on assumptions regarding historical trends; correct?

MR. STEWART: Where on the page are you?

MR. SMITH: 8, Paragraph B. We're still in the assumptions section.

MR. STEWART: Got it. Yeah. Thank you.

THE WITNESS: Yeah. It says it's based on historical trends. It's just extrapolations based on historical trends.

BY MR. SMITH:

Q. So your forecasts are also based on a series of extrapolations from historical trends; correct?

A. That is correct. After they're adjusted

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for things that we know that have happened or changed, that is correct.

Q. And you adjusted your extrapolations based on information that you received from the City; correct?

A. That is -- that is correct, based on known information that we had from the City or any other source; yes.

Q. And so you would have discussion with the department managers at the City, and then you would change the numbers in your extrapolations to reflect what the people at the City departments were telling you; is that fair?

A. It's a little more complicated, because what you do is you look at the last three to four years of every line item in the departments, and you basically ascertain what is normalized versus if there's anomalies in the actual historical results. And then you used a normalized extrapolation. Then you also have discussions with the City and the other professionals involved about changes that are impacting that normalized trend that's been extrapolated.

Q. So when you say that you relied on

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historical trends in your report, you typically looked at three or four years of historical data; is that correct?

A. Yes, that is correct.

Q. And then did you use a mathematical formula to identify the trend? Or how did you identify a trend that you would extrapolate?

A. It was based on discussions, looking through the financial -- detailed financial records that the City had to ascertain if there were one-time items or not.

Q. You didn't use mathematical techniques to identify trends in the historical data; correct?

A. One-time blips -- there's not a formula that you can run to identify a one-time, which is a part of sort of what I was explaining earlier this morning about what all financial advisers will do, is to not run stretchy formulas to identify whether something is an anomaly or not or theoretical formulas. It's sort of understand what the trends are based on discussions and, you know, the financial records we have available.

Q. You could use -- you could use

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regression analysis or some other analysis to identify trends in historical data; correct?

A. Those are -- regression analyses would be used for much larger data sets. When you are looking at an individual, we actually did a far more detailed analysis than just using a broad regression by looking at detailed line items by department to try and analyze what of these expenses could be deemed one time versus normal trends.

Q. So when you say you looked at historical trends, there wasn't any mathematical analysis involved. You just have people look at the historical data and then identify a number that you assumed for your calculations?

A. No.

Q. What did you do with the historical data to identify -- I'm trying to figure out what you mean by "historical" -- how did you derive the historical trends that are discussed in your report?

A. I'd be happy to give you an example. We go through a particular department. You look at 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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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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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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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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A. That is correct. It is to replace some of the attrition that has been ongoing over the last six to eight months, that there was a gradual increase in headcount to replace the attrition.

Q. As the result of the reversal in headcount reductions, there will be increased costs to the City; correct?

A. Yes. There will be increased costs. Hopefully there will be increased revenues. But, yes, the increased headcount for the City will result in increased payroll costs compared to that same time frame earlier.

Q. Do you know how much increased payroll costs, in ballpark, from the reversal in headcount?

A. I do not because I have to look at the grant-funded positions. But I would have to look at that detail, which I can probably get to.

Q. You assume some wage-inflation rates for different periods of time on Page 10. Where did those numbers come from?

A. That was a part of the settlement.

Q. Okay. Page 10, Paragraph C, you assume bonus payments of 2.5 percent for non-uniformed

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and 3.0 percent of salary for uniformed employees. Where did those numbers come from?

A. It's part of a settlement.

Q. Okay. You talk about health and benefit expenditures in Paragraphs D and Page 10.

Do you see that?

A. I'm sorry?

Q. The bottom paragraph on Page 10.

A. Yes.

Q. You talk about health benefit expenditures. Do you see where I'm at?

A. Yes.

Q. And you got that information from Milliman?

A. The per-head costs of the plan, yes, we got from Milliman.

Q. Do you know how they came up with those numbers?

A. They looked at the actual census data. They looked at the usage of what the plan was of the -- by individual participants, I believe. But I do not want to speculate on what they did. But they were given information to ascertain what the plan design of the City would cost.

MALHOTRA

Q. I mean, was Milliman asked to do a special analysis specifically for purposes of, you know, your expert opinions?

A. Not for my expert opinions but they were asked to do a specific analysis on the per-head cost of the medical plan the City was planning to offer.

Q. And is there written documentation regarding that?

A. Yes, there is.

Q. And why were they asked to do that analysis?

A. So that the City could use more accurate assumptions in terms of what the healthcare costs would be for its employees in the foreseeable future.

Q. And then you state that medical inflation is capped at 4 percent after fiscal year 2009 -- '19. Where does that come from?

A. That is based on an assumption, which is a risk in the plan; but that the medical inflation is capped at 4 percent after fiscal year '19.

Q. I mean, who gave you that assumption? Was that something you were given, or you came up

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with it yourself?

A. I think it was based on a discussion with Evan Miller of Jones Day, that we had that discussion on what assumptions to use for the cost-effective medical beyond the first five years and at what point they should be capped.

Q. Okay. And, I mean, what is the justification for capping the medical inflation rate, et al.?

A. The justification is that the City has to figure out a way between the employees and the City, how -- that those costs don't just keep rising at a very significant level going forward.

Q. Okay. But right now, there's no mechanism in place to cap medical inflation at any value, including 4 percent; correct?

A. There is not in the first five years a cap that has been put into place from what I can recall.

Q. But after 2019, there's no mechanism in place to cap medical inflation or cap medical inflation at 4 percent, is there?

A. A mechanism -- I mean, those are -- it's very clear that those are the assumptions in the

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plan. And between the City and the unions and the supervisory board, that mechanism will have to be put into place. There isn't, to my understanding, a mechanism in place today other than it's built into the assumptions in the plan of adjustment.

Q. Okay. But right now nobody has provided any mechanism to actually achieve a 4 percent cap on medical inflation; correct?

A. I thought I just answered your question, which is, get that -- the mechanism is the assumption that is baked into the plan of adjustment. And if going forward the City and the advisory board and the unions are all coming together, it's very clear what the assumption is in the plan of adjustment.

Q. But then nobody has agreed to -- there's no binding agreement, is there, to cap medical inflation at 4 percent right now?

A. There is -- there is no binding agreement that I know of other than it's very clear that is the assumption in the plan of adjustment.

Q. I mean, does the plan assume a 4 percent rate, or is the rate not specified in the plan?

MALHOTRA

A. In the plan documents in the disclosure statement, I would have to go back and look. But in the financial projections, it's clearly articulated that a 4 percent cap has been used.

Q. I mean, it's possible that there won't be a 4 percent cap on medical inflation; correct?

A. I mean, there's a lot of things in the plan that are possible. It's an assumption.

Q. Page 11 you've got this assumption of a 1 percent annual class of inflation for professional and contractual services. Do you know where that came from?

A. Yeah. We looked at the -- we looked at a couple of sources in terms of what the historical inflation was over the last 20 years. And I think we got that information from the BEA, which is the Bureau of Economic Analysis, and looked at -- the historical inflation rate was just shy of 2 percent.

But when we looked at certain other elements of the cost that we had already 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

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inflationary index, which was lower than the overall just so that the averages would be close.

Q. Do you know what period of data you looked at?

A. From the Bureau of Economic Analysis, I think the average was less than 2 percent for the last 20 years.

Q. You talk about a decrease after transition to the health and wellness department. What is that talking about?

A. That is basically -- the health and wellness department is a grant-funded department, and it was transitioned out of the City. So the grant-associated revenues that were associated with the health and wellness department and the grant-associated expenses or the payroll-related expense of the health and wellness department were transitioned out. So it was more or less a net offset.

Q. On Page 12, Paragraph 3, you're assuming a 1 percent annual cost of inflation for utilities. What's that based on?

A. It's the same assumption as earlier. We looked at the -- I can repeat it.

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Q. That's okay. It's the Bureau -- what was it? The Bureau of Economic --

A. The Bureau of the Economic -- the US Bureau of Economic Analysis and adjusting for the items that we had already, discretely, had an inflationary component attached to it.

Q. And then you assume the 1 percent annual cost of inflation for purchase services, that's for the same source?

A. That is correct.

Q. And then you've got an increase adjustment for increased prisoner pre-arraignment, function costs, and payroll processing management. Where did that come from?

A. The increased prisoner pre-arraignment function costs would have come from the police department. And the additional payroll processing cost was based on the estimate provided in transitioning the HR payroll system from its existing structure today to a new system.

Q. Page 13, Paragraph 9, you talk about the DDOT subsidy being projected to increase. How did you determine the increase, the size of the increase?

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A. So the subsidy increase is predominantly driven, as stated here, in terms of the revised methodology in the State-calculated and State-operating assistance. And we continued to use a 1 percent inflation for -- most of the expenses, other than for salaries and wages, we used a -- the same assumptions as we had used for all of the non-uniformed professionals, as well as the expenses related to healthcare were also based on the same assumptions as the non-uniformed professionals.

Q. 14, Page 14, Paragraph L, talks about the exit financing. Are all those assumptions that you used, such as the data, the note, and the term and the interest rate, are those -- they were all information provided by Miller Buckfire; correct?

A. That is correct. I had discussions with them about it in terms of the structure, but most of those assumptions are provided by Miller Buckfire.

Q. Page 15, Paragraph 0, you talk about blight reduction. And you note that blight-removal expenditures exclude heavy

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commercial blight.

Do you see that?

A. That is correct.

Q. The City's blight-reduction plan will -- it won't reduce commercial blight at all in the city; correct?

A. The current estimate that is provided in the plan, my understanding is, does not include commercial blight removal in the forecast.

Q. And Page 15, Paragraph Q, you talk -- the contingency reserve was set at 1 percent. How did you determine that number?

A. So I looked at the revenues over the next 10 years, and I looked at the top five revenues. And they were essentially growing by an approximate rate of 1 percent a year over the forecast period of 10 years. And used that as a level of contingency to be put into the plan.

Although revenues are increasing at a faster rate beyond 10 years, we only left a 1 percent contingency to be in the plan.

Q. Page 19, Paragraph B, at the top, you assume a 2 percent annual wage growth and then 2.25 percent after that. Where does the 2 percent

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annual wage growth assumption come from?

A. So that comes from the long-term CBO, which is the congressional budget office outlook that's pulled together, which basically forecast long-term inflation to be 2.2 percent. And so we used the 2 percent for the second -- for the first and second decade and then 2.25 for the third and fourth decade.

Q. The 2.0, how many years of data is the CBO --

A. It goes out --

Q. -- number based on?

A. It goes out until 2053.

Q. And what would -- if you used a wage growth of 1 percent, the cost to the City from wages would be significantly reduced; correct?

A. If you change only that assumption from 2 percent to 1 percent, that would -- yes, the cost would come down.

Q. Do you have an idea of the dollar amount that the cost would come down if you changed the wage growth to 1 percent?

A. I don't have that handy, no.

Q. And would it be hundreds of millions of

MALHOTRA

dollars?

A. Starting when? In what time frame?

Q. Well, throughout the entire time frame.

A. I don't want to speculate. I would rather just do the math because it has a compounding feature to it which also impacts overtime. So I would rather just do the math and give you an answer.

Q. I mean, would it -- I'm just trying to get an order of magnitude on that, the wage growth rate.

A. Like I said, I would prefer to do the math versus just give you a guesstimate, because it's a big number with respect to what the City pays for payroll, and I would rather be accurate in terms of making a wage assumption impact.

Q. Changes in the wage growth factor can have a significant effect on the City's revenues, because the wage expenditures are a significant component of the City's total expenditures; is that fair?

MR. STEWART: Objection.

THE WITNESS: I would say wages are -- wages and salaries and health benefits

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combined are the largest portion of the City's budget. And assumptions with respect to wage growth are -- have an important and material impact on the City's assumptions, everything else being constant.

BY MR. SMITH:

Q. Other than the wage growth assumption, are there other assumptions that can have a significant effect in terms of the overall revenues or expenditures?

A. Over 10 years or 40?

Q. Over 10 years.

A. Yes. I mean, over 10 years the City was relying upon its revenue increases that are forecasted in the plan based on various operating initiatives and -- which may or may not materialize.

The City is relying upon all the third-party funding coming in to make expansion contributions. Beyond that, the City is on the hook for its unfunded liability on its pensions at the end of the 10 years, which has to get amortized.

So I would say those are some of the

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assumptions that come to my mind right now, but we could go through each one in more detail.

Q. Your forecasts don't include any amounts that could be derived from privatizing Detroit's interest in the DetroitûWindsor Tunnel, do they?

A. No, they do not.

Q. And has Ernst & Young in the past done some work on increasing revenue from the DetroitûWindsor Tunnel?

A. Yes.

Q. What kind of work were you doing?

A. Our team had looked at just the lease arrangement and trying to ascertain to make sure that Detroit was collecting its full share -- or the appropriate share of its rent. I can go back and get more details, but that's the extent of what I remember.

Q. Have you done any investigation into whether Detroit's interest in the tunnel can be privatized?

A. I have not.

Q. The -- there's a significant -- there's hundreds of millions of dollars that are owed to the court in Detroit. You're aware of that;

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correct?

A. To the -- I'm sorry.

Q. The 36th District Court in Detroit.

A. That are owed to?

Q. Owed. Owed to it. Are you aware of that?

A. I'm not sure of the exact dollar amount or if it's hundreds of millions of dollars.

Q. You haven't investigated that at all?

A. I haven't done that on 36th District Court, no.

Q. And your forecast doesn't include sums attributable to collection of the amounts that are owed to the court system?

A. I believe the operating initiatives in the Conway MacKenzie reinvestment expenditures do. So that would be an appropriate question to ask them.

Q. But you don't know, sitting here today, how the amounts owed to the court system in Detroit are treated in your forecast?

A. Like I just said, there's collections of incremental court dues in the Conway MacKenzie model, but I would ask them about the exact

MALHOTRA

specifics.

Q. But you really didn't know what the -- you don't know how much you're assuming will be collected from moneys owed the court in your forecast?

A. You know what? I could get to it. I don't know sitting here, but I could get to it if we go all through the exhibits between this one and there's one from the restructuring agreement and reinvestment initiatives that's actually, from I remember, discrete line item on 36th District Court. I just can't recall that year-by-year dollar amount.

Q. Do you have any idea how Conway MacKenzie went about figuring out how much money could be obtained that was owed to the court system?

A. No. I would be speculating if I tried to answer that.

Q. And, in general, do you have an understanding of how Conway MacKenzie went about calculating the amounts that it's given you in its reinvestment projection?

A. I can say what -- the process I went

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through to understand where they were coming up with the numbers, is we had several -- several discussions with their team and discussions on a by-department basis to make sure that if they were revenue initiatives that they were including in their particular assumptions that we had not already included in the baseline, we went that -- through that on several assumptions, including headcount.

So -- and so the process that we went through was to make sure that we weren't double-counting revenues or expenses. So we went through a fairly detailed process to ensure that.

(Discussion held off the stenographic record.)

BY MR. SMITH:

Q. Does your forecast take into account outsourcing of fleet maintenance?

A. We do not include that in the baseline. I would have to go back and check if that assumption is there in the restructuring and reinvestment initiatives, but I know the outsourcing of fleet maintenance is not included in the baseline.

MALHOTRA

Q. Okay. You know that the City has been investigating outsourcing fleet maintenance; correct?

A. Yes.

Q. Okay. And do you know what the projected savings are supposed to be from outsourcing fleet maintenance?

A. I do not know that off the top of my head in terms of what the exact savings were potentially from fleet outsourcing.

Q. That's okay. It's going to take you a long time; you don't have to feel like you have to look it up.

A. Okay.

Q. And you're not sure whether it's in the restructuring or not?

A. I don't want to speculate. I'm not sure on that.

Q. You're assuming that grants to the City are going to continue at the same level of -- at the same funding level; correct?

A. Grants are spread out over a lot of departments. So where we know of discrete grants that are expiring, we have shown the reduction of

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those grants. Where there's been recent grants that have been awarded, we have shown that.

We have even the State funding that comes in -- or the federal funding that comes into Department of Transportation. Other than the information we know, we've kept it generally flat. So we've highlighted for grants we know. Like the grant for blight remediation, we have included that.

Q. There was a recent federal grant of $300 million that was announced. Are you familiar with that?

A. Yes. When you -- I'm sorry. When you say recent, this is probably six, eight months ago, if that's the same grant you're referring to.

Q. I'm not sure if it was six or eight months ago, but you've got a $300 million grant from the federal government incorporated into your forecast.

A. First, I would like clarification on what grant for $300 million we're talking about, just so that . . .

Q. Are you assuming that there will be any significant private donations to the City --

MALHOTRA

donations or grants over the course of the ten years?

A. Donations. Well, you've got the grand bargain or -- but --

Q. Other than the grand bargain, are any contributions by private entities incorporated into your projections?

A. We've got the hardest-hit funds, which we've talked about, that is coming in. Can't recall if any -- the specific one-off donations that are coming in.

For the federal guides that were highlighted, we went through -- and this was back again, six, eight months ago, from what I recall -- and in some detail to ascertain what grants, if any, were applicable for the City of Detroit and the general fund in the plan of adjustment.

Q. Who did the analysis of what grant moneys were available? Was that something your team did or was that somebody else that did that?

A. My team did that.

Q. And, certainly, you can't represent to the Court that over the course of the next ten

MALHOTRA

years, there won't be incremental additional grant money from the federal, state, or -- governments or private donors that's not incorporated into your forecasts; correct?

A. Yeah. I cannot say whether these grants will go up or the existing grants will go down. I can just talk about the assumptions that we have right now.

Q. Do you believe all -- well, I assume all the cost savings and revenue initiatives that are discussed in Mr. Moore's report, expert report, are incorporated into your forecast?

A. I have not read Chuck Moore's report, but the revenues and expenses, as provided to us by Conway MacKenzie on the restructuring and reinvestment initiatives and the corresponding operating revenue increases, have been incorporated into the plan of adjustment and the July 2nd updates.

Q. Are you aware that there are a number of businesses in Detroit that are operating without licenses?

A. I do not know.

Q. Your forecast doesn't incorporate any

MALHOTRA

amounts for increased revenue due to requiring businesses that are operating without licenses to obtain licenses as required by law?

A. I do not know of businesses operating without licenses. So I do not know.

Q. Do you know whether the corporate income -- I mean, the business tax reports are audited at all by the City of Detroit?

A. That would be a KPMG or a Plante Moran question.

Q. You just don't know the answer?

A. Yeah, we're not involved in any of those audits, so I can't tell.

Q. Do you agree that City revenue should increase as the economy improves?

A. Yes. Overall, if the economy continues to do well, Detroit will get -- potentially benefit from its pro rata share, as long as the overall trends and the issues that are specific to Detroit are taken into consideration at the same time.

Q. Do you agree that the economy is improving in Detroit?

A. Compared to what time frame?

MALHOTRA

Q. Well, I mean, there are ongoing -- compared to whatever the last reported period is, do you agree that the economy is improving?

A. I -- if you can give me a specific question on compared to what time frame. It's hard for me to give you an answer.

Q. Okay. So you can't tell me whether the economy is improving in Detroit?

A. Compared to what time frame?

Q. There's no -- nothing in your analysis that takes into account improving economic conditions in the City of Detroit?

A. There is assumptions with respect to how -- since the last recession. Maybe if I can put that into context. Right? Since the last recession, yes, Detroit's economy is improving. So I'm comfortable to say that.

But that's -- I'm just trying to figure out if it's a short-term time frame that you're trying to compare or much longer. Since the last recession, Detroit's economy is improving.

Q. In the short term, Detroit's economy is improving also?

MR. STEWART: Objection.

MALHOTRA

THE WITNESS: In the short term, you mean since the recession.

BY MR. SMITH:

Q. Well, which -- what recession are you talking about?

A. Well, 2008/2009.

Q. I got it.

A. And since 2008/2009, Detroit's economy has improved. But when I look at overall revenue basis, State revenue sharing is down, so State aid is down.

So I just want to make sure. I'm just trying to draw some specificity around your question.

Q. So the economy in Detroit has been improving since 2008 or 2009; correct?

A. Relative to 2000 -- 2008/2009, the economy is better today.

Q. And since that time, the State has been decreasing State payments through revenue sharing to Detroit; correct?

A. I don't want to draw a correlation between those two things, between the improved -- between the end of a rescission and the State's

MALHOTRA

decline. I can say the State revenue sharing has declined since 2008 or 2009 compared to where we are today.

Q. And, in fact, the State has reduced revenue sharing by hundreds of millions of dollars to Detroit in the last decade; correct?

A. I have the numbers since 2008. And since 2008, the number, from what I can tell from these -- my information here, it's roughly about $60 million that Detroit's revenue sharing has gone down, annual.

Q. Annually?

A. That's correct.

Q. So $60 million a year from 2008 to the present is the reduction in Detroit's revenue sharing?

A. I would actually like to -- now that I have this in front of me, I would like to clarify. The real revenue decline has really started after 2010 in State aid from -- and I want to just make sure that's clear for the record, because I said 2008 earlier.

From 2008 to 2010, State aid was continuing to go up. And since 2010, it has come

MALHOTRA

down for the years '11, '12; and then in '13 and '14 has taken a slight increase back, but still not at the same level as it was in 2010.

Q. Since 2010, approximately how much has the State cut revenue sharing in total?

A. In total, if I were to look at it through fiscal year '14, it's -- compared to 2010 through 2014 in aggregate, the State aid has been lowered by -- in excess of $200 million.

Q. Yeah. Do you know why the State's cut the aid, the revenue sharing aid?

A. I believe it's been cut for lots of local municipalities based on what the State budget was, but I do not know the exact basis of that last cut.

Q. Do you believe that blight-reduction efforts should improve property values in the City?

A. Overall, yes, in terms of the blight-reduction initiatives, should help either the collection rates or a cleanup of the tax roll in terms of the assessed values.

Q. And then just by virtue of the fact that blight has been reduced, property values should

MALHOTRA

increase. Do you agree with that?

A. I would have to give that some thought in terms of that direct link, which was your questioning this morning, that -- which was that there is no direct link between blight and any of the revenues.

But -- and my answer remains consistent, which is blight expenditures are a part of the overall reinvestment package, which should help the overall revenue and property taxes and income taxes of the city.

Q. I mean, do you know who came up with this idea to spend hundreds of millions of dollars on blight reduction?

A. It was a -- part of the overall restructuring effort; but I would -- on more details on that, I'm sure Conway MacKenzie will have.

Q. But you just don't know whose idea it was to spend hundreds of millions of dollars on blight reduction?

A. There were several discussions on blight reduction as we were developing the plan. I do not remember one specific person's idea it was.

MALHOTRA

Q. And nobody is willing to claim credit to be the father of the blight-reduction effort; is that fair?

A. I can tell you I am not -- I cannot answer that.

MR. SMITH: I'm going to hand you what I'm going to mark as Exhibit 4, which is an email attaching some materials from the financial advisory board.

Here you go.

(Exhibit Malhotra-4 was marked for identification.)

BY MR. SMITH:

Q. And you'll recall that we are talking about consensus revenue reports. And if you look at the Bates No. POA00537604, you'll see that there's a revenue consensus conference report there.

A. I'm sorry. What page are you on?

Q. It's POA00537604. Do you see that revenue consensus conference report?

A. Yes.

Q. And there's some projections in that report. Have you seen those before?

MALHOTRA

A. I do not recall going through this, but I would say that I know some of my team members would have attended this, but I do not recall reading through this report.

Q. Okay. You didn't attempt to do any effort to reconcile your projections with the consensus revenue conference projections; correct?

A. Well, I believe the revenue conference assumptions were triangulated with the assumptions that we had in the plan of adjustment. But we haven't done that recently, but it's a process that we would undertake versus not.

Q. Okay. I mean, do you know what the differences or similarities are between your assumptions and the revenue conference?

A. I would have to read through this report, but it's something that we can -- we can get to.

Q. Well, sitting here today, you just don't know what differences or similarities are between the consensus reports and your projections; correct?

A. I'd be happy to go through this and provide some of the big changes.

MALHOTRA

Q. My question is have you done that exercise?

A. I'm trying to think if this particular date or not. But I believe we had -- as I flip through this and we look at some of these cash projections, that we had looked at what some of the changes were between the revenue conference -- or the differences between the revenue conference and the short-term outlook. I just don't have it in front of me. I can't recall what the differences were. But I think they were some categories that were up, some categories that were down.

(Exhibit Malhotra-5 was marked for identification.)

BY MR. SMITH:

Q. I'm going to hand you what's been marked as Exhibit 5, "Operational Restructuring Summary." Have you ever seen that document before?

A. Is this the Conway MacKenzie report? I can flip through it --

Q. Yeah, it is a Conway MacKenzie report. It says on the first internal page.

MR. ALBERTS: Can you give a Bates range

MALHOTRA

for that, please.

MR. SMITH: You know, actually, this doesn't have a Bates number on it, but it was Moore Exhibit 7 if that helps.

MR. ALBERTS: Thanks.

BY MR. SMITH:

Q. You've got the document in front of you; right?

A. I do have it.

Q. Okay. Does that look familiar or not?

A. It looks familiar. I've seen this before.

Q. Okay. If you turn to Page 72, it talks about grant funds that remain unspent and 38.9 million at risk of recapture.

Do you see that?

MR. STEWART: 74?

MR. SMITH: 72.

THE WITNESS: Yes, I see that.

BY MR. SMITH:

Q. Okay. I mean, have you done any investigation into whether the City has recently had federal grant moneys recaptured or not?

A. I have not.

MALHOTRA

Q. Okay. Do you have any idea how the risk of recapture of federal grant moneys is treated in your forecast?

A. We do not have a specific recapture of federal grant money incorporated in the forecast.

Q. Over on Page 92 it discuss the 36th District Court. And it's -- it says that the current accounts receivable is 279 million -- oh, whoops. It's on Page 91. Sorry.

Do you see the bullet that says, "Collection rates are extremely low with limited proactive collection efforts and process in place"?

A. Yes.

Q. And it notes that the accounts receivable for the quarter are 279 million with 200 million payable to the City?

A. Yes.

Q. Do you have any idea how that was treated in your forecast?

A. It has not been included in the baseline forecast, but I do not know if it's included in this Department of Revenue initiatives of 82.3 million on Page 92 --

MALHOTRA

Q. Okay.

A. -- that have already been highlighted here.

Q. But, certainly, your forecast does not assume that all of the money owed to the court will be collected; correct?

A. Well, again, I would -- this is a better question for Conway MacKenzie. But Page 92, from what I'm seeing, shows $82 million of revenue initiatives related to the 36th District Court.

Q. Which is equal to -- my question, is your forecast -- you're not saying that, in your forecast, that all the money owed to the court is going to be collected; correct?

A. I have not included specifically -- if your question is, have we included $200 million of incremental collections from the court for receivables that are almost seven years old, we have not included it.

Q. And sitting here today, you don't know what, if any, incremental collections you've included in your forecast for the court; correct?

MR. STEWART: Objection.

THE WITNESS: When you say -- I would

MALHOTRA

say that that's a question on Conway MacKenzie for the new revenue initiatives that they have incorporated for the 36th District Court.

BY MR. SMITH:

Q. Yeah, and Conway MacKenzie is not here. My question is, do you know what's in your own forecast regarding --

A. I do know what's in my own forecast.

Q. Okay. How much money do you forecast will be collected from the courts in your forecast?

A. So there is approximately, I would say, between 180 -- around 180-plus million dollars of revenues that are included from the 36th District Court over the next ten years. But I do not believe there is any collection of past-due accounts receivable as a new revenue initiative included in that forecast.

Q. I'm going to hand you what I've marked as Exhibit 6, which is a report of the Blight Removal Task Force.

(Exhibit Malhotra-6 was marked for identification.)

MALHOTRA

BY MR. SMITH:

Q. Have you ever seen this document before?

A. I have seen it. I have not studied this report.

Q. Okay. If you turn to Page 240, there is a discussion of $440 million of reinvestment funds listed in the plan of adjustment.

Do you see where I'm at?

A. I see that sentence.

Q. And then it goes on to say -- talk about the portion of it that represents money that's subject to the bankruptcy court approval, which it lists as 368 million.

Do you see that?

A. Yes, I see that.

Q. And then it goes on to note that "that allocation is not guaranteed. It is contingent upon the realization of projected future cost savings and revenue for the City. If future revenue or cost savings are not realized at the projected levels each year, the $368 million in blight elimination funding has the potential to shrink significantly."

Do you see that?

MALHOTRA

A. I see that.

Q. And were you aware that the blight expenditures were contingent on the City realizing revenue increases or cost reductions from blight-removal efforts?

A. Yes, of course. It's -- the City does not have a fixed obligation.

Q. Okay. So it could be that only a small fraction of the blight-reduction money is actually spent by the City over the next ten years; correct?

A. That is not the City's intent.

Q. If it turns out that revenue is not realized or costs are not reduced from blight reduction, then a significant portion of the blight-reduction money may not be spent by the City on blight reduction; correct?

A. No. It -- the blight expenditure of the City is not a fixed-debt-type obligation that the City has taken on. It is not a sinking fund for blight remediation.

Q. Yeah. The City has no obligation to spend any of the blight-reduction money; correct?

A. The City may not have a legal obligation

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to spend the blight money as it's laid out, but that is not the intent. It's not a legal obligation to make a debt-like instrument.

Q. The City's intent is that the blight expenditure is contingent upon certain results being achieved; correct?

MR. STEWART: Objection.

THE WITNESS: Could you ask me the question again, please?

BY MR. SMITH:

Q. The City's intent is that blight-reduction expenditures will be contingent upon the realization of projected future cost savings and revenue for the City; correct?

A. The City is budgeting for its blight expense. But if something unforeseen happens, it's not like there's a default because the City did not spend that blight amount in that particular year. So it's -- I'm trying to make the distinction between a fixed-debt-type obligation versus not.

Q. And I'm not saying there will be a default or anything like that. I'm saying that the blight expenditure is a discretionary

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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 discretionary or not because there could be changes in timing. But, you know, that amount is just not set aside for 10 years today.

Q. Yeah. There's no separate blight reduction fund that's been set up to set aside money for blight reduction; correct?

A. Not as of yet.

Q. And --

A. That I know of, at least.

Q. -- the expenditure of the blight-elimination money is contingent; correct?

A. Contingent on what?

Q. On obtaining certain results regarding revenues and costs from the blight-reduction efforts; correct?

A. I don't know if it's contingent upon costs related to blight-removal efforts. I mean, it's --

Q. I'm going to read this again.

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A. Okay. Thank you.

Q. Do you agree that the blight reduction money is contingent upon the realization of projected future cost savings and revenue for the City?

A. What page are you on?

Q. I'm on Page 240.

A. Yes, I agree with this statement. I don't agree with your earlier statement.

Q. Okay. So you agree that the blight -- the blight-elimination funds are contingent upon the realization of projected future cost savings and revenue for the City; correct?

A. Yes. That's not a fixed obligation, but it depends on making sure that the -- if there's an unforeseen event and the City's budget hasn't changed dramatically, we have to look at starting a default-type option.

Q. In fact, much of the expenditures that you projected over the 10 years are -- they're expenditures the City is not legally obligated to make; correct?

A. Can you define, other than blight, which specific expenditures you're talking about?

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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 the City obligating itself to keep employment levels at the current levels?

A. I do not believe that the City is agreeing to that. There is -- there's flexibility in terms of headcount and only up to a certain extent when it's tied back to the level of services.

Q. And the level of services is a discretionary decision of the City?

A. I don't know if it's discretionary or not, but it is. Those are decision that City management and council have to make. The wages are going to be predicated on the collective bargaining agreements.

(Exhibit Malhotra-7 was marked for identification.)

BY MR. SMITH:

Q. Let me hand you what's been marked as Exhibit 7. Here you go.

MALHOTRA

MR. ALBERTS: By the way, do you have Bates range for the Blight Removal Task Force?

MR. SMITH: No. It's a public document on the Internet.

MR. ALBERTS: Okay.

BY MR. SMITH:

Q. The -- and I've just handed you a news article that's another public document. This news article discusses a proposal to withhold tax on reverse commuters.

Do you see that?

A. That's what the, yes, subject says.

Q. And we were talking about the reverse-commuter situation earlier today; right?

A. Yes.

Q. And there's a MacKenzie study that notes that there was a -- it found that there was approximately 140 million in 2009 of uncollected income taxes from Detroit residents working outside the City?

A. That's what this sentence says here.

Q. I mean, are you aware of that MacKenzie study that found that there was $140 million of

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taxes that were not being collected?

A. I do not know of a specific MacKenzie study. There have been various estimates based on various inputs from people to try and estimate a range. I do not know of a specific MacKenzie study that MacKenzie did on their own to estimate that 140 million.

Q. You're offering no opinion on the amount of forgone income tax revenue based on failure to collect from reverse commuters or anybody else; correct?

A. That is correct.

(Exhibit Malhotra-8 was marked for identification.)

BY MR. SMITH:

Q. I'm going to hand you what's been marked as Exhibit 8.

MR. ALBERTS: Do you have a date of that news article, please? If you're not going to bring them, I'd like a little more -- you know . . .

MR. SMITH: Do you want to read the date for me.

MR. STEWART: It's the 24th --

MALHOTRA

THE WITNESS: Yes, it's the 24th of February, 2014, "Detroit News."

BY MR. SMITH:

Q. Here's Exhibit 8, a copy of another document, February 19, 2013. Memorandum to Governor Snyder. There's no Bates number on it. It's publicly available.

You've seen this report before; correct?

A. I believe I have. The subject is throwing me off and it's supplemental documentation, and so I just don't know if this is the original report of the financial review team or some addendum to it.

Q. There's an original and then this supplemental that is -- they're two separate documents. You're correct.

A. So I don't remember the supplemental.

Q. Okay. That's fine. If -- but you see that in front of, you've got a supplemental report of a Detroit financial review team to Governor Snyder; correct?

A. Yes, that's what the subject --

Q. And the Detroit financial review team recommended the appointment of an emergency

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manager for Detroit; is that correct?

MR. STEWART: Are you asking him what the document says or what he remembers or what? If you're asking him -- I think he said he didn't remember this document, so I'm just --

MR. SMITH: I'm asking what he remembers.

MR. STEWART: So you don't have to look at the document; just answer his question.

THE WITNESS: I do not remember the financial review team says emergency manager or if they determined an emergency exists.

BY MR. SMITH:

Q. Okay. You know that the Detroit financial review team concluded that there was a financial emergency?

A. Yes.

Q. And if you look at Page 8 at the top, it's the -- the financial review team concluded that operational dysfunction contributes to the City's serious financial problem.

Do you see that conclusion of the financial review team? First sentence on Page 8.

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A. Yes, I see that.

Q. Okay. And isn't it true that the -- I mean, many independent reviewers, including the financial review team, attributed the poor fiscal conditions in Detroit to operational dysfunction or mismanagement?

MR. STEWART: Objection.

THE WITNESS: It's one of the items that's mentioned on the list, is operational dysfunction, but -- this operational dysfunction. And that's what this piece of paper says.

BY MR. SMITH:

Q. And ever since you've been working for the City of Detroit, has the City been trying to improve its operational functions in order to improve its fiscal condition?

A. Yes. I mean, the City has been facing lots of challenges. But in the amount of resource that it has available, the City has tried to make changes where it could.

MR. STEWART: Been on the record 90 minutes. Be a good time for a break?

MR. SMITH: Sure.

MALHOTRA

THE VIDEOGRAPHER: Going off the record at 3:31. This is the end of Tape No. 4.

(Short break taken.)

THE VIDEOGRAPHER: We are back on the record at 3:43. This is the beginning of Tape No. 5.

BY MR. SMITH:

Q. Mr. Malhotra, if you had that blight removal task force report in front of -- do you have that? If you turn to Page 4 -- actually, Page 2. Sorry about that.

Page 2, it talks about how, in September 2013, the Obama administration announced a $300 million federal effort focused on working with the City to address key areas of importance, including blight removal, public works, and public safety.

A. I'm sorry.

Q. Page 2?

A. Is that this?

Q. Page 2 right up here. It's Arabic 2. It talks about the $300 million grant from the federal government. Do you see that?

A. Yes, I do.

MALHOTRA

Q. And is that included in your current forecast of $300 million?

A. The dollars that were in our collective view in terms of discussions with the City that were appropriate to be included, they were included, yes.

Q. I mean, when you say that -- whenever the City gets a federal grant, you don't necessarily include all that money in your forecast or the general fund; is that correct?

A. Yeah, it depends -- I mean, there is an analysis, which I don't know if you have handy or not, but that defines each one of the programs that made up the $300 million in funding.

Some of it was related to the general fund. For instance, the hardest-hit funds were included in the general fund; however, then there were some other funds, like, for instance, I recall, for M-1 Rail that had nothing to do with the general fund or even the general fund subsidy to DDOT.

So you have to look at the individual components that make up that $300 million on which we have an analysis to ascertain what funds were

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included in the budget.

Q. So because you're only forecasting the general fund revenues and expenditures, you don't include all grant moneys that are given to the City; correct?

A. We include those that would impact the City or the initiatives that the City has highlighted, even through, you know, other particular departments. If there is going to be more expenses in other departments that would be reimbursed by new grant funds, they're not included because they would be offset.

Q. Well, I mean, what my question is, the $300 million, you don't include with it all of that money in your forecast for the general fund; correct?

A. The $300 million, we have done an analysis of those funds that are applicable to the general fund or those funds that may be applicable to other funds with a general fund may be providing a subsidy. But so there's detailed analysis on that to walk through the $300 million.

Q. And my only question is not every penny of the $300 million is included in revenues in

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your forecast; is that correct?

A. I would answer that what we've collectively felt were the relevant dollars to be included have been included.

Q. And then there's some other dollars within the 300 million that are not included in your forecast; correct?

A. As there would be other dollars that could be a reimbursement of an expense that is not included either. So the -- you know, my answer is sort of consistent with what I said earlier --

Q. Well, I'm trying to understand how grants are treated in your analysis --

A. Sure.

Q. -- is what I'm trying to understand. And if there's a grant that's going to some other entity that's not the general fund but it's still part of the City, is all of the money from that grant, would that be picked up in revenue for your -- in your analysis?

A. It depends on what grant it is, because there are some non-general fund grants that have expenses and revenues that equal each other that are detailed out.

MALHOTRA

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 a corresponding reimbursement as well for that expense.

Q. But -- and my only question is, because you're focused on the general fund in your analysis, you don't include every dollar of grant revenue that is received by the City in your projection of revenues; correct?

A. That is correct, because they are self-funding. They are net neutral. In aggregate is the assumption between the revenues and the expenses.

So yes, there would be other grant-funded departments or grant funds that are not included in the revenues or the expenses because they offset each other.

Q. Do you know how many -- how much money in grants that the City has projected to receive are not included in your revenues?

A. I would have to go back and look. I do

MALHOTRA

not know off the top of my head.

Q. Do you have any ballpark idea?

A. No. I don't want to speculate.

Q. Would it be more than $100 million?

A. I don't want to speculate.

Q. Okay. The $300 million, though, you've at least taken account of in your analysis; is that correct?

A. That is correct. We have accounted for it. We have analyzed that $300 million; that's correct.

Q. Did your forecast, before September 2013, take into account the $300 million, or was that a special amount that was given to the City that was not -- that was in addition to historical-type amounts?

MR. STEWART: Objection.

Can I just have the question reread, please.

(Thereupon, the requested portion was read back by the reporter as above recorded.)

MR. STEWART: I think he said historical-type amounts. When you reread it,

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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 of those amounts were new amounts. So, again, if you were to look at that analysis, you know, they -- some of the amounts were already ongoing grants that were being renewed. So it wasn't new money.

BY MR. SMITH:

Q. I got it. And so it's correct, isn't it, that even since you started doing your forecast, the City has received incremental grant amounts that it did not -- it was not forecasted to receive; correct?

A. No.

Q. Well, I thought you just said that part of the 300 million was new grants?

A. Yeah, part of it was new grants that were renewed.

Q. Yeah. And then part of it was --

MR. STEWART: Well, hold on. He didn't finish his answer.

MALHOTRA

THE WITNESS: Part of it was new grants that were renewed, and then there were some new grants, like for the hardest-hit funds, for -- which were incremental revenues that the City was getting.

BY MR. SMITH:

Q. And --

A. Or assumption.

Q. And my question is, since you started your forecast, the City has received incremental grant revenues that it did not expect to receive and were not forecasted to receive. Is that correct?

A. That is correct in the context of the hardest-hit funds. That assumption was not included in the earlier version of the forecast.

Q. And there -- are there still some hardest-hit funds that haven't been allocated beyond the 52 million that the State has in its possession?

A. I'm not sure.

Q. Have you done any investigation into potential grants, incremental grant revenue that's not already included in your forecast that the

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City may have access to over the next 10 years?

A. For the grants that we know of specifically, like SAFER and fire, although they were being removed from the baseline because we knew that they were expiring, but I believe those are the grants that I know of specifically.

But new and incremental grants over and above what's already in the baseline, I do not know off the top of my head.

Q. You just haven't done an investigation into potential incremental grants?

A. Right. I mean, the -- we have the grand bargain that's already highlighted that you already know about. You know, new grants over and above all the grant money that's already in the forecast, we have not done an investigation on that.

Q. Who at the City is the person -- or are there multiple people that are responsible for interacting with the state or federal government to get grants?

A. There are many people, because they are different grant writers in specific departments because they are chasing a particular type of

MALHOTRA

grant. For instance fire and the SAFER grant has its own unique set of requirements, and the same thing with the police grant.

So I would say it varies.

Q. Are there any people that are typically involved in grant work at the City?

A. There is a grant -- there are several. I don't want to name any one particular person, because there are several people, and I think that that effort is starting to get streamlined better in terms of the grant management; but there are still people at different departments that chase grants specific to their department.

Q. You're not offering any opinion saying that the City can't raise taxes; correct?

A. That's a policy question. The City is on the highest end, likely, of its comparable tax rates, but I'm not offering an opinion on changes in tax policy.

Q. You're not offering any opinion on whether the City can pay creditors more money than it's planned to pay; correct?

A. Could you repeat that again, please.

Q. You're not offering any opinion on

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whether or not the City can pay creditors more money than it's planned to pay under the plan?

A. I am saying that the assumptions that are in the forecast are reasonable based on which the moneys that are available to spend are distributed to creditors have been calculated.

Q. Okay. In your -- in your scenario that you've done. But you're not offering any opinion about whether you can change the assumptions or do other things to pay creditors more money. That's not within the scope of your work?

A. No. If the assumptions change, those moneys available for creditors would go up or down. I'm okay with that, and -- if the assumptions change. But, you know, the amounts available to creditors as shown in the projects, in my view, are reasonable.

Q. Okay. But then the amounts as shown in the projections that go to creditors can be increased if you change the assumptions; correct?

A. It depends on what assumptions. I mean, if you -- and I've said this earlier. If you change an assumption and you leave everything else constant, there has to be a change in a result.

MALHOTRA

Q. That's right. And so if you change certain of the assumptions in your model, then you can increase the amount of money that the creditors receive; correct?

A. I would ask you to be more specific in terms of what certain assumptions mean.

Q. Okay. We can go back to tax rate increases again. I mean, increasing the tax rate or the collection rate on taxes. You could increase the amount of money available to creditors; correct?

A. It's a twofold question. Increasing tax rates and if you assume that everything else remains constant, that more people are actually going to leave -- because if you increase tax rates and more people leave, you're not going to increase revenues.

Q. Okay. Well, we'll assume that you increase tax rates and hold everything else constant. There will be more money for creditors; right?

A. If there is more money for creditors under any assumption, there is more money for creditors.

MALHOTRA

Q. And my only point is you could change the assumptions in your model and you can generate more money for the creditors; correct?

A. It depends on what assumptions you change. And so if you change the assumptions in the model, the answers will change; that is correct.

Q. And you're not attempting to calculate an actual amount that will be available to creditors; correct? Because you're doing a forecast; right?

A. It's a reasonable forecast. So it's, in my view, the information that we have today.

Q. But you're not trying to calculate actual values in your forecast, by definition; correct?

A. I'd like to understand that question better, because, I mean, we are projecting what the actual values or recoveries are based on the plan adjustment with respect to the notes. So I just want to make sure that I understand the context of the question.

Q. Okay. Your disclaimer on the front of your projections says, "There will usually be

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differences between forecasted and actual results." Correct? That's what your representation is.

A. Yes.

Q. Okay. And so you're not attempting to calculate actual results; you're calculating forecasted results; correct?

A. Forecasts are not results. Forecasts are forecasts. These includes reasonable projections or reasonable forecasts. So I'm sorry. I don't understand your question.

Q. You're not trying to calculate actual results. It says right here on the front of your projections.

A. That's right, because it's a forecast. In the future, it will become an actual.

Q. And so you're not trying to calculate the actual amount of money that is going to be available to pay creditors over the next 10 years?

A. My answer remains the same as earlier. This -- the projection show what amounts would be available for unsecured creditors based on the forecast as laid out herein. The $630-odd million are in Note B that is laid out are the recoveries

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under Note B.

And so that is the nominal dollars that will be paid out under Note B, regardless of the forecast in some fashion.

THE VIDEOGRAPHER: Excuse me. Go off the record? Going off the record at 4:01 p.m.

(Discussion off the record.)

THE VIDEOGRAPHER: Back on the record at 4:02.

BY MR. SMITH:

Q. In the proposal for creditors, do you recall that there was a provision in there for some notes that could be adjusted if the City received additional grant funds for blight reduction?

A. I believe I remember there was something; but if I could see it, I would get refreshed. But there was --

MR. SMITH: I only have a couple copies of this, unfortunately, but I will label it as Exhibit 9. It's Executive Summary of the Proposal from Creditors. And if you look at Page 59.

MALHOTRA

Here you go.

(Exhibit Malhotra-9 was marked for identification.)

BY MR. SMITH:

Q. Page 59, it talks about blight reduction.

MR. STEWART: I may have two of these.

MR. SMITH: I'll take one if you've got an extra.

MR. STEWART: Yeah, I do. This doesn't have a clip on it.

MR. SMITH: Okay. I was just going to ask about Page 59, that's the only page.

BY MR. SMITH:

Q. Do you see where I'm talking about?

A. Yes, I do.

Q. And you've got -- and there was going to be a provision about -- say that there would be an amount equal to 75 percent of the general fund revenues that would otherwise be spent on blight, but for the outside funds, that would be applied to reduce the principal amount of the notes.

Does that refresh your recollection about how it was a proposal to give creditors

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these notes where they could potentially get reimbursed if there were additional funds for blight that came into the City?

A. I thought the 75 percent was asset sales -- I think the 75 percent was related to asset disposition proceeds.

Q. I'm looking at the paragraph above that. There's two paragraphs here.

A. Okay.

Q. The first one is grants and other -- I'm looking at the second paragraph on the page. It says, "Grants and other amounts received to offset costs of addressing blight."

Do you see that where I'm at?

A. Yes, and I do now. Thank you.

Q. And the City was provided -- [reading]: If the City receives any cash grants or other payments after the effective date and before the maturity date from the State of Michigan, the federal government, or any other government or nonprofit entity not affiliated in any way with the City for the purpose of funding programs or activities to address blight that are included in the 10 Year plan, blight revenues, and that can be

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utilized in place of the general fund sums in the 10-year projections in amount equal to 75 percent of the general fund revenues that would otherwise be spent on blight, but for the outside funds, shall be applied to reduce the principal amount of the notes.

Do you see that?

A. I do. That's what it says, yes.

Q. And so the City contemplates that it may have additional grant moneys available from the federal government, the state government, or nonprofit entities to engage in blight reduction efforts over the 10-year period; correct?

A. This was over and above the $500 million estimate that was included for blight removal in this particular proposal. The City was contemplating how, if more than -- after spending $500 million, if additional funds were being made available or during -- to help fund that $500 million, how some of those proceeds could be shared.

Q. And certainly the City recognizes that in the next 10 years, it may receive additional moneys from the federal, state governments, or

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nonprofit entities to engage in blight reduction; correct?

A. No, because it could be increases for certain -- I do not know other revenues that are coming through to the City for blight remediation, and if something happens, we have to look at the overall construct if any other funding is being taken away.

Q. Yeah. My point here is only that the City recognizes that there could be new grants from the federal government, state government, or nonprofit entities for blight rejection -- blight reduction that it will receive in the next 10 years; correct?

A. That's what the City proposed in June 2013, which is evident in the $52 million in hardest-hit funds that the City has --

Q. That would be one example, but the City also contemplated it might get money other from other sources; correct?

A. Not that I know of.

Q. Well, nonprofit entities; right? It contemplated that it might get money for blight reduction from nonprofit entities?

MALHOTRA

A. Well, the City has a grand bargain that is existing with the City's ability to fund its reinvestment program because the grand bargain moneys are coming into the pension.

Q. Okay. So even in the months since this creditor proposal, the City has already received tens of millions of dollars in money that it didn't realize it would receive from various sources; correct?

A. The $52 million of funds that were for hardest-hit funds were not contemplated in the June 2013 proposal for blight.

Q. And then additional revenue from the grand bargain wasn't contemplated in the creditor proposal?

A. That is correct.

Q. And so I mean, in less than a year, the City has been able to generate significant additional revenues from sources that it did not expect to receive back in June of 2013; correct?

A. No. I don't think it's the City -- I mean, when you look at the grand bargain in terms of it's a very specific use that it's being directed towards. So it's not that the City has

MALHOTRA

just, you know, gotten an extra $800 million for its general fund. So . . .

Q. But there are unpredicted receipt of tens of millions of dollars in revenue that have occurred for the City between June 2013 and the present; correct?

A. Could you repeat that question, please.

Q. The City is -- in the last year the City has received tens of millions of dollars in unanticipated revenue from various sources; correct?

A. Let me being specific. The grand bargain was not contemplated in June 2013. The uses of the grand bargain, in terms of the money being spent, were not contemplated in June 2013.

The City has received revenues, but the City has also now got expenses. For the hardest-hit funds, those are new moneys that the City has received in order to help assist the funding of its blight remediation.

Q. Okay. I mean, just in the -- within a few months, the City received more than $50 million it didn't anticipate to fund blight remediation; correct?

MALHOTRA

A. It's been in this -- it's been during the last year. We did not anticipate that $50 million of blight remediation that have come through, thanks to the federal government and how it comes through the state. So but those are -- they could be considered one-time items and were not expected in the June 2013 proposal.

Q. Okay. The forecasts that are included in the June 2013 proposal, are those, given what we now know, materially inaccurate?

A. I don't know what you define as "materially inaccurate."

Q. Why don't you use your own definition of "materially inaccurate."

MR. STEWART: Objection.

THE WITNESS: Well, I can explain changes have been made since the June 2013 proposal. I mean, based on the income taxes and the property taxes information or we can go line item by line item to bridge what has changed.

So I do not know the definition of "materially inaccurate."

BY MR. SMITH:

MALHOTRA

Q. You can't provide me with a definition of "materially inaccurate"; correct?

A. I'm sorry. Can you ask me that again?

Q. Can you provide me a definition of "materially inaccurate" that you would use? Yes or no.

A. No, I don't know what the context "materially inaccurate" is. I mean, so I can't provide a definition of materially inaccurate.

Q. Can you provide me a definition of "scientifically reliable"?

A. No, I cannot. I can provide you with an understanding of what the changes are in the assumptions, but "materially inaccurate" or "scientifically reliable," I can't put that into context.

Q. Can you tell me what, in your view -- well, you're aware that the Department of Transportation brings in hundreds of millions of dollars each year; correct?

A. In terms of revenues?

Q. Yes.

A. Somewhere between 100 and $150 million or up to $200 million. So I don't know if it's

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hundreds and hundreds of millions.

Q. Are you aware that the Department of Transportation have saved approximately 40 million by doing scheduling changes?

A. Over what time frame?

Q. I don't know. Over whatever the time frame was that ---over a year.

A. I don't know if I can say that.

Q. Do you know -- I mean, can you tell me what changes the Department of Revenue -- I mean, Department of Transportation has made in the last year to either increase revenues or decrease costs?

A. I think the -- in the last 18 months, they reduced the amount of service that was on the roads in order to reduce the level of subsidy.

Q. And who directed the Department of Transportation to do that?

A. I don't remember if this was during the time of Mayor Bing and his administration in order to reduce some of that overall subsidy level or Chris Brown, who was the former chief operating officer.

Q. And are you aware that the City believes

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that many of the workers' compensation claims that are filed against it are meritless?

A. I do not know whether they were all -- many of them are meritless or not, but I know the City is undertaking initiatives to further control its workers' comp changes.

Q. Okay. And do you know how your forecast takes into account the City's initiatives to reduce workers' compensation costs?

A. The workers' compensation costs are generally based on the most recent trend in terms of what the City has been spending. So, yeah, that -- that is what I know.

Q. I mean, do you know whether you've incorporated in your forecasts any reduction in workers' compensation costs attributable to the City efforts over the next 10 years to reduce costs?

A. I believe that would be a question for Conway MacKenzie.

Q. You just don't know one way or the other sitting here?

A. Yeah. And the reason for that is workers' comp claims, since the City is

MALHOTRA

self-insured, there can be lumpiness in terms of claims in particular years. And so it's hard to draw just a straight line, because one-off claims that are extremely expensive can throw those averages off.

Q. Do you know whether -- if the City has considered other initiatives that are not reflected in the Conway MacKenzie report or the reinvestment plan?

A. Other initiatives to --

Q. To increase revenues or decrease costs.

A. Yes. I do not know the specifics, but I've -- they always continue to be new initiatives or new expenses that are developed. But I don't know of any specific new initiatives over and above the ones that have been mentioned in the Conway MacKenzie information. They may be replacements that, you know, one doesn't happen; the other one may happen. But I don't know of incremental initiatives.

Q. Well, so there is some replacement initiatives that have been developed to replace the initiatives in the reinvestment plan; is that accurate?

MALHOTRA

A. I wouldn't say they have been developed. But there always is -- because these investment initiatives require money, there always is a renewed effort to make sure that all of the expenses and the revenues match up with respect to the initiatives. John Hill can probably talk to this much better.

Q. Would it be fair to say that the restructuring and reinvestment initiatives are not static, but rather are -- they're dynamic and can change over time?

A. Yes, they could change over time in terms of the components and the mix overall, yes.

Q. And is John Hill the person to ask about that, or is that a question for Conway MacKenzie? Or who's the --

A. Probably both.

Q. Or every City witness that happens to show up for a deposition.

Are there any initiatives that you're aware of to increase revenues or decreased costs that the City has rejected?

A. We talked -- I don't think the City has ever rejected looking at any considerations to

MALHOTRA

increase revenues or reduce costs as long as they can be feasible and reasonable. In my view -- and it's not -- things that are not just rejected. I mean, the City is always looking to improve the operations.

Q. Okay. So in your experience the -- you anticipate that the City, going forward, will continue to look for new opportunities to increase revenues and reduce costs?

A. In my view, the City would do its best to try and at least recognize and accomplish the revenue initiatives, which are quite a few, that have already been incorporated into the plan to achieve its plan of adjustment.

Q. But you would expect that, going forward during the next 10 years, the City will look to develop other initiatives in addition to the reinvestment initiatives that could increase revenue or decrease cost. It just won't stop doing that; right?

A. No. I think the City will continue to focus its -- my belief is, is that the City will continue to try its hardest to ensure that the revenue initiatives that are in the plan are met

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and the significant costs assumptions that are in the plan are not exceeded.

Q. Okay. One of the assumptions in your forecasts for the next 10 and 40 years, the City will not embark on any new initiatives to increase revenues further or decrease costs; correct?

A. Can you run that by me again, please?

Q. Okay. One of the assumptions in your forecast is that during the next 10 and 40 years, the City won't implement initiatives to increase revenues or decrease costs above and beyond the reinvestment initiatives; correct?

A. I just want to be specific. Like, for instance, asset sales, like of parking or water and sewer, are not included in this forecast. So if the City continues to embark upon an asset sales program, those could be additive to what's mentioned, what's highlighted in the assumptions here.

Q. And as a general matter, any new revenue initiatives or cost-reduction initiatives in the next 10 or 40 years would have to be added on to your projections; correct?

A. No. It could -- I'm sorry. Go ahead.

MALHOTRA

You were laughing.

Q. No, go ahead.

A. Those revenue initiatives could replace the revenue estimates or initiatives that are already in the forecast.

Q. Okay. But your analysis assumes that there won't be any new revenue initiatives or cost-reduction initiatives that increase revenues or decrease costs above and beyond the current forecast; correct?

A. No. They could continue to work on initiatives to even accomplish what is in the current forecast. But it could come through other initiatives versus new initiatives. If you're -- so my question -- answer is the same as earlier.

Q. Yeah, you're not getting my question.

A. Sorry. Okay. If you could please rephrase it, then.

Q. One of the assumptions is that the introduction -- one of the assumptions that you're making is there will be -- there will be no new initiatives that increase revenue above your forecasted amounts during the 10-year period; correct?

MALHOTRA

MR. STEWART: Objection.

THE WITNESS: I apologize. I'm still not getting your question.

BY MR. SMITH:

Q. Okay.

A. If you could rephrase it, it might make it easier for me.

Q. One of your assumptions is that new initiatives -- new initiatives developed within the next 10 years will not increase revenue above your projections; correct?

A. No, that's not correct.

Q. Okay. How does -- so you agree that revenue may be increased above your projections in the next 10 years?

A. No, I did not say that. I am saying that revenue initiatives are based on the plan. Doesn't mean the City stops working towards new initiatives. The City could work towards new initiatives. That could -- those could replace or augment the existing -- the existing initiatives that are already in the plan.

I can't say with -- in a definitive manner that new initiatives will be incremental to

MALHOTRA

what's in the plan or not.

Q. Okay. So you agree that new initiatives may increase revenues above what you've projected?

A. So as I've said this -- now I'm getting tired. So . . .

If you change the assumptions and you leave everything else the same, if you add more revenue, it will result in a different answer.

Q. I mean, and your example of asset sales is kind of what I'm getting at, but it's not just the privatizations. I'm trying to get at a more general point. If there are new estate sales that could -- you're assuming there won't be new asset sales above what -- what you've already assumed in the plan; correct?

A. That is correct.

Q. Okay. And so, more generally, you're assuming there won't be new initiatives that increase revenue above what you've projected in the forecast currently; correct?

MR. STEWART: Objection.

THE WITNESS: Same question you've asked me earlier, and my response remains the same as earlier.

MALHOTRA

BY MR. SMITH:

Q. Okay. And what was the response?

MR. STEWART: It's in the record. He's not going to repeat -- you've asked him this, I believe.

MR. SMITH: No, I think he has answered.

MR. STEWART: Well, I'm going to ask the reporter to find the question and read his 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 he has said -- and he is right --

MR. SMITH: Are you directing him not to answer the question?

MR. STEWART: -- that you have asked the

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same question again and again and he's given you the answer. You're not allowed to keep doing that. I haven't objected to --

MR. SMITH: So you're saying I can't ask the question.

(Simultaneous cross-talk.)

MR. STEWART: It is really abuse.

MR. SMITH: It's not abusive.

MR. STEWART: It is abusive, and it's improper.

MR. SMITH: So you're saying --

MR. STEWART: You've asked this five times, six times. Just let's find the answer. We're going to reread it.

And when you reread it, Madam Reporter --

MR. SMITH: Let's go off the record.

MR. STEWART: -- retype it into the record.

MR. SMITH: Let's go off the record, and you can have her look off the record. But it's not going to count on my time.

MR. STEWART: Okay. Then ask your next question.

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MR. SMITH: Are you directing him not to answer the question --

MR. STEWART: He just answered the question.

MR. SMITH: He didn't answer.

MR. STEWART: Yes, he did.

Reread his last answer.

MR. SMITH: His answer was "I've already 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?

A. Yes. In fact, for 40 years.

Q. Yeah. And so you're assuming that there won't be new revenue initiatives different from those in the plan for the next 40 years; correct?

MALHOTRA

A. No.

Q. So there could be new initiatives that increase revenues above your projections; correct?

A. If there are new revenues and everything else remains the same, everything else remains the same, it would be new increment -- if there's new incremental revenues, the data would be different.

What I'm trying to say is the City -- when you say the new initiatives will result in new revenues, that's not correct. That's because new initiatives may further augment and support the initiatives that are already in here to get the revenue that the City is projecting. It's not just newfound incremental revenue.

Q. And my point is you're assuming that there won't be new initiatives that provide incremental revenue; correct?

A. My point -- my point is that the assumptions that are in here reflect the initiatives that are in here. If everything else remains the same and all you do is you say that let's assume there is a new revenue item, that would be a new assumption; that will result in more revenue, assuming all the other initiatives

MALHOTRA

and all the other assumptions are exactly the same and the City has already accomplished the revenue items that are laid out in its investment plan.

Q. So you are assuming that there won't be new revenue initiatives that augment the revenue above and beyond what you've projected; correct?

A. We have not assumed any asset sales from DWSD and public parking in these projections. If that is what you're referring to, that is correct, if you are not referring to those discrete asset sales in these projections.

Q. And there are other initiatives other than those two that the City might develop in the next 10 or 40 years that could lead to incremental revenues; correct?

MR. STEWART: Objection; asked and answered.

THE WITNESS: Could you repeat that again, please.

BY MR. SMITH:

Q. There are other initiatives other than the parking and the DWSD that you mentioned that could -- the City might develop within the next 10 or 40 years that could add incremental revenues;

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correct?

A. It depends on if all the other items remain the same and the City achieves all of its revenue estimates already and if there is a new initiative on top of that. So everything else has to remain the same in order for that statement to be correct.

So that's the only way I can answer it, is you're asking if there's going to be a new revenue initiative to increase more revenues; and my answer is, no, not necessarily, because new initiatives could replace existing initiatives and still yield the same amount of revenue.

Q. And I'm -- you're -- one of the assumptions in your model is new initiatives won't yield additional revenue over the next 10 or 40 years; correct?

MR. STEWART: Objection.

THE WITNESS: I've said no to that -- I've said no to that.

BY MR. SMITH:

Q. I guess I'm trying to figure out how you can say no to that.

A. Well, if you --

MALHOTRA

MR. STEWART: That's not a question.

MR. SMITH: Yes, I --

MR. STEWART: No, it isn't. That's not a question.

MR. SMITH: Stop interrupting. You really are obstructing the deposition --

MR. STEWART: Let's call the judge.

MR. SMITH: -- and smirking.

MR. STEWART: Let's call the judge.

MR. SMITH: You're just --

MR. STEWART: Let's get him on the phone. I'm going to have the reporter read these questions. And I'm going to move for sanctions against you.

MR. SMITH: Okay. Let's --

MR. STEWART: You keep pushing and you'll wish you hadn't.

MR. SMITH: There's no basis.

MR. STEWART: You wait. You just wait. Now, what's your next question?

BY MR. SMITH:

Q. The City could get new grants that add incremental money in the next 10 or 40 years; correct?

MALHOTRA

A. It depends if the City has to increase the expenses in order to get those grant moneys.

Q. Okay. The City could get new grants that provide more revenue than expenses over the next 10 or 40 years; correct?

A. That -- if there is a net additional of overall proceeds and everything else remains the same, that would result in more proceeds. I mean, it's -- A, the grants then have to service more costs, more than the costs that have been incurred; and, B, everything else has to remain exactly the same in order for there to be more money.

MR. SMITH: Why don't we take a break.

THE VIDEOGRAPHER: We are going off the record at 4:32.

(Short break taken.)

THE VIDEOGRAPHER: We are back on the record at 4:39.

BY MR. SMITH:

Q. Mr. Malhotra, do you have the disclosure statement there in your exhibits?

A. Yes, I do.

Q. If you look at Page 168.

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A. 168 of 197?

Q. No, 168 of -- the page number in the middle of the page. There is a section entitled "Rationalization of Nominal Tax Rates."

Do you see that?

A. I do.

Q. And in the middle of the first paragraph, there's a sentence that says [reading]: The City is considering the possibility of lowering selected income and property tax rates to levels that are competitive with surrounding localities in order to reverse the City's population decline, foster job growth and expand the overall tax base.

Do you see that?

A. Yes, I do.

Q. Does your forecast incorporate tax -- tax rate reductions?

A. No, it does not.

Q. Have you had any discussions with the City about reducing tax rates?

A. We had some discussions with the City on the impact of lowering tax rates in terms of what the math would yield, in terms of what the numbers

MALHOTRA

would yield, the math would yield.

Q. And what was the discussion?

A. The hundreds of millions of dollars that the City would lose in terms of lowering tax rates.

Q. What were the tax rate reductions that the City was considering?

A. I do not know the City was considering any specific reductions. These were discussions or overall scenarios that the City was just -- and EY were talking about. But, again, these were policy decisions that we were not involved in.

But we looked at -- sorry. Go ahead.

Q. No. Go ahead. Go ahead.

A. All I was saying is we looked at what the, at least the short-term impact would be if any of the tax rates for the City had to be lowered further.

Q. But you said you were calculating hundreds of millions of dollars in revenue losses from tax rate reductions. I'm just wondering what rates you were looking at when you were doing that kind of analysis.

A. I do not have that handy, but it would

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be if you were to get the taxes in line with the suburbs or if you were to, I think, reduce the 2.4 percent income tax rate on city residents down to 1.2. It was somewhere in that neighborhood.

Q. And when was -- were you calculating that these tax rate reductions would occur?

A. We did not have any specific timeline, but it was sort of an annualized impact of showing what the impact would be of the reduced taxes.

Q. And when did you do that analysis?

A. I would say sometime in the last year or -- is when we would have looked at it.

Q. Who did you interact with with respect to that analysis?

A. Bob Cline and Kevyn Orr.

Q. And why was the City looking at reducing tax rates?

A. I don't know if the City was looking to. The City wanted to just have an understanding of what the magnitude was, because the City, as we've discussed earlier, is on the higher, if not the highest, level in terms of what the City's tax rates are and if that has been a driver of the ongoing population decline and has resulted in the

MALHOTRA

population decline.

And so if the tax rates were lowered, if the City's position gets more competitive or not, I think that's sort of the impetus behind looking at or considering this --

Q. So the tax rate reduction is something the City was contemplating would occur after the bankruptcy?

A. No, not that -- A, the City was not contemplating. The City wanted to understand what the impact was. I don't think the City was contemplating anything with respect to a reduced income tax.

Q. How much time did you spend doing that analysis?

A. I have to go back and look. My guess is it was a very short discussion. Very, very short.

Q. You didn't do anything -- any analysis showing that decreasing property tax rates would increase population; correct?

A. I would have to defer to Bob Cline whether he looked at any of that or not. But overall, just the magnitude of lowering any income taxes for the City was so dramatic that it was a

MALHOTRA

very, very short discussion with Kevyn Orr.

Q. Okay. So the City, based on your interaction with them, has concluded that it would not be feasible to reduce tax rates, given the revenue loss?

A. I would say that's a policy question. I can't tell you that there are no assumptions in the forecast that contemplate a tax reduction in either the 10 years or the 40 years.

Q. I'm just wondering why it's still in the plan that they're talking about that.

A. Yeah. I do not know actually. That's something that we can probably look into.

MR. SMITH: Okay. I want to hand you what I'll mark as Exhibit 10, which is the Detroit Public Schools fiscal year 2015 proposed budget.

(Exhibit Malhotra-10 was marked for identification.)

BY MR. SMITH:

Q. You got that in front of you?

A. I do.

Q. Have you had a chance to review this document at all?

MALHOTRA

A. I have not.

Q. Okay. I wanted to ask you about Page 4. You see that it says -- you on Page 4 now?

A. I am.

Q. Do you see that it says at the top of the page, "Since 2006 the district has been faced with budgetary and financial challenges"?

Is that consistent with your understanding?

A. I cannot provide context in 2006.

Q. It says the general fund deficit has ranged from as high as 327 million to a low of 76.5 million.

Do you see that?

A. I see that's what it says on this page, yes.

Q. And then the next paragraph says, "We are in line to eliminate the legacy deficit and show a positive fund balance by the conclusion of the 2017 to '18 fiscal year. There has been strong progress."

Do you see that's the report of the public school system?

A. That's what it says.

MALHOTRA

Q. And then it goes on to say that the Detroit Public Schools has reduced costs by over 225 million.

Do you see that?

A. I see that.

Q. And then it says, "There has been substantial financial and operational progress confirmed by external reviews as evidenced by this past year's action by the United States Department of Education to remove the district from high-risk status as well as a resolution of 53 million in audit findings and a sharp reduction in audit findings from 84 to 9."

Do you see that?

A. I see that.

Q. I mean, I think you know that the Detroit Public Schools has been under the supervision of an emergency manager; correct?

A. That is correct.

Q. And you know that the Detroit Public Schools have engaged in millions of dollars of cost reductions; correct?

A. You have to look at cost reductions as whether they're grant-funded costs or they're not

MALHOTRA

grant-funded costs. I don't want to comment upon overall cost reductions for the district.

Q. Do you agree that the Detroit Public School System has improved its fiscal situation over the last few years?

A. I thought I answered that earlier.

This is what their report says. But I am not willing to -- I do not know specifically. And I do not -- Detroit Public Schools has faced the same challenge -- has faced similar challenges, but I do not know if their overall financial profile is that much better or not.

Q. The Detroit Public Schools, though, you recognized and reported that they have improved their fiscal situation; correct?

A. That's what it says on this page. If you want, I can look at some pages at the numbers further back that will show that the deficit has continued to increase at Detroit Public Schools, which is on Page 23.

Q. Okay. The Detroit Public Schools, you say, face similar challenges to the City of Detroit; is that correct?

A. They've faced a reduction in student

MALHOTRA

count. Detroit has faced a reduction in population. They're sort of related from that context.

Q. And the City and public schools receive revenue from some of the same sources, such as property taxes; correct?

A. Yes, although the schools have a specific millage associated with it. But, yes, they are -- they have the same working capital cycle in terms of when the property taxes are collected.

Q. Do you have any idea why in-house counsel for Ernst & Young is on the phone today?

MR. STEWART: You can answer that, but don't reveal privileged information. In other words, nothing you said with the lawyer, including in-house counsel, can be conveyed in response to the question.

THE WITNESS: Marg is it on the phone with us all the time when it comes to these issues. So my guess is it's customary practice.

BY MR. SMITH:

Q. Right. When you say it's customary

MALHOTRA

practice, in what context?

A. Well, when I've been in this seat getting deposed.

Q. Do you have any training programs or anything like that for depositions or working as an expert witness at Ernst & Young?

A. I do not know.

MR. SMITH: Why don't we take a break -- before we take a break, though, and go off the record, Geoff, one thing is I wanted to just request on the record that those documents relating to the five-year projections that Mr. Malhotra mentioned be produced.

MR. STEWART: Let me take it under advisement. I don't know that they haven't already been produced. But we'll -- we'll see what we can do.

MR. SMITH: Okay. Let me just ask one or two other questions.

BY MR. SMITH:

Q. You don't -- do you recall anything about what the methodology was in the five-year projections or not, sitting here today?

MALHOTRA

A. Yeah. They were generally extrapolations. We did not go into a lot of depth at that point in time on the five years. They were general extrapolations. But we started building -- started building up the -- modeling up in a much more detailed manner and -- for 10 years. So I do not know of anything specific, but it was just general extrapolations. They weren't very detailed.

Q. Were the five-year -- was the five-year forecast, was that model the basis for the later 10-year forecast or was it a different model?

A. No. The ten-year was a different model, because we started getting into a lot more detail in terms of revenue estimates and so on and so forth that we did not have earlier.

Q. To recall the five-year forecast and what was done, would you have to refer back to documents relating to the five-year forecast?

A. Yes, I would.

Q. You can't provide me with any other information about it right now?

A. Not as of now.

MR. SMITH: Thanks. Now we can go off

MALHOTRA

the record.

THE VIDEOGRAPHER: Going off the record at 4:53.

(Discussion off the record.)

THE VIDEOGRAPHER: Back on the record at 4:55.

EXAMINATION

BY MS. DiBLASI:

Q. Good afternoon, Mr. Malhotra. My name is Kelly DiBlasi. I'm an attorney for FGIC, and I just have some follow-up questions for you.

Your 10- and 40-year projections were calculated using claim amounts for the PFRS and GRS that are set forth in the plan of adjustment; correct?

A. Yes. For what, PFRS OPEB or PFRS pension?

Q. Pension.

A. Yes. The amounts are laid out in the plan of adjustment, and they're based on information we received from Milliman.

Q. A portion of the funds to be distributed to holders of PFRS pension claims and GRS pension claims comes from the foundations, the DIA Corp.

MALHOTRA

and the State of Michigan; correct?

A. Yes.

Q. And then beginning in 2023, the City is obligated to start contributing to those claim holders; right?

A. The City is making some contributions even prior to 2023 to the GRS. But post 2023, the City has to -- is responsible for the amortization of the UAAL that exists at 2023.

Q. And can you explain what the UAAL is.

A. I'm sorry. I'm sorry. Let me just -- in addition -- the City is responsible for the amounts after 2023. In addition to, there are still some proceeds that are going to continue to come from third parties in the second decade that will be going to pensions. So I just wanted to make that clear.

Q. Understood.

You mentioned the phrase "UAAL." Can you please explain what that means.

A. It's the unfunded actuarial assumed liability.

Q. Do your projections rely on an assumption as to what the UAAL will be going

MALHOTRA

forward?

A. They're based on what the estimated of the UAAL is at 2023, yes.

Q. And is it correct that the -- the City's contributions to these pension claimants is based on the amount that's necessary to provide those claimants with the adjusted pension amounts set forth in the Chapter 9 plan?

A. You have to repeat that question.

Q. Is it correct that the City's contributions to the pension claimants are based on the amount that would be necessary to provide them with the adjusted pension amounts set forth in the plan?

A. Over the first 10 years, the amount of contributions that are in the plan are consistent with the settlements that have been reached with the retiree committee and the retirement systems.

Q. For the first 10 years, you said?

A. That is correct. After that, the City has to -- is on the hook for funding the UAAL that exists at the end of 2023.

Q. Okay.

And those contributions will come out of

MALHOTRA

the general fund; correct?

A. I'm sorry. Which contributions?

Q. I'm sorry. The City contributions to the pension to fund the UAAL after 2023 will come out of the general fund; correct?

A. The City contributions after 2023 in addition to the third-party funding that is available for the City will come from the general fund.

Q. Have you analyzed the -- have you prepared alternative forecasts in a scenario where the UAAL is greater than you've projected in the existing forecasts as a result of the pension funds having to disgorge the proceeds of the COPs transaction?

A. Could you ask me that again. It's a long question, and I'm tired.

Q. I understand.

You testified earlier that you've run your projections, changing the assumptions and -- you've run them, I think you said, lots of times using different assumptions plugged into the model; correct?

A. That's right.

Elisa Dreier Reporting Corp. (212) 557-5558
950 Third Avenue, New York, NY 10022

MALHOTRA

Q. Okay. Have you ever run an alternative scenario where you've changed the assumption for the UAAL and the basis for that change is a disgorgement by the pension plans of the proceeds of the COPs transactions?

A. I have not run a scenario like that.

Q. Why not?

A. We have not been requested to run that scenario.

Q. Do you know why you've not been requested?

A. No.

Q. Do you -- what do you think would happen in that type of a scenario?

MR. STEWART: Objection.

THE WITNESS: I don't want to speculate. I would have to spend a lot of time thinking through that.

BY MS. DiBLASI:

Q. Do you have even a directional sense for whether the City in that scenario would be able to fund its pension contribution obligations?

A. Pension contributions as of when?

Q. Beginning in 2023.

MALHOTRA

A. If the UAAL at the end of 2023 were higher than what we have currently estimated based on the information from Milliman, based on the same assumptions, the amount of funding required from the City would be higher.

Q. Would the City be able to pay that higher amount?

A. What higher amount?

Q. What you've just described, a situation where the UAAL is higher beginning in 2023; and, therefore, the City's contributions are higher than you've currently forecasted.

A. It depends on how much higher.

Q. You testified earlier about the -- I think you referred to it as the base-case scenario in your 10-year projections. Do you recall that? Do you know what I'm talking about when I refer to the base-case scenario?

A. Yes, I know what you're talking about.

Q. Okay. And am I correct in understanding that this base-case scenario shows the forecast for the general fund for the next 10 years, assuming that the City pays all of its projected operating expenses as well as the legacy

MALHOTRA

expenditures?

A. That's -- that's correct, based on the assumptions of the legacy expenditures that were in there and the reinvestment costs are added on separately, that those -- those were the broad assumptions.

Q. The assumptions for the legacy expenditures in the base-case scenario are the full amount of those legacy costs; correct?

A. I would have to look at each one individually. But for OPEB, it's the unrestructured costs, for instance, and the same thing for the COPs. Excuse me.

There were some varying assumptions on the pension, is -- were the assumptions for the legacy liabilities.

Q. Okay. So just to be clear -- and I think you used the word "unrestructured." They're the unrestructured, nonrestructured legacy obligations?

A. Yes, that is generally correct. Like I said, there have been some changes for pension. But most -- I would say predominantly those costs were the pre-bankruptcy filing run rate.

MALHOTRA

Q. Have you run an alternative base-case scenario -- excuse me. Let me restart.

Your base-case scenario assumes that the City pays those legacy expenditures as in when they come due; correct?

A. Yes.

Q. Have you run an alternative base-case scenario where you assume the full amount of those same legacy expenditures are owed but you make different assumptions about the timing for the City's payments of those legacy expenditures?

A. No.

Q. Why not?

A. We haven't been asked to do so, and it's -- it's similar to what the City has been doing historically, is pushing off not making legacy payments when they come due in order to fund operations.

Q. So you haven't run an alternative base-case scenario where the City for some period was forbearing from paying some portion of those legacy expenditures? Correct?

A. Not that I can recall. And things like pension, if the City is not contributing towards

MALHOTRA

pension, it's just making a situation worse, because the plans continue to deplete assets and the position of the funds continues to get worse and worse.

Q. Does your base-case scenario include any assumptions regarding asset sales by the City?

A. Not -- I mean, just things like a building and the typical asset sales that continue in normal course, but nothing substantive like DWSD or the parking system.

Q. How about art?

A. No.

Q. Have you run alternative versions of the base-case scenario that include an assumption regarding a sale of DWSD or parking or art?

A. We have not run a scenario with parking or art.

Regarding DWSD, we did run a scenario a long time ago -- and I can't remember when -- or a few months ago, in which we were looking at a DWSD lease scenario versus not. So that's the only thing that comes to mind for DWSD.

Q. In the 40-year projections, you summarize the hypothetical distributions to

MALHOTRA

creditors. And you've included a present-value calculation using a 5 percent discount rate; correct?

A. That is correct.

Q. What's the basis for using 5 percent?

A. We looked at a couple of items in terms of what the average interest rate was on the LTGO debt outstanding of the City; looked at the long-term interest rates on AA-rated municipal bonds; and then had discussions with the Miller Buckfire team to ascertain whether they were reasonable or not.

Q. Will you be testifying about the -- as an expert about the reasonableness of that 5 percent discount rate?

A. I don't know. I would have to check, but I've had discussions with Ken Buckfire and Jim Doak on that, so I would have to go back and check.

Q. We spoke previously about alternative formulations of the base-case scenario. I now want to shift the focus a little bit and talk about potential alternative versions of the 40-year forecast.

MALHOTRA

So I'm just making sure we're on the same page here.

Have you run an alternative 40-year forecast that provided for a different treatment of the art than what is currently contemplated by what's referred to as the grand bargain?

A. No.

Q. Why not?

A. We weren't asked to do so.

Q. Do you know why you were not asked to do so?

A. No.

Q. Have you ever considered the impact on the City's revenues if the DIA museum was closed?

A. No.

Q. Have you ever considered the impact on the City's revenues if the DIA art collection was sold?

A. No.

Q. Have you ever considered the impact on the City's revenues if the art collection was removed from the City of Detroit?

A. No.

Q. Earlier you testified in response to one

MALHOTRA

of Mr. Smith's questions about your expert report that if the City reaches more settlements, you expect to update your forecast, is that correct?

A. Yes; if the settlements change the forecast in any way.

Q. Putting that aside, is there any additional work or changes that you expect to make to your forecasts?

A. Not as of yet that comes to mind. We do not have an updated version since the July 2nd update.

Q. A few minutes ago we were talking about alternative base-case scenarios where you assumed different treatment of assets, and you testified that you did run an alternative scenario where you assumed that there was a lease for DWSD.

Do you recall that?

A. Yes. It was done -- I don't know if it was just the base-case scenario or if it was a base-case including the restructuring scenario. And my recollection is it was a base case plus the restructuring investments if what could -- what could potentially happen if there was a DWSD transaction.

MALHOTRA

Q. How much annual revenue did you assume could be derived from that DWSD leasing transaction?

A. This is a few months ago. I think at that point in time the scenario was roughly a $47 million lease payment annually, but I would have to go back and check.

Q. Do you know if those -- if that alternative scenario was produced?

A. I believe it would have been produced. I don't know. I don't -- I haven't seen the few documents that have been produced. But my guess is they were circulated with the advisers potentially, but I have to go back and look.

MS. DiBLASI: Geoff, we'll check. And if we're not able to find it, we'll come back to you.

MR. STEWART: Give me a call.

MS. DiBLASI: Just one moment, please.

BY MS. DiBLASI:

Q. Do you think that upon emergence from the Chapter 9 bankruptcy case, Detroit will be AA-rated -- will be a AA-rated credit?

A. I do not know. I think that's

MALHOTRA

something I would let Ken respond to.

Q. And when you considered the appropriateness of a 5 percent discount rate for present-valuing creditor distributions, did you look at the LTGO interest rates or did you look at their yields?

A. I can go back and check. I thought we looked at the LTGO interest rates.

Q. Is the B note an LTGO bond?

A. That's -- I cannot say. I don't think it's an LTGO bond.

MS. DiBLASI: I have nothing further.

MR. STEWART: Anyone on the phone?

MS. HUNGER: Does anyone on the phone have any questions?

MS. DiBLASI: We're done.

MR. STEWART: I guess you're done.

THE VIDEOGRAPHER: This concludes the video deposition at 5:15 p.m. Going off the record.

(Videotaped deposition concluded at 5:15 p.m.)

MALHOTRA

C E R T I F I C A T I O N

I hereby certify that I have read the foregoing transcript of my deposition testimony, and that my answers to the questions propounded, with the attached corrections or changes, if any, are true and correct.

GAURAV MALHOTRA

MALHOTRA

CERTIFICATE OF SHORTHAND REPORTER

I, Gail Inghram Verbano, Registered Diplomate Reporter, Certified Realtime Reporter, Certified Shorthand Reporter (CA) and Notary Public, the officer before whom the foregoing proceedings were taken, do hereby certify that the foregoing transcript is a true and correct record of the proceedings; that said proceedings were taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

____

Gail Inghram Verbano, CSR, RDR, CRR
CA-CSR No. 8635

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EXHIBIT 8

Kopacz Deposition Transcript

- MARTI KOPACZ - VOLUME 1-
IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF MICHIGAN

In Re) Chapter 9

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

Debtor.) Hon. Steven Rhodes

DATE: July 31, 2014
TIME: 9:12 a.m.

VOLUME 1

VIDEOTAPED DEPOSITION OF MARTI KOPACZ, held at the offices of Squire Patton Boggs, 30 Rockefeller Plaza, New York, New York, pursuant to Order, before Hope Menaker, a Shorthand Reporter and Notary Public of the State of New York.

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- MARTI KOPACZ - VOLUME 1-

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ALSO PRESENT:
Jochen Schmitz, Greenhill & Co. LLC
Thomas Devine, Videographer
Brian F. Gleason, Phoenix

- MARTI KOPACZ - VOLUME 1-

INDEX

WITNESS: MARTI KOPACZ

- MARTI KOPACZ - VOLUME 1-

THE VIDEOGRAPHER: Good morning. We're now on the record.

The date is July 31st, 2014, and the time is approximately 9:12 a.m. We are located at the offices of Squire Patton Boggs, 30 Rockefeller Center, New York, New York.

We are taking the deposition of Marti Kopacz In Re: City of Detroit bankruptcy, U.S. Bankruptcy Court, Eastern District of Michigan, Southern Division, Chapter 9, Case Number 13-53846.

My name is Thomas Devine and I am the video specialist with Elisa Dreier Reporting.

The court reporter is Hope Menaker, also with Elisa Dreier Reporting.

At this time I would like to ask the attorneys to please introduce themselves for the video record. Please state your name, the firm with which you are affiliated and whom you represent after which the court reporter will swear in the witness, then we may proceed.

MR. STEWART: I'll start. Geoffrey

- MARTI KOPACZ - VOLUME 1-

Stewart, Chris DiPompeo and Alex Blanchard of Jones Day for the City of Detroit.

MR. HACKNEY: Steve Hackney of Kirkland & Ellis for Syncora.

MR. WAGNER: Jonathan Wagner, Kramer Levin Naftalis & Frankel representing the Ad Hoc Holders

MR. PEREZ: Alfredo Perez, Weil, Gotshal & Manges, for Financial Guaranty Insurance Company.

MR. BRILLIANT: Allan Brilliant, Dechert LLP, on behalf of Macomb County by and through its public works commissioner -- Allan Brilliant, Dechert LLP, on behalf of Macomb County by and through its Public Works Commissioner, Anthony Marrocco, and on behalf of Macomb Interceptor Grain Green District.

MS. DEEBY: Shannon Deeby of Clark Hill on behalf of the General Retirement System of the City of Detroit and the Police and Fire Retirement System of the City of Detroit.

MR. KANE: Scott Kane of Squire Patton Boggs for the witness.

- MARTI KOPACZ - VOLUME 1-

MR. LERNER: Peter Lerner of Squire Patton Boggs for the witness.

MR. GLEASON: I'm not an attorney.

MS. HITCHINS: Kathleen Hitchins with Sidley Austin, National Pub -- on behalf of National Public Finance Guaranty Corporation.

MS. SCHAPIRA: Lisa Schapira of Chadbourne & Parke on behalf of Assured Guaranty Muni Corp.

MS. QUADROZZI: Jaye Quadrozzi of Young & Associates on behalf of Oakland County.

MR. ALBERTS: Sam J. Alberts from Dentons on behalf of the Official Committee of Retirees.

THE VIDEOGRAPHER: Thank you.

MR. STEWART: Is there anyone on the phone? Is there anyone on the phone?

MR. KANE: No. I -- it seems --

MR. LERNER: There were people who indicated they were dialing in, but we weren't responsible for setting up the call. So whoever -- whoever set the dial in, ought to organize --

- MARTI KOPACZ - VOLUME 1-

MR. STEWART: We need to set up the dialing.

THE VIDEOGRAPHER: Should I go off the record for a second?

MR. STEWART: For one second while we do that, yeah.

THE VIDEOGRAPHER: Okay. The time's 9:14. We're going off the record.

(Whereupon, there was a brief recess in the proceedings.)

MR. STEWART: Back on the record. Hello. This is Marti Kopacz's deposition in New York. Is anyone on the line?

Hi. This is Marti Kopacz's deposition in New York. Is anyone on the telephone line?

MS. KOGAN: Yes.

MR. STEWART: Okay. We're going to go on the record, but why don't you just state your name and spell it for the court reporter?

MS. KOGAN: Sure. My name is Olga, O-L-G-A, Kogan, K-O-G-A-N, and I'm from Davis Polk on behalf of Merrill Lynch.

- MARTI KOPACZ - VOLUME 1-

MR. STEWART: Anyone else on the phone?

MS. HUBBARD: Yes. Heather Hubbard, H-U-B-B-A-R-D, at Waller Lansden for U.S. Bank.

THE VIDEOGRAPHER: Okay. I'm going to bring us back on the record.

(Whereupon, a brief discussion was held off record.)

THE VIDEOGRAPHER: The time now is 9:18 a.m. and we're back on the record.

MR. STEWART: Okay. Swear the witness.

MARTI KOPACZ, called as a witness, having been duly sworn on July 31, 2014, by a Notary Public, was examined and testified as follows:

EXAMINATION BY MR. STEWART:

Q. Good morning, Ms. Kopacz.

A. Good morning.

- MARTI KOPACZ - VOLUME 1-

Q. I'm Geoffrey Stewart of Jones Day. We've met before, have we not?
A. We have.
Q. Good. I've got to ask you a couple of preliminary questions first of which is -- could you, for the record, give us your name and address?
A. Martha, middle initial E, middle initial M, Kopacz. Address is 10 Post Office Square, Suite N605, Boston, Massachusetts.
MR. STEWART: And let me mark as the first exhibit a document entitled "Expert Report of Martha E.M. Kopacz."
Madam Reporter, could you mark that as Exhibit 1?
(Whereupon, Kopacz Exhibit 1 was marked at this time.)
BY MR. STEWART:
Q. Ms. Kopacz, I'm placing before you Exhibit 1. Is that the expert report you submitted in this case?
A. Yes, I believe so.
Q. Exhibit 1 to -- Exhibit 1 to Exhibit 1 is your curriculum vitae. It's very

- MARTI KOPACZ - VOLUME 1-

much towards the back. We don't have tabs here. I'm just going ask you if that is what it purports to be.
Is that a history of your education and employment?
A. I believe it is.
Q. Okay. Is it accurate as you sit here today?
A. It is.
Q. Okay. Now, you were engaged as an expert in this case?
A. I was -- I am.
Q. And -- okay. Was that pursuant to an order of the Court?
A. Yes.
MR. STEWART: Let me mark as Exhibit 2 the Court Order of April 22nd, 2014.
(Whereupon, Kopacz Exhibit 2 was marked at this time.)
BY MR. STEWART:
Q. Ms. Kopacz, I've placed before you the document the reporter has marked as Exhibit 2. Could you tell me what Exhibit 2 is?

- MARTI KOPACZ - VOLUME 1-

A. This appears to be the order appointing me as the expert witness.
Q. Okay. Paragraph 2 of the order specifies what the Court has asked you to do, correct?
A. Yes, it does.
Q. And could you tell me what it is you were instructed by the Court or asked by the Court to do?
A. I was asked to investigate and reach a conclusion on, A, whether the city plan is feasible as required by 11 U.S.C. Section 943(b)(7), and, B, whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses, and plans are reasonable.
Q. And does your report -- and did you do that work?
A. I did that work.
Q. And does your report contain your conclusions as a result of having done that work?
A. It does.
Q. Okay. So let me ask you a little bit about the background of the report.

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It's a fairly long document, is it not?
A. It is.
Q. Went through a number of drafts?
A. Yes.
Q. Do you plan on issuing a second report or a further report before the time of your testimony in this case?
A. I don't know.
Q. Who else from Phoenix worked -- by the way did you, within Phoenix, have name or a moniker for this work, like Project Otto or --
A. No.
Q. -- anything, no fancy handle like that?
A. No, we did not.
Q. Okay. You just called it the Detroit project or something like that?
A. Yes.
Q. Okay. Who besides yourself from Phoenix worked on the project?
A. My partner Brian Gleason.
Q. Okay. What area did Mr. Gleason work on, if any, in particular?

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A. Brian worked on almost all areas.
Q. Okay. Who else?
A. Albert Mink.
Q. Okay. And tell me what Mr. -- what parts of the report or the project Mr. Mink worked on?
A. Primarily issues related to accounting and finance operations of the City and IT.
Q. Okay. And who else?
A. Bob Childree.
Q. Who is Mr. Childree?
A. Bob is -- was a subcontractor to Phoenix for this project.
Q. And what -- what work did Mr. Childree do on the project?
A. Bob worked on accounting, finance, IT, and pension.
Q. Okay. Who else?
A. Mike Gaul.
Q. And what parts of the project did Mr. Gaul handle?
A. Oh, boy, a lot. Revenue, pension, blight, forecasts. Those were his main areas of

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focus.
Q. When you say light, are you referring to --
A. No, blight.
Q. Oh, blight.
A. Blight.
Q. Oh, Blight, okay, that's different. Who else?
A. Kevin Barr.
Q. Who is Mr. Barr?
A. Kevin is a member of my team who worked extensively on the financial models and the projections.
Q. Okay. Anyone else on the team besides those you've identified?
A. Jack Murdoch was added to the team late in the process as we were generating the report.
Q. Okay. What areas did Mr. Murdoch work on?
A. Basically whatever Kevin and Michael needed him to do.
Q. Okay. How many hours do you estimate -- excuse me -- that the people from

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Phoenix spent working on the project up to today, if you can estimate?
A. I don't know.
Q. Is there a range of numbers you would be comfortable with?
A. No.
Q. Okay. Do you know how much in terms of dollars the billings have been to date for Phoenix's work?
A. We have submitted bills only through May and I don't know.
Q. Okay.
A. There is a court record and they're on the docket.
Q. Okay. Now, Exhibit 2 to your report is a list of materials considered, I believe, or documents and sources. Do you have Exhibit 2 in front of you?
A. Yes.
Q. Okay. Maybe I should just ask you.
What does Exhibit 2 purport to show?
A. Exhibit 2 is a list of documents or information sources that either I or my team members or both of us reviewed as part of our

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assignment.
Q. Okay. Were there any other materials you considered above and beyond those set forth in Exhibit 2?
A. Not that I can think of.
Q. Is it possible for you to estimate as you sit here today, if it were all printed, what the physical volume would be of the materials listed in Exhibit 2?
A. Tens of thousands, maybe hundreds of thousands.
Q. Of pages?
A. A lot. A lot.
MR. STEWART: Let me mark as Exhibit 3 this document.
(Whereupon, Kopacz Exhibit 3 was marked at this time.)
(Whereupon, a brief discussion was held off record.)
BY MR. STEWART:
Q. Ms. Kopacz, I'm placing before you Exhibit 3. I represent to you this is a document from Jones Day listing the materials that were provided by the City of Detroit to Phoenix. This

is a spreadsheet that Jones Day has updated as we went along.

Have you seen versions of Exhibit 3 before?

A. I have not.

Q. You have not. Are you aware that versions of it were given to members of your team as the project went along?

A. I'm not sure I understand that question.

Q. Do you know whether anyone from your team has seen this document or versions of it?

A. Not that I know of.

Q. Okay. Let's go to Exhibit 4 of your -- of your report. Do you have Exhibit 4 before you?

A. I do.

Q. And what does Exhibit 4 set forth?

A. Exhibit 4 sets forth the open information requests as of the date of my report.

Q. Okay. Your report was, what, the 25th?

A. July 18th.

Q. July 18th. Have some of these

materials since July 18th been provided to you?

A. I don't think so. I don't think so.

Q. Okay. Do you know for a fact that all of these materials, in fact, exist?

A. I do not know that.

Q. Has the absence of these materials affected your analysis in any way?

A. The -- some of the requests here I would still like to receive.

Q. Sure.

A. Because it would -- obviously, I asked for it because I thought it was -- would be helpful and it would be more information.

I reached my opinion on the information I had so, you know, I don't know how to answer that. In the sense of yes, I'd still like to have them, but --

Q. Sure.

A. -- I didn't have it and I was still able to reach an opinion.

Q. In other words, you were able to work around the absence of these materials?

A. I did.

Q. Okay. Exhibit 3 of your report

contains a list of all the meetings that you and others at Phoenix held. Am I correct on that?

A. This is the contact log that the Judge asked me to keep. I, in turn, then asked my team to keep a contact log as well.

Q. Okay.

A. So, it's -- there really are kind of two sections to it. One is all of the contacts that I was involved in and then the second part of it is contacts that team members had that I wasn't involved in.

Q. Okay.

A. And it could -- it could be phone calls, it could be e-mails. Most of them are face-to-face meetings.

Q. Sure. You began your work shortly after your appointment on April 22nd?

A. I began my work on April 22nd, yes.

Q. And certainly continued it up until the time you submitted your report?

A. I did.

Q. And have you continued working since then?

A. Other than to prepare for this

deposition, no.

Q. Okay. During the period of time between April 22nd and July 25th, how many meetings do you believe that you personally had in connection with this project?

A. More than 50.

Q. And who in general -- you met with the mayor, did you not?

A. I met with the mayor.

Q. And John Hill who is the city CFO?

A. I did.

Q. And the emergency manager?

A. Yes.

Q. And counsel for various creditors?

A. Yes.

Q. Okay. And members of the City Council?

A. Yes.

Q. Members of the city government?

A. Yes.

Q. And those are just some categories.

What other categories of person have I not mentioned in summarizing the persons with whom you met?

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A. Financial advisors to creditors and the city.
Q. And by name who would those be?
A. Ernst & Young, Conway MacKenzie, Houlihan, Alvarez, FTI.
Q. Others, too?
A. Others.
Q. Beyond that?
A. Yes.
Q. And sorry if I just asked this and misstated.
Can you estimate the number of hours you spent in meetings?
A. I can't.
Q. More than a hundred?
A. Yes.
Q. Now, members of your team also had meetings, did they not?
A. Yes.
Q. Did they try to keep you informed of the meetings they were having?
A. Generally, yes.
Q. Do you know how many meetings individuals on your team had?

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A. No.
Q. Over a hundred?
A. I don't know.
Q. Okay. Do you know how many hours they spent?
A. I don't know.
Q. You listed for me the people who worked with you on this project.
During the period from April 22nd to July 25th, did you or any of them have other projects you were working on besides this project for the City of Detroit?
A. Can I -- July 18th is when issued my report. Okay?
Q. I'm sorry. I misstated it, yes.
A. And I -- did anyone have other projects other than the City of Detroit? The answer is yes.
Q. Okay. What percentage of your time did you spend on the Detroit project?
A. 99 percent.
Q. And, if you can, the members of your team, what percentage of their time did they spend?

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A. Some people were completely a hundred percent dedicated to Detroit and everyone that had preexisting client responsibilities really did those in evenings and weekends, so a high percentage of their time was spent on Detroit.
Q. And I assume the work weeks during the period from April 22nd to July 18 were not 40-hour work weeks?
A. Generally, no.
Q. Generally, how many hours a week did you and members of your team work?
A. I don't know.
Q. Long hours?
A. Generally, yes.
Q. Weekends?
A. Yes.
Q. Now, do you plan to testify at trial?
A. I believe the Judge is going to tell us about that next Wednesday at a status hearing.
Q. Okay. Do you intend to do anymore work between now and the time you testify at trial?
A. I do.
Q. What do you intend to do?

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A. I intend to read the fifth amended plan.
Q. Uh-huh.
A. I want to review the information I received on the collective bargaining agreements.
Q. Uh-huh.
A. And, you know, if -- if there are new projections from the City, obviously, I would review those before trial.
Q. Okay. As you sit here today, and I'm going to get into this in greater depth, just as a general question, do you have any misgivings about the analysis that you've set forth in your report?
A. Misgivings how?
Q. Of any sort -- of any sort.
A. Could you give me a different word please?
Q. Okay. Is from any conclusion in the report that you're not confident about?
A. That I'm not comfortable with?
Q. Confident about.
A. I have a great deal of confidence in my opinions.
Q. Is there any conclusion or analysis

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in your report you'd like to change?
A. No.
Q. Now, I think I'd shown you the order -- Court's order, which would be I think our Exhibit 1. No, it's our Exhibit 2 appointing you as the expert witness. You'd already read into the record, Ms. Kopacz, about feasibility.
As part of your work, you defined the standard of feasibility, did you not?
A. I did.
Q. And it's on Page 13 of your report. Let me ask you just to look at Page 13.
A. Uh-huh.
Q. Is that before you?
A. It is.
Q. Okay. And I'm directing your attention to the italicized, indented language and let me just ask you, just so we have it on the record, if you could read it into the record. Then I'm going to ask you about it.
A. Okay. "Is it likely that the City of Detroit after the confirmation of a plan of adjustment will be able to sustainably provide basic municipal services to the citizens of

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Detroit and to meet the obligations contemplated in the plan without the significant probability of a default."
Q. And this was the definition you worked with in analyzing the data and reaching the conclusions on your project?
A. This is a definition that I developed along with my team against which I then assessed the City's plan.
Q. And it says here "sustainably provide."
What did you mean when you said "sustainably provided"?
A. That the City would be able to deliver basic municipal services indefinitely into the future.
Q. When you say "basic municipal services," what services are you referring to?
A. Fire, police services, road maintenance, the like.
Q. And you go on to say, "to meet the obligations contemplated in the plan."
That means what the plan provides for in terms of what the city must in future years

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pay, correct?
A. Yes.
Q. And then you go on to say, "without the significant probability of default."
Do you see that?
A. Yes.
Q. And what does "significant probability" mean as you used it here?
A. It's my thought around, is the plan structured so that there's a likelihood that the City would default, so --
Q. And is -- go ahead.
A. Yeah.
Q. So significant probability is the flip side of a likelihood, right?
A. Yes.
Q. Okay. Can you put a percentage number on the term "significant probability"?
A. I cannot.
Q. Now, in your work, I think you've written in your report that you looked at quantitative factors, correct?
A. Yes.
Q. And those included the accuracy of --

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the mathematical accuracy of projections?
A. Yes.
Q. Correct?
And the reasonableness of the City's assumptions, both individually and as a group?
A. Yes.
Q. And finally, whether there was an adequate contingency as set forth in the City's projections, correct?
A. Yes.
Q. I meant to ask you, by the way, in a footnote you point out that the term "forecasts" and the term "projections" are not necessarily synonymous although you will treat them as such for your report.
For the record, what is the difference?
A. It's -- the difference exists in accounting terminology.
Q. Uh-huh.
A. Whereas a -- generally, the thinking is that a forecast is kind of the best estimate, whereas projections can include any set of variables and any sort of assumptions, sensitivity

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analysis or projections, what-ifs, that sort of thing, whereas a forecast is something that's a little more rigorous, a best -- the best guess, if you will.

Q. So would it be fair to say, and I'm not going to spend a lot of time on this, this morning, that the base case scenario from EY is a forecast, but the restructuring analysis is a projection?

A. I don't know that I would say that.

Q. Okay. And I'll use the terms interchangeably myself.

A. Thank you.

Q. You raise the -- use the phrase "mathematically accurate."

I assume that means whether the calculations that were done produced the results that mathematics requires?

A. Yes.

Q. In other words, no errors in calculation?

A. Correct.

Q. Okay. You used the phrase "reasonableness" when you speak about assumptions.

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What do you mean when you use the phrase "reasonableness"?

A. That the assumption is neither too conservative or too aggressive.

Q. Okay. Is reasonableness a synonym in this context for reliable?

A. No.

Q. Okay. In other words, that a reasonable assumption is one that is in the middle of the continuum of possible assumed facts?

A. I think I can agree with that, yes.

Q. Okay. Did you try to place it a particular place on the continuum?

A. No.

Q. You also listed qualitative factors as well, and I'll come back to those.

A. Yes.

Q. And they're part of your feasibility analysis too?

A. They are.

Q. Sometimes you've used the term "material" in your report?

A. Yes.

Q. What does the term "material" mean as

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you've used it here?

A. Material is a term that indicates whatever the value or the variable is could have an impact, positive or negative. It is not -- it's not de minimis.

Q. Okay. Do you associate any percentage level with the term "material"?

A. I do not.

Q. Have you heard, for example in the accounting world, they sometimes speak of materiality as being 1 percent of assets or 5 percent of income?

A. I think it depends on the context.

Q. But it's not how you've used it, one way or another?

A. Not how I've used it, no.

Q. Now, I'm going to ask you about forecasting now.

A. Sure.

Q. Let me go back to Exhibit 1 of your report. This is your -- for want of -- I'll call it your CV although --

A. It's not really.

Q. -- it's not really a CV. What would

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you call it? Just a back -- description of your background?

A. Yes.

Q. Okay. Why don't we just call it Exhibit 1?

A. Exhibit 1 is good.

Q. Under "General Experience," you've written about your -- about your experience with financial projections and I'm going to read parts of this, and I'm going to ask you questions about it.

First sentence you've written -- by the way, did you write this part of your report or was it written for you by others?

A. No. This is the -- this is the same document that was attached to my proposal. It's just in a different format, but the --

Q. Sure.

A. -- the -- the information is generally the same and I think there's some added -- there may be some added verbiage around speaking engagements, publications and the like.

Q. Sure. Is it accurate however?

A. Yes, it is.

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Q. So the first sentence says, "Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more prepared by others."
This has been in connection with your work at Phoenix and elsewhere?
A. Yes.
Q. And by "projections," you mean forecasts as well as projections as we just discussed?
A. Yes.
Q. And just as a general matter, when you, yourself, have prepared projections, what kind of assignment did you have that asked you to prepare projections?
A. Generally, it would be in the context of representing a client that was financially or operationally troubled, potentially involved in a formal or informal restructuring or Bankruptcy Court proceeding.
Q. Okay. And then you write you "critiqued dozens more prepared by others."
Would that be in a comparable -- comparable setting?

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A. Yes.
Q. Okay. And then you write -- or this exhibit says, "She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast."
Okay. And what engagements asked you to do that work?
A. That -- the first time I ever testified on forecasting and assumptions was in a matter called HealthCo -- HealthCo. It was a case that -- and I believe it's in, we go back to my proposal to the Court, it's listed and it will tell you, but it was a bankruptcy case that involved a failed leverage buyout transaction that the trustee believed was a fraudulent conveyance.
Q. Okay.
A. And my engagement, I represented the Lazard Freres who had been the investment banker and Coopers & Lybrand, at the time the accountants, who were being sued and my job was to put myself back in the position at the time that that transaction was done and evaluate the

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reasonableness of the projections that were made then.
Q. And this leads me to ask you a question.
I take it that a good deal of your work in your career has involved entities that are one way or the other involved in bankruptcy or insolvency matters?
A. Yes.
Q. Have you, as a practice, represented one side more than the other side; in other words, creditors more than debtors or debtors more than creditors in this work?
A. I don't think -- I think it's very balanced for the most part.
Q. And you've also been involved in municipal insolvencies?
A. I have been involved in municipal -- troubled municipal situations.
Q. Okay. And what are some examples of those?
A. The one that I was involved in most significantly and for the longest period of time was Nassau County here in New York.

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Q. Okay. But you've had others too?
A. Yes.
Q. Okay. Back to Exhibit 1, further down it's written, "Ms. Kopacz understands the nuanced area" -- "area of municipal budgeting."
Do you see that -- budgeting.
A. Yes.
Q. Okay? What -- what do you mean when you say "nuanced area"?
A. Municipal budgeting and government accounting are significantly different than what most of us become familiar with in the private sector. It involves fund accounting. It involves appropriations and encumbrances and concepts that we don't have in the private sector.
Q. When you say "incumbrances," what do you mean?
A. Encumbrances is a manner by which government on paper sets aside funding for particular projects or services or goods.
Q. Okay. And the next sentence says, "Because municipal entities lack a 'standard' in budgeting, forecasting and accounting, great variations occur in the manner in which public

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entities report financial results and develop forecasts."

When you say they "lack a standard," what do you mean by that?

A. They -- private entities are for the most part required to adhere to generally accepted accounting principles. There are the government version of accounting principles allow for a great deal of variety and individual variation in terms of how municipal entities report revenues, expenses, capital expenditures, and the like.

Q. Do municipalities typically approach these issues in the same manner?

A. No.

Q. So how does one go about understanding how any particular municipality has handled its accounting?

A. You have to do a detailed analysis of whatever the revenue, the expense and the accounting for that is.

Q. You did that here in the case of the City of Detroit?

A. In -- in some cases, yes.

Q. Okay. You certainly got to the point

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where you felt you understood how Detroit did its forecasting and budgeting, correct?

A. Is that -- are you talking before the bankruptcy or during the bankruptcy?

Q. No, during -- during your -- your work.

A. Right. In terms of those forecasts and budgets --

Q. Yes.

A. -- as they relate to the plan?

Q. Yes.

A. Yes, I do.

Q. Okay. Now, you mentioned that you met with financial advisors, including Ernst & Young and Conway MacKenzie?

A. Yes.

Q. As between the two, how have they divided up the work of being advisors to the City?

A. It's my understanding that Ernst & Young was responsible for the ten-year baseline plan, the 40-year plan and, at a functional level, is responsible for the cash management for the City. And that Conway MacKenzie developed the restructuring and reinvestment initiatives, what

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we call the RRIs and looked at the operational aspects of the City.

Q. So, when you're looking at financial forecasts, for the most part, you were looking at the work of Ernst & Young?

A. No. I looked at all of them together.

Q. Okay.

A. Right.

Q. The baseline forecast was just Ernst & Young?

A. Yes, my -- that's my recollection, yes. It was just Ernst & Young at the time.

Q. Okay. And then when the RRIs and other things were involved, that's when Conway MacKenzie input became part of the forecast?

A. Part of the 40-year forecast, yes.

Q. Now, let me just break this down so that as we go down the road we can go more quickly. And I apologize for the elementary approach here.

Could you just describe for me as a series of steps how one goes about preparing a forecast in your experience?

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A. To prepare -- in preparing a forecast?

Q. Correct.

A. Okay. Generally, the -- the first thing you do is estimate revenues.

Q. Uh-huh.

A. Then you estimate expenses.

Q. Uh-huh.

A. And in order to get those estimates, you have to make assumptions and you have to have a base -- a baseline. You have to decide when you're going to start it and when you're going to end it.

Q. And then when you project -- and you start with known numbers, correct?

A. You generally will look at actual results for prior periods.

Q. And is there some mathematical means then of taking the actual results and, from the actuals, extrapolating the numbers in the years to come?

A. Sometimes that makes sense. Sometimes that doesn't make sense.

Q. And is it -- is it possible to --

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would it be possible for you to tell me when it does make senses and when it does not make senses?

A. I can give you an example.

Q. Sure.

A. If you had an ongoing operation, and you were selling widgets to someone, right, and that customer bought, you know, a hundred dollars worth of widgets every year for the past ten years, unless something suggested a contrary behavior, you would probably project that they're going to buy a hundred dollars worth of widgets. Okay?

On the expense side, if you're manufacturing those widgets in a production plant and it costs you 80 cents to make a widget, right, but then you're building a new plant and all of a sudden your costs are going to go down to 65, you wouldn't be using the continuation of the historical cost to make a going-forward projection.

Q. Now, is it sometimes the case as you extrapolate forward, instead of having a constant value, you're dealing with a value that is expected to increase in some manner or decrease in

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some manner year to year to year; in other words, either in the linear or nonlinear function?

A. Yes, it is.

Q. Okay. And what do you do when you're faced with that type of a forecast?

A. You have to look at the basis for why the change is going to occur and evaluate it with the information you have as to, you know, does that new assumption make sense.

Q. Now, when you dealt with looking at the forecasts for the City of Detroit, did you find that those extrapolations required forecasting that was not a constant value for either revenue or expense year to year in the years that were coming?

A. In some cases, yes.

Q. So how did you determine what the appropriate coefficient was year to year to increase or decrease the projected amount?

A. The -- the example that I can give you is the baseline is -- for example, the baseline projections include ongoing pension expense.

Q. Okay.

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A. Ongoing interest expense. Obviously, as the City worked through its bankruptcy and its plan, it became clear that those weren't going to get paid, so those numbers changed in line with what the settlements were. So I didn't really have to make -- it was a number that was in the ten-year that didn't need to be there, so it just came out.

Q. So that came out.

Let me take the example though of a revenue item. I don't -- we'll just make it income tax.

As you looked at the forecasts of income tax revenue in the years to come, it was not a constant number, correct?

A. Correct.

Q. And it went up or down as the years went on, correct?

A. Yes.

Q. And it went up or down for various reasons, such as incomes and other factors such as that, correct?

A. Yes.

Q. How did you determine whether a

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forecast of income in future years -- income tax revenues in future years was or was not a reasonable forecast?

A. I looked at historical information. I looked at the outside -- the statewide information from various parties, and I and my team interviewed the team at Ernst & Young who did the analysis and the development of these projections.

Q. Fair to say you didn't simply accept the credibility of the Ernst & Young assumptions?

A. I did not.

Q. Or the Ernst & Young calculations?

A. I did not.

Q. You did your own checking of them?

A. I did.

Q. And then used your own knowledge base to reach a conclusion about the quality of Ernst & Young's work?

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

Q. Okay. And -- and by the way, the

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process you just described for me, we used the example of income tax.

A. Yes.

Q. Would it -- would you give the same answer if I asked about other types of taxes of revenue items in terms of your general approach?

A. Yes.

Q. And in terms of various items of expense in terms of your general approach?

A. Yes.

Q. Okay. Now, let me, if I could, just ask you about some of the opinions that you reached.

A. Uh-huh.

Q. And on Page 200 of your report you speak of some of the qualitative issues.

A. Yes. I have quantitative issues on 200.

Q. I'm sorry. Quantitative, sorry. Advancing age and failing eyesight has -- has undermined me. Yeah, on quantitative issues.

A. Yes.

Q. The first paragraph you write, "It is my opinion that except for otherwise noted in my

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report the projections are generally mathematically correct and materially reasonably and, therefore, fall within the feasibility standard I have defined."

Do you see the language I read?

A. Yes.

Q. I notice there's a typo. Did you mean to write "materially reasonable" instead of "materially reasonably"?

A. Yes. Thank you.

Q. It's all right. It's basically what lawyers are trained to do is look for typos. I went to law school imagining myself in front of the U.S. Supreme Court; instead I've become a glorified proofreader.

All right. Now, when you say the generally mathematically -- the projections you're speaking about are the City's 10 and 40-year projections?

A. That's correct.

Q. And we already -- go ahead. I'm sorry.

A. And the -- and the RRI projections.

Q. And I've already asked you about the

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phrase "mathematically correct."

A. Uh-huh.

Q. What do you mean when you say "materially reasonable"?

A. I believe the projections taken as a whole are reasonable.

Q. And then the next paragraph says, "It is my opinion that, except where otherwise noted in my report, the individual assumptions used to build the projections fall into a reasonable range and that, when taken as a group, these assumptions are also reasonable."

Can you tell me why you were able to reach that conclusion?

A. Because we reviewed and looked at every line item, every cell of every model.

Q. And how big was this model?

A. The -- the E&Y model is, my recollection, I think about a -- over a hundred sheets -- over a hundred Excel spreadsheets.

Q. Okay.

A. The Conway model is actually about 30 models together and each of those models is multiple Excel spreadsheets. Clearly, Kevin Barr

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on my team probably knows exactly how many pages there are, but it's hundreds.

Q. And you looked at every one of those worksheets --

A. He did -- he did. I didn't.

Q. And every -- every cell of every worksheet?

A. He did.

Q. On Page 37 of your report, you refer to -- you state at the bottom, there's a carryover sentence having to do with the fact that the City does not have an aggregated forecast to use.

Can you tell me what you meant by an "aggregated forecast"?

A. Can you show me the sentence?

Q. It's the carryover. It says, "while the respective -- "

A. Ten-year 40-year.

Q. Yes. And then it carries over and the language I was referring to is the top of the next page.

It says, "The City does not have an aggregated forecast to use as a fiscal road map going forward."

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What do you mean by "an aggregated"?
A. The City does not have a forecast at the department level which includes all of the baseline projections and the RRIs incorporated into a single set of projections like you would typically see for an entity.
Q. Okay. And so the City needs to create such a document in order to go forward?
A. I think it would be highly advisable.
Q. The beginning of the sentence says, pardon me, "While the respective 10-year, 40-year and RRI forecasts have been expertly researched, constructed and amended."
What do you mean when you say "expertly researched, constructed"?
A. The, the 10-year, the 40-year and the RRIs, okay, are appropriately correct to the extent of the purpose for which they were intended. Okay? They are fit for that purpose.
Q. Uh-huh. Okay. Now, excuse me -- you mentioned that the City forecast cover a period of ten years and there's also a 40-year forecast too.
A. Yes.
Q. Is that the customary period for

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forecast, at least in the municipal world?
A. I'm not sure there is a customary period.
Q. Have you seen forecasts before of such length?
A. Have I in a general context, yes. In typically municipalities don't budget for that long a time.
Q. Do you know why it is that forecasts were prepared for periods so long as those we see here?
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.
Q. -- you've written -- I'm directing

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your attention to the last two sentences on that page. You wrote, "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."
Now, can you tell me what you meant when you wrote that?
A. I mean, I don't know how to say it any better. I'm sorry. I really don't. I think that's really clear.
Q. Okay.
A. Okay? I -- obviously -- the time horizon to my -- to the way we've defined the standard and the way I evaluated it is if there's going to be an impact near-term, that is clearly more significant than if it's going to occur 10 or 20 years down the road because 10 or 20 years down the road, people have an opportunity to respond and change their behavior and do different things to overcome whatever that risk might be. If it's a risk in the early part of a forecast, you don't have that time to respond.

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Q. So you testified that one feature of a long forecast is the greater chance for variability as the years go on, correct?
A. I would agree with that statement, yes.
Q. Are you also saying that in the future years that, although there may be such variation, it becomes less material as we sit here today because the variations happen so far into the future?
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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forecasting rule about that?
A. Not to my knowledge.
Q. Let me ask about the RRIs if I could.
A. Okay.
Q. You've mentioned. That's short for restructuring and reinvestment initiatives?
A. Yes.
Q. Okay. And fair to say that you generally are complimentary of the RRIs that the City has planned?
A. Complimentary?
Q. Let me look -- let's look at 207 of your report.
A. Okay.
Q. At the very top, you've written, "The RRIs are one of the positive outcomes of the bankruptcy process. The RRIs provide the backbone of the improved services to the City of Detroit."
That's -- that's what I was asking you about.
A. Yes. Yes.
Q. So you -- you believe that on balance the RRIs are a good not a bad thing?
A. Yes.

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Q. Okay. Why did you reach that conclusion?
A. The RRIs, many of them, are planned to return Detroit to a safer, better functioning place in which people can live and work and -- and go about their business. So --
Q. Well -- go ahead.
A. -- you know, a lot of the RRIs involved restoring public safety and transportation to more acceptable levels than they have been in the recent past.
Q. Do some of the RRIs also -- let me withdraw that.
Do some of the RRIs also have the objective of improving quality of city management?
A. Yes.
Q. And, for example, tax collection by the City?
A. Yes.
Q. And do you also believe those are positive?
A. I do.
Q. And why?
A. Because the City historically has

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done a poor job of collecting the monies that are due it.
Q. And what would the RRIs do, if anything, to address that issue?
A. In a -- in a couple of areas, the RRIs are targeted towards better information systems, better technology, more people to focus on collection activities, the ATMs that are being added to the District Court to collect the fees and fines right then and there before people leave the building. You know, those sorts of things are -- are advantageous to helping the City collect the monies that are already due it.
Q. Fair to say some of these RRIs will end up cutting city costs?
A. In the long-term, yes.
Q. And some of the RRIs will result in increasing city revenues?
A. Yes.
Q. Did you perform any kind of cost-benefit analysis to see if the expense of those particular RRIs was offset by any benefits that they yielded to the City?
A. I don't think so.

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Q. But has anyone attempted to quantify the revenue enhancement and cost reduction benefits to the City of the RRIs?
A. Not that I know of.
Q. Who came up with the RRIs?
A. The -- the Conway MacKenzie has been at the forefront in developing the RRIs as they're presented as part of the bankruptcy, working with people in the city government.
Q. Were there any RRIs that you looked at that you -- in your opinion were not necessary?
A. I'd have to go back and look at all of them to say -- to answer that question.
Q. Okay. Any RRIs that you would have liked to have seen that were not among the list of restructuring and reinvestment initiatives?
A. I didn't evaluate that either. I just looked at what was there.
Q. Who came up with the dollar amounts associated with the RRIs?
A. I believe for the most part that has been the work of Conway MacKenzie in collaboration with the city employees by department.
Q. Okay. And who came up with the plan

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by which the RRIs were to be implemented?
A. I'm not sure anyone has yet.
Q. Okay. Or the timetable for implementation -- for implementation?
A. I'm not sure -- I'm not sure that that has been completely defined at this point.
Q. In the course of your work, did you look at the dollar amount of the RRIs to see if those were reasonable assumptions for the each RRI?
A. Yes.
Q. And what did you determine?
A. We concluded that they were reasonable estimates for what these initiatives would cost.
Q. Now, one of the things you looked at I think you said was blight?
A. Yes.
Q. And specifically, I guess the removal of blight?
A. Yes.
Q. How significant in your opinion is the City's program for the removal of blight?
A. Blight removal is very important to

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me.
Q. And why is it important?
A. Because I believe that eliminating blight will stabilize the City and allow a -- the revitalization for Detroit to really grab hold.
Q. Do you believe the amount of money budgeted for blight removal is sufficient?
A. I don't know.
Q. What, in your opinion, if you have one, will happen to the City if it is not successful in removing blight?
A. I don't know.
Q. You mentioned that a stop -- start-and-stop approach will not work and that's, if you'd like, direct you to your report is on Page 173.
A. Yes.
Q. My question was simply going to be why did you conclude that. But if you'd like to look at your report, that's so much better.
A. Thank you.
Q. And I was -- it's towards the bottom. You've written, "Conversely a start-and-stop approach will likely result in ineffective

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investment and do little to reverse the spread of blight through Detroit."
A. My concern around blight spending all along has been the availability of a steady stream of funding to keep the blight removal machine going.
Q. Uh-huh.
A. And the -- the concern I have that the City has made an effort to bring contractors into the blight removal program and it will be important to be able to pay them timely to keep them engaged in that process.
Q. Let me move to something else.
Your report has observations about shortcomings in the City's finance, treasury and budgeting functions, correct?
A. Yes.
Q. Fair to say that historically they've been very poor?
A. Awful.
Q. Really awful? I'm kidding.
You're aware the City has a new CFO?
A. Yes.
Q. John Hill?

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A. Yes.
Q. And you've met with Mr. Hill?
A. I have.
Q. Have you determined from Mr. Hill what he plans to do or is doing to reform matters within that part of the city's government?
A. I'm generally aware of Mr. Hill's plans, yes.
Q. And you understand that Mr. Hill has a program to deal with these historical issues?
A. Yes.
Q. Do you have any -- what is your opinion, let me ask you this, of the approach Mr. Hill is taking?
A. I -- I concur with Mr. Hill's approach in terms of what he has prioritized in terms of needing to get fixed and how he's going to go about that.
Q. Do you believe Mr. Hill will be able to fix these problems?
A. I have confidence that Mr. Hill has a good plan to fix the problems. I have confidence that he and the mayor will be able to hire people to do that.

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Q. Are you finished with your answer?

A. Yes. And as recently as the last week or so, he's -- they've added some more talents to that group and I think that's encouraging.

Q. To the extent your report contains criticism of the finance function, is any of that intended to be a criticism of Mr. Hill or his staff?

A. Mr. Hill, no. There's -- there's -- I still would have significant criticism of some of the -- the processes and procedures that the City uses.

Q. Okay.

A. In that area.

Q. You understand that Mr. Hill's attempt to go address those as well?

A. I do.

Q. Your report mentions shortcomings in the City's information technology area.

A. Yes.

Q. You would agree that -- that isn't what it could be?

A. That's awful too.

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Q. They've hired a woman named Beth Niblock to address that?

A. Yes.

Q. She comes to the Detroit from the city of Louisville, Kentucky.

Did you met with Ms. Niblock?

A. I did.

Q. Did you form an opinion as of Ms. Niblock's abilities?

A. Yes.

Q. What is your opinion?

A. My opinion is Ms. Niblock knows what she's doing and is developing a good plan for fixing the City's IT systems.

Q. Now, the RRIs contain line items or for IT initiatives, do they not? And those total between 150 or $200 million, or somewhere in that range?

A. It's a little north of 150 million citywide.

Q. Okay. And in your opinion, is that a sufficient amount of money to spend to implement IT improvements?

A. It's a lot of money. I would prefer

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to have the -- all of that spending under the IT department. Some of that is disbursed into individual departments.

Q. Uh-huh.

A. So, I don't know. Again, I would like to see it controlled and I've written about that in my report. I'd like to see it centrally controlled as opposed to disbursed.

But yes, it should be a sufficient amount of money to upgrade and fix. It's not really fixed the systems that are in place. It's installed new systems.

Q. Well, the existing systems are antiquated are they not?

A. They are.

Q. They don't inter -- inter-operate with one another?

A. They do not.

Q. There's no modern ERP system, correct?

A. Correct.

Q. The budgeting software is antiquated if it exists at all, correct?

A. It's -- yes.

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Q. Manual entry is required for a number of financial inputs?

A. The general ledger is largely done on a manual basis, yes.

Q. All right.

MR. STEWART: We've been on the record for an hour. We can take a break or keep going, whatever you'd like to do. It's up to you.

THE WITNESS: I'm ready for a break.

MR. STEWART: We'll go for a break.

THE VIDEOGRAPHER: Thank you. The time now is 10:18 a.m. We're going off the record. This is the end of Disk Number 1.

(Whereupon, there was a brief recess in the proceedings.)

THE VIDEOGRAPHER: Time now is approximately 10:32 a.m. We're back on the record. This is the beginning of Disk Number 2.

BY MR. STEWART:

Q. Ms. Kopacz, before the break, I'd asked you a question about the language at Pages 37, 38 of your report in Exhibit 1. In

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particular that sentence that begins at the very bottom of 37 and goes on to the top of 38.

And do you have that sentence in front of you?

A. I do.

Q. I ask you what was the -- I think you -- I'd asked you about the -- the forecasts and I believe you said they were appropriate for the purpose for which they were intended. I think that was your answer.

A. Yes.

Q. What was the purpose for which they were intended?

A. To support the plan of adjustment.

Q. And the confirmation of the plan of adjustment?

A. And the confirmation of the plan of adjustment, yes.

Q. Okay. Let's go if we could to Page 14 of your report. I'm going to ask you now about the area of contingencies. And under the quantitative points, you mention in the third bullet point at the top, you raise the question, "Is there an adequate contingency included in the

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projections?"

Do you see where I've directed your attention to?

A. Yes.

Q. What do you mean by "contingency"?

A. Contingency is another -- another word might be cushion.

Q. Okay.

A. For -- for changes down the road.

Q. And is a contingency or a cushion something that you would expect to see in forecasts?

A. Most fore -- many forecasts have contingencies in them. Some forecasts have no contingencies.

Q. What's the purpose of having a contingency?

A. Because a forecast or projection by its nature is future looking --

Q. Uh-huh.

A. -- you cannot be assured of what is going to happen.

Q. Uh-huh.

A. So, you keep some cushion, some

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contingency. It's like why do -- you know, why do we keep a savings account?

Q. Right. Okay. And the contingency in the forecast here is about 1 percent?

A. The line item contingency -- the line that is defined as contingency is 1 percent.

Q. Is there or are there contingencies above and beyond that one line item in the forecast?

A. I believe there are.

Q. Where would those be found?

A. In some of the labor estimates.

Q. Okay. Any others?

A. Some of the other expense items.

Q. Okay. Are you aware of any calculation that adds all of the contingencies together to come up with a single contingency number for any given year in the forecast?

A. Not to my knowledge.

Q. Did you reach any conclusion yourself about what that percentage or number would be for any given year if you added all these cushions together?

A. I have not.

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Q. Now, what did you think, if you had an opinion, the level of the contingency ought to be?

A. I did not come to a conclusion as to what I thought the contingency should be. I simply assessed whether I thought there was adequate contingency in the plans that I was presented.

Q. At Pages 177 and 178 of your report, you refer to Public Act -- "Public Acts 181 and 182 which require a general reserve of not less than 5 percent of projected expenditures."

Do you see the language there?

A. I'm sorry. Page number again, please.

Q. 177 and 178.

A. Yes, I do.

Q. Okay. And that's a 5 percent cushion or 5 percent contingency?

A. It's a little different than the contingency that's in the City's plan of adjustment projections. This is a contingency -- a calculated contingency of 5 percent of expenses. The City's plan of adjustment is 1 percent of revenue. In the City's -- the City's contingency is cumulative over the years, assuming you don't use it, and this is a annual contingency.

Q. Do the City's forecasts to your knowledge contain any method by which the City will come into compliance with this 5 percent requirement of Public Acts 181 and 182?

A. I don't have any knowledge of that.

Q. Okay. Now, in -- I'm going to direct you to various parts of your report now.

Have you identified in your report various risks to the plan?

A. Yes.

Q. Okay. Let's start with Page 53.

A. 53?

Q. Yes. And you see towards the bottom of 53 there's a reference to wagering taxes?

A. Yes.

Q. And actually, this continues on to 54.

Did you find that the projections' estimate of future wagering attacks -- wagering taxes appeared higher than the actuals would suggest?

A. When you say actuals, are you talking

about the -- the long-term trend on wagering or the first -- I refer to the first six months where there has been a decrease in wagering tax.

Q. Right.

A. Yes.

Q. We'll -- let me -- let's break this down.

You've written that the wagering tax rate and so on being -- are held constant, correct?

A. The wagering tax --

Q. You say, "As a result of the wagering tax rate, 10.9 percent, and the additional 2006 tax rate, 1 percent, being held constant, the key assumption of the ten-year forecast is the annual percentage change in casino gross receipts," correct?

A. Yes.

Q. Okay. And then you write that there's increasing competition from casinos in Cleveland and Toledo; is that right?

A. That's correct.

Q. Okay. And that the ten-year projections assume a decline and you describe what

that that's going to be, correct?

A. Yes.

Q. On the carryover page, though, you've written that the first six months of 2014 the revenues decreased 3.6 percent, correct?

A. Yes.

Q. And that's a decrease greater than that that's contained in the forecast; is that right?

A. That's correct.

Q. Do you have any reason to believe that this, I don't know what that was, that the casino revenues will change to a rate of decline more consistent with what EY has projected as opposed to the 3.6 percent in the first six months of 2014?

A. I think the -- this is one of the assumptions that change between the May projections and the July 2nd projections, whereby the wagering taxes -- the projections for the wagering taxes were decreased over the ten-year period, and I am satisfied that the wagering tax projections in the plan are -- are reasonable for the -- for that ten-year period.

Q. Because they've been changed in the most recent set of projections?

A. The/the conversations that I and my team had with E&Y with regard to this were looking at the long-term trends, they have studied it. It would be -- you don't want to overreact to any very short-term change. So, I think the -- the decrease in the wagering tax assumption here was -- was reasonable in light of the long-term nature of the projection.

Q. Okay. Just to summarize, because your answer touched a few things.

There has been a set of projections from the City and the fourth amended plan of adjustment which was filed in May, correct?

A. Yes.

Q. And then EY came up with a revised and updated set of projections on July 2nd?

A. EY and Conway.

Q. And Conway.

A. Uh-huh.

Q. And as to wagering taxes, the July 2nd projections lowered the level of wagering tax revenue that was forecast, correct?

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A. Yes.

Q. And you looked at that and were comfortable with it as changed; is that right?

A. I was.

Q. Now, let's, if we could, go to Page 89.

At the top you've written that "The City is projecting that it will be able to collect an additional $74 million as a result of better collections of civil fines and infractions."

Have I quoted that correctly?

A. That's correct.

Q. And this is because the City projects it's going to increase its collection rate from the 36 percent in 2013 to 56.8 percent in 2023, correct?

A. Yes.

Q. Now, if the City fails to improve its collection rate, what's the effect in terms of the revenue it can expect from fines?

A. I would have to calculate that.

Q. Okay. It would -- it would fall in direct proportion to the -- to the collection rate; is that correct?

A. Only if you assume the same rate of

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fines imposed.

Q. Uh-huh. Have there been projections about increasing the level of fines as well?

A. Yes, there has been discussion.

Q. So it would be a combination of implementing increases and also collecting more?

A. Yes.

Q. I mean collecting a higher percentage?

A. But this -- this is collecting -- this is about collecting more of the fines that are imposed.

Q. Now, if it turns out the City just doesn't deliver on that --

A. Yes.

Q. -- there would be a revenue shortfall to that extent, correct?

A. I would assume so, all other things equal.

Q. Okay. And is that one of the reasons forecasts usually has a cushion or a contingency?

A. Could be.

Q. Okay. The -- let's go to -- let me ask you about the Detroit Department of

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Transportation. And that is the bus service in Detroit, among other things?

A. It is.

Q. Okay. And the City subsidizes -- I'm going to call it DDOT, in which --

A. DDOT.

Q. Okay.

-- the City subsidizes DDOT, correct?

A. It traditionally has subsidized DDOT, yes.

Q. And the/the forecasts project that the amount of the subsidy is/is projected to fall in the coming years?

A. At the operating level, yes, but --

Q. Okay. Now, on Page 95, there's a reference to overtime at DDOT. And you've written in the middle of the page, "The decrease in overtime at DDOT is a key assumption over the next ten years as the City provides a subsidy to DDOT."

Why is it a key assumption?

A. Because it is a -- overtime at DDOT is a significant operational and economic issue.

Q. Uh-huh.

A. They spend a lot of money on

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overtime.

Q. Is that an issue the City has attempted to remedy over the years?

A. I don't know if it's attempted to remedy it over the years.

Q. What do you recall?

A. I do know that it is a focus of the mayor and of Mr. Dirks who is the DDOT head.

Q. Okay. The bottom of 95 you write, "If the City is unsuccessful in decreasing overtime and overtime remains at 40 percent of payroll, the subsidy would be $61 million higher than currently projected over the ten years," correct?

A. Yes.

Q. So, realizing that savings is contingent upon the City successfully decreasing overtime in DDOT in the years to come, correct?

A. Correct.

Q. Is that a reason to have a contingency or a cushion, to allow for the risk that may not occur?

A. It's an example of a risk that you would want to factor in.

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Q. But when you say "factor in," you mean the projections have some allowance for the chance this opportunity may not be realized?

A. I don't know if the contingency was created to address this specifically, but clearly, this is a risk and you put a contingency in so that you can balance off the positive and the negative variances.

Q. Okay. Now, at Page -- I've asked you before about improvement of the City's IT systems and we talked about the amount of the spend the City is thinking about for IT improvements. Some of those would be implementation of new IT systems all together?

A. Yes.

Q. Are you familiar with the failure rate of implement -- implementation of new IT systems?

A. We did. I am.

Q. Okay. And what -- what is -- what are the risks of a failure of implementation of a new IT system?

A. Time and money.

Q. Okay. How -- and what would the

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effect be of the time delay?

A. It would take longer to implement the system.

Q. And would that impede implementation of the RRIs?

A. If the RRI is about the IT or if there is some component of an RRI that's predicated on an IT solution.

Q. And to the extent that the City was expecting more revenue or lower costs from a new IT system, would a delay in implementation affect that revenue or that cost savings?

A. It could.

Q. Okay. You said it would be time and money.

What would the money element be if a failure to implement an IT system --

A. It would simply cost more.

Q. Cost overrun?

A. Yes.

Q. Okay. And how common are such cost overruns in the IT world?

A. Fairly common.

Q. Okay. Now, on Page 122, under

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"Impact on Feasibility," you've written, "The risks associated with the IT initiatives alone warrant additional financial contingency beyond the general 1 percent assumption in the POA projections."

Do you see that?

A. I do.

Q. And is that because of the risk you just told -- you talked to me about, about time and money, that could result from a slippage?

A. Yes.

Q. Do you know if there's any other contingency in the forecast or IT shortcomings above and beyond the 1 percent contingency?

A. The -- what I am aware of is that some of the IT investments in terms of the cost that the City has estimated those to be are -- appear to be, you know, have some cushion in them.

Q. Uh-huh.

A. The one I'm familiar with or the couple that I'm familiar with are -- are what -- what my team and Mr. Childree in specifically looked at the ERP, having done that in his career at the State of Alabama and what it should cost,

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and his assessment was that they should be able to do it for the money that's in there.

Q. Okay.

A. I know that Ms. Niblock is in the process of replacing all of the laptop PCs for the City and that the price they're assuming on a per unit basis is reasonable with a little bit of cushion in it, so I believe in that 150 is a little bit of cushion. I don't know what it is specifically and I don't know what it totals to. But I know they've made an attempt to be reasonably conservative on what those costs are.

Q. Right. Going back to Page 122, is it your opinion that the City should have -- should increase its 1 percent contingency to allow for the risks associated with the IT initiatives?

MR. KANE: Before you answer, Geoff, I just want to make a minor clarifying point.

MR. STEWART: Sure.

MR. KANE: I haven't quibbled with the term "opinion" as a proxy for "view" --

MR. STEWART: Yeah.

MR. KANE: -- or "conclusion." I just want to make sure we're talking small

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"o" opinion.
MR. STEWART: Why don't I say -- con -- why I don't just change the question, say conclusion just to make it clear.
MR. KANE: Thank you.
BY MR. STEWART:
Q. Let me ask the question again. Let me -- let's go back to Page 122.
A. Uh-huh.
Q. Is it your conclusion that the risk associated with the IT initiatives alone should require an increase in the contingency above the 1 percent that's in the forecast?
A. My preference would be if -- that I would like to see more contingency. I've said that kind of throughout my report, and this is one of the areas where I think it would be good to have more contingency.
Q. As a general matter, why is it good to have a bigger contingency?
A. Because these are -- these are big projects happening in the future, things will change.
Q. Okay. Now, on Page 193 of your

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report, you point out that -- and this is at the top, under "Macroeconomic Issues," you write that "I believe the City's economic forecast 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."
Let me start by asking you, just so we have it, what do you mean by "normalized economic conditions"?
A. Something that isn't predicated on a recession or, alternatively, a boom.
Q. Uh-huh. And when we look at Detroit, we saw a fiscal collapse from about 2000 to about 2007?
A. I haven't looked back to 2000. Right?
Q. Uh-huh. And then there were the effects of the Great Recession on Detroit as well, correct?
A. Right. The obvious.
Q. Fair to say in the past 14 or 15 years the population of Detroit has fallen

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substantially?
A. Yes.
Q. Employment has fallen substantially?
A. Yes.
Q. Revenues have fallen substantially?
A. Yes.
Q. Industrial base has continued to erode?
A. Yes.
Q. Okay. Do you have any reason to believe as we look at the next 40 years that Detroit will not experience another economic reversal?
A. In terms of continuing decline or reversal to continuing uptick?
Q. Do you believe Detroit right now, today, is experiencing normalized economic conditions?
A. For Detroit, yes.
Q. What does it mean when you say normalized economic conditions for Detroit?
A. I think Detroit is stabilizing and is at -- as I said before, is at a tipping point and has prospects of stabilizing and growing again.

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Q. Okay. And if it does tip, what happens.
A. If it does tip? Tip up or tip down?
Q. Tip down.
A. I don't think any of this would work.
Q. Okay. Now, as you look forward to the next 10 or 40 years, what assurance is there that Detroit is not going to encounter another fiscal collapse?
A. I don't think there are any assurances.
Q. What are the odds that the nation will have another recession?
A. I have no idea.
Q. How often have recessions typically occurred in recent years?
A. I haven't thought about that.
Q. Okay.
A. Don't have an opinion. Don't have a thought.
Q. Okay. Are you aware of any reason to believe Detroit is on the verge of a -- of a radical economic boom?
A. Radical economic boom?

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Q. Uh-huh.
A. No.
Q. Now, one of the things your report dealt with at great length was pension issues, correct?
A. Yes.
Q. Okay. And without getting into each of the pension issues, as a general matter, what concern, if any, did you express -- pardon me -- about the City's potential future pension liabilities?
A. I expressed concern that the City needs to -- the City would be advised to monitor annually and actively its future unfunded liabilities.
Q. Okay. And, pardon me -- in those future unfunded liabilities -- well, let me back up.
Why do you think the City should actively monitor its -- its future unfunded liabilities?
A. Because the City, as part of the plan, has fixed its contribution, okay, over the next ten years, which for purposes of my

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feasibility assessment is a positive thing, right? It gives the City certainty around what it needs to spend on its old pension program.
Q. Okay. Now, if it turns out -- well, let me ask about a few things.
First of all, are you aware that the City settlement with the retirement systems includes, among other things, an assumed rate of investment return of 6.75 percent?
A. I am aware of that.
Q. Is there a risk associated with that?
A. Yes.
Q. What is the risk?
A. The risk is that the investment return over the -- the course of the time frame would not equal 6.75 percent.
Q. And if that occurs, what would the effect be upon the City?
A. If the investment return is less than that, the effect on the City would be that it would have a larger unfunded liability.
Q. Have --
A. In the future.
Q. -- have you been able to reduce that

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in some analytical way in terms of what level of risk that poses to the City's ability or City's ability to implement its plan?
A. I don't think I understand the question.
Q. Have you been able to quantify what that risk would be to the City?
A. We -- we have asked the City to do a sensitivity analysis of various investment returns.
Q. Right.
A. And that is part of the open request that's still outstanding. We did get information from Milliman on the sensitivity analysis we requested for the PFRS system, but not for the GRS.
Q. And Milliman is, for the record, is the City's actuary?
A. Yes.
Q. Okay. Now, if turns out that the pension funds underperform in terms of their investments at 6.75 percent what, if anything, would the City be required to do?
A. The City would eventually be required

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to put together a plan to fund that.
Q. Is that risk something that should be provided for in the plan as part of the contingency?
A. I -- I don't -- as part of the contingency today?
Q. Uh-huh.
A. No.
Q. Why not?
A. Because it is a far in the future obligation.
Q. Uh-huh.
A. And many, many things can change by the time that the City is obligated to -- to address that issue.
Q. Okay. Your report speaks of other issues involving the pensions as well, including, for example, pension restoration.
A. Yes.
Q. Remember the sections on that? And the operation of the pension restoration mechanism also could affect how much the City might have to some day pay the retirement systems, correct?
A. Yes.

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Q. Would your answer be the same if I ask you whether that had to be provided for in today's contingency?
A. Yes.
Q. And just so we don't spend all day on pensions, there were other issues identified as well in your report having to do with pensions, correct, besides --
A. Yes.
Q. And your answer would be the same that, although that is a potential cost to the City in future years, it is not something that would have to be reflected in the contingency today?
A. Correct.
Q. Okay. Let's look, if we could, then I'll move on and almost be done, on Page 200 and 201?
A. 200 and 201.
Q. The bottom --
(Whereupon, a brief discussion was held off record.)
BY MR. STEWART:
Q. Anyhow, 200 to 201, you've written in

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the carryover sentence, and I'm going to start in the middle of it, "I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption concerning the level of contingencies particularly in the early years."
And fair to say that the aggressive assumption on contingencies is the 1 percent?
A. Yes.
Q. And the conservative assumptions would be what?
A. I think the -- I think there are reasonably conservative assumptions on the revenue side.
Q. Uh-huh.
A. I think there are -- there are some reasonably conservative assumptions relative to the total head count in the early years in terms of the people employed by the City.
Q. Anything else?
A. Not off the top of my head.
Q. And when you use the phrase "conservative assumptions," what do you mean?
A. Conservative would mean -- a

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conservative assumption would be something that would either cause a reduction in the value of the revenue or an increase of the value of the expenses.
Q. Have you attempted to quantify the conservative assumptions in the City's projections?
A. I have not.
Q. You then go on the say, "While I do not believe a 1 percent contingency is adequate, I believe that the POA projections taken as a whole fall within the range of reasonableness and within my definition of the feasibility standard."
Do you see that?
A. That's correct.
Q. And are you saying that, although the 1 percent contingency is not enough, the other conservative assumptions offset any shortcomings?
A. I'm saying taken as a whole -- the projections with all of the conservative and aggressive assumptions taken as -- as a whole are reasonable.
Q. Okay. Let me ask you about sensitivity analyses now.

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A. Okay.
Q. And you have about a half dozen of them in your report, correct?
A. I haven't counted them.
Q. Okay. Well, nor are we going to itemize them all here, but they seem to be about that many. And let me just go to the first one, which is on Page 48, 49. And this is the sensitivity analysis about income taxes.
A. Okay.
Q. And the analysis is described on Page 48 and the table is on 49.
A. Uh-huh.
Q. Is it fair to say that this is the mathematical exercise of the simply showing what a 1 percent change results in if no other constants change?
A. That's correct.
Q. In fact, a change in taxable income could affect other constants, right?
A. It could.
Q. And if so, the sensitivity analysis would have to be altered to take into account those other changes; is that right?

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A. Generally, a sensitivity analysis is done around a single variable.

Q. Okay.

A. Right?

Q. And all of the sensitivity analyses -- analyses you have done have been done around a single variable, right?

A. Yes.

Q. And when it predicts a -- the effects of a 1 percent change, it would be that absolute number whether the 1 percent is up or whether the 1 percent is down, correct?

A. Yes. Yes.

MR. STEWART: That is all I have.

MR. HACKNEY: This might be a good time for a break. I'm going to move all my stuff over there.

MR. STEWART: Sure.

THE VIDEOGRAPHER: Okay. The time now is 11:04 a.m. We're going off the record.

(Whereupon, there was a brief recess in the proceedings.)

THE VIDEOGRAPHER: Time now is

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11:12 a.m., and we're back on the record.

EXAMINATION BY MR. HACKNEY:

Q. Ms. Kopacz, we've met before but --

A. We have.

Q. -- I'll introduce myself again. My name is Steve Hackney and I represent Syncora in the City of Detroit bankruptcy case. It's ice to see you again.

A. Nice to see you again.

Q. Let me ask you some open-ended questions at the start here.

I first want to confirm that you're not intending to offer opinions other than the ones that are contained in your report, correct?

A. That is my intention, yes.

Q. Okay. And you have disclosed the bases for your opinions as well as the facts and data that you considered in your report, correct?

A. Yes.

Q. What are the limitations of the EY forecasts in your view? And I'm going to get some terminology down here, which is to say when I refer to the EY forecast at large, I mean all of them. So I mean the -- the baseline forecast

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without RRIs. I mean the forecast with RRIs. I mean the 40-year forecast. So when I refer to the forecasts at large, I'll call them the EY forecasts. Does that work for you?

A. And that includes the Conway position?

Q. It does.

A. Okay.

Q. Because you have to -- to have a name for them and ultimately EY assembled them.

A. Right.

Q. And so -- I mean, I can call them whatever you want, put it another way --

A. Okay.

Q. -- but if there's a time where you want to say well, Steve, I need to talk about this instead of this, let me know. Okay?

And, as a general rule, if I ask you a question that doesn't make sense, as I am wont to do, will you please let me know so that I can rephrase it?

A. Yes.

Q. If you -- do you understand that if you answer my question, I'm going to assume that

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you understood my question?

A. Yes.

Q. So going back to it, what are the limitations of the EY forecasts that are included in the plan in your view?

A. The limitations? I'm struggling with the word "limitations."

Q. Okay.

A. As I said in an answer to Mr. Stewart's question, the projections in the City's plan are -- were created for specific purpose and they are not what we would typically expect to see as a set of projections for a plan of reorganization in a Chapter 11 case. So, they're just -- they're -- it takes more effort to understand what they are and what they aren't.

Q. Going back to that, I wanted to make clear that you are specifically disclaiming any opinions on whether the -- whether the plan is in the best interests of creditors, correct?

A. That was not in my scope.

Q. And you don't have any opinions on that?

A. I do not have an opinion.

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Q. And you did not attempt to -- to determine whether the -- the City might do better than the -- the forecasts such that there would be more to distribute to creditors, correct?
A. Yes. And I -- I think at some point in my report I said there are -- there are things that I didn't -- that I very clearly didn't do, and I didn't -- I didn't look at best interest of creditors. It was outside of my scope, and I didn't look to see if there was a way in which the City could generate more cash, and I didn't look at any of the alternative plans.
Q. And just to be clear, to the extent the City is purporting to use the projections to satisfy the best interests of creditors test, you do not have an opinion that the projections are appropriate for that purpose, correct?
A. I don't have any opinion around best interest at any level.
Q. Okay. But I have to tie it to the forecasts as well, correct? You're not saying these forecasts satisfy the City's burden in connection with the best interests of creditors?
A. I -- no. I don't have any -- I don't

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have anything to say about that.
Q. Okay. I guess -- let me go back to the subject of limitations and give you an example to help inform my question a little bit.
So you're aware that the City has what I'll describe as troubled data systems with respect to the collection of financial records?
A. Yes.
Q. You're also aware that the forecast is, in some respects, based on historical financial records?
A. Yes.
Q. So, an example of a limitation would be that if the City has historical financial records that are of questionable validity, that that could be a limitation on the accuracy of the forecast. So I'm using this as an example of something that could be a limitation. I'm not saying that it is or it isn't, but I'm trying to inform my question to you more to help put some meat on the bones so to speak.
A. The City has accurate financial information once a year when it completes its -- its annual audit and gets its annual financial

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stuff, right? And at that point in time, when KPMG signs off and it files its CAFR, then -- CAFR, C-A-F-R, comprehensive annual financial report, those are numbers that have been vetted, if you will.
Q. The negative implication of your question is that in between CAFRs, the City does not have reliable financial records, correct?
A. They have ad hoc records.
Q. They are definitely ad hoc.
A. Yes.
Q. Are they reliable?
A. Some may be and some may not be.
Q. Okay. You did not have sufficient time to audit the records of the City, correct?
A. No, and it wasn't in my scope.
Q. Okay. So you have not made a determination as to whether the financial information upon which the projections are built, to the extent that they're not derived from a CAFR, are based on reliable financial records, correct? You haven't made that determination.
A. Can you repeat the question, please?
MR. KANE: I was distracting her with

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the microphone.
MR. HACKNEY: That's okay. It's a long one, but I think it was the best way to ask it, so it may be better to have it read back.
(The question requested was read back by the reporter.)
THE WITNESS: That didn't help me. Can we try again?
BY MR. HACKNEY:
Q. Yeah. So, I think -- let me try and summarize what you've said.
I believe that you have testified that you believe the CAFRs are reliable financial information sets, correct?
A. Right. I -- the CAFRs are based on financial information that has been tested and vetted and upon which KPMG has opined. Okay?
I may quibble with some of the accounting that's in there just because I have a view of certain things. Okay? But at least at that point in time, if we're looking at, for example, the CAFR in June of '12, which was the basis for the original baseline by E&Y, if they

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said they had 10,002 employees and they paid them $386 million, I think those are probably very good numbers.

Q. Okay. So, I think we're on common ground when we say to one another the CAFRs are in your view reliable financial information sets, correct?

A. Right.

Q. We then talked about the -- in the interim between --

A. Right.

Q. -- between the CAFRs, I think your testimony was to the effect of some information may be reliable and some may not be reliable, correct?

A. Yes.

Q. That's part of the problem that Detroit is facing now, right, it's difficulty with its an assembly of financial information?

A. Yes.

Q. So my question is that to the extent that the forecasts in the plan are based on information that was developed after the 2012 fiscal year CAFR, you have not made an assessment

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of whether that financial information is reliable, correct?

A. Individually that is correct. Yes.

Q. Okay. And isn't it true that the fiscal year 2013 CAFR just came out last week?

A. That is correct.

Q. So that wasn't available to the forecasters at EY in connection with their forecast, correct?

A. Parts of that -- information that is contained in the CAFR is available throughout the year. So, for example, the City has a good handle on cash, so it can tell you how much cash it has and how much cash it has to pay, right?

What its future obligations may be for some construction project that's going on, it probably can't tell you.

Q. Okay. So there were parts of the 2013 CAFR that may have been available to E&Y --

A. Yes.

Q. -- and parts that were not?

A. Correct.

Q. And they -- the same parts were available to you and not, correct?

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A. Yes.

Q. Okay. Now, with respect to the forecasts that are included in the plan, what is the base year for those forecasts?

A. The base year for the original ten-year was 2012 and then it was updated for information that was known in 2013 and it has been subsequently updated for information that is known in 2014, which is the year we just finished.

Q. So let's get terminology straight, because I would get this turned around.

But isn't it true that fiscal year 2013 ended on June 30th, 2013?

A. Correct.

Q. Okay.

A. And that's the first baseline.

Q. And you understand that when the first baseline forecast was being built it was prior to the end of fiscal year 2013?

A. Yes.

Q. And so, in that forecast, the base year was clearly fiscal year 2012, correct?

A. Up to -- yes, and updated for what was discernable and knowable before that

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projection was made.

Q. So I understand that the projection involves updating --

A. Yes.

Q. -- things, but when I talk about the base year, that's not something that you update, correct?

A. Correct.

Q. The base year is the historical base, correct?

A. Correct. Yes.

Q. So, when we get to the forecasts that are included in the instant plan, the most recent set of those was dated July 2nd, correct?

A. Correct.

Q. And that's of 2014?

A. Correct.

Q. What was the historical base year for the forecasts that are in the plan?

A. It's -- it's still the baseline plan, the ten-year plan, updated for the updated RRIs, updated for the new 40-year.

Q. But based off of fiscal year 2012?

A. The baseline was 2012.

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Q. Right.
A. Right.
Q. But what about the ten-year restructuring forecast? Is that base year 2012? Base year 2013?
A. The ten-year restructuring forecast, I think of that as the 40-year plan. The ten-year that's within the 40-year?
Q. Yes.
A. I think that has been largely up dated for '13.
Q. Okay. So is the base year for the 40-year that includes the 10-year --
A. Yes.
Q. -- fiscal year 2013?
A. It's '12 adjusted for what they knew about '13.
Q. Okay. So it's --
A. It's a hybrid.
Q. -- it's a bit of a hybrid?
A. It is.
Q. Okay. And is that typical in forecasting?
A. Is it typical in forecasting? It is

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typical if forecasting goes on for a long period of time as this has. And think about it. They've been -- they've been doing these forecasts for a long, long time, and so they keep updating them. But originally, it started with the baseline which was predicated on '12 -- of 2012.
Q. Okay. And so to the extent the forecast for 2013 was superseded by actual results, your testimony is that the forecast was updated to take account of the actual results that had already happened?
A. To the -- to the extent that -- yes, there are -- there are updates. Because there are -- I'm trying to think, I think there are six sets of projections, right? We only focused on the May 5th and the July 2nd, but there were other sets of projections before that that existed, you know, from that. So, all of those have changed and incorporated both new actual results and new assumptions.
Q. And the new actual results post-fiscal year 2012 are ones that were derived from something other than the CAFR, correct?
A. As the CAFR was filed last week, yes,

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had to be.
Q. Yeah. It had to be.
A. By definition, had to be.
Q. Are there problems with the forecasts that are in the plan in your view?
A. Problems? I -- I don't -- there's not problems with them in the sense of where they end up, right? I, again, have been really critical of how confusing they are.
Q. I was going to say that it seems to me that when a forecast is confusing, and I'm one of the people that shares your view that they're confusing, that strikes me as a problem with the forecast. I think a forecast should not be confusing, but that's me and I wanted to ask whether or not the confusing nature of the forecasts was a problem from your point of view?
A. It -- it caused my team to spend an enormous amount of time in understanding and checking the model, right? It -- it -- I think the -- the word I'd use in here or a word I used at one point in time was it was tedious.
Q. Isn't it fair to say that it -- it took an enormous amount of time just to understand

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the model?
A. We -- yes. I -- I believe that I have a good understanding of all the models. You know, members of my team have a -- an incredibly intimate understanding of those models. But that required a significant effort on our part, but we understand them now.
Q. How long would you say it took you and your team to reach the point where you could say, okay, I now have an understanding of the model?
A. About the -- by the time we got the July 2nd numbers, we had a really good understanding of the May 5th numbers.
Q. Okay. So, you were retained on or about April 22?
A. April 22nd. We got the working models on the E&Y stuff Memorial Day.
Q. Which was April 30 or something like that?
A. May something or other, right?
Q. Okay.
A. And, you know, within a couple of weeks of actually getting the working models, we

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were in -- in pretty good stead with understanding the May 5th, and then we got the July 2nd and went through a similar process with that; albeit, you know, we already knew how they worked so it was easier to do those.

Q. So would you say by the end of May that you believe your team had achieved a good working understanding?

A. No. By the end of -- by the end of June.

Q. Oh, by the end of June?

A. By the end of June.

Q. And you --

A. We didn't get the working models until the end of May.

Q. Okay. You had less than --

A. May something or other.

Q. You had less than 90 days to do your work in this case, correct?

A. Yeah, whatever it's been.

Q. So May, June, July -- April 22 to May -- July 18 I think.

A. Yes.

Q. Did you have sufficient time to do

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your work?

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

Q. With respect to the forecasts?

A. With respect to the forecasts.

Q. Now, with respect to the restructuring and reinvestment initiatives, you're not offering the opinion that they will achieve the goals that they're held out to achieve, correct?

A. No. No.

Q. And you haven't conducted a comprehensive review of the City's department from an operational standpoint to understand how the restructuring and reinvestment initiatives map on to needs of each department, correct?

A. I have not redone -- I have not redone the work that Conway has done. That's for

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sure, right?

Q. And my question was, you haven't done a comprehensive review to test whether Conway is correct in either the assessment of operational needs or its conclusion regarding whether the RRIs will solve the operational needs, correct?

A. That's correct.

Q. What -- what revenue streams are not included in the plan forecasts?

A. The Grand Bargain revenue streams.

Q. Okay. Those are not included in the forecasts?

A. Well, they're in the forecasts, but they're not in the -- they're in the plan forecast, but they're not in the City's budget because those monies don't -- they don't flow through the city when they come in.

Q. Understood. Okay. So the Grand Bargain forecasts are not -- not --

A. So the --

Q. -- in -- the Grand Bargain proceeds are not in the City's forecasts, correct?

A. They're in the plan, but they're not in -- I -- I may have confused myself.

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They're not in -- they're not what we would consider to be part of the City's budget.

Q. Understood.

A. Right. But they're in the plan as a sources of funds.

Q. Okay. So, let me -- let me put -- let me turn the question around, which is what revenue streams did you not study?

A. I don't think that there was any revenue stream of a recurring nature that we didn't study.

Q. Well, what about something like DWSD? Did you undertake an analysis to determine whether in the future the City's general fund might obtain revenue from what is currently known as DWSD?

A. We did not do that.

Q. Okay. So you have no opinions on that one way or the other?

A. I do not.

Q. You are generally aware that there is this concept that the DWSD may change the structuring in which it's housed in a way that yields an additional revenue stream to the general fund?

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MR. KANE: Objection. You can answer.
BY MR. HACKNEY:
Q. Just -- are you aware of the concept?
A. I'm aware that there's discussion around that, yes, and that DWSD is an enterprise fund.
Q. Other than that, DWSD was outside your scope?
A. DW -- other than the pension funding transfer from DWSD to the general fund, I did not look at DWSD.
Q. What about, did you study the likelihood and magnitude of potential asset sales?
A. I met with people in the City and with the City's advisors to talk about potential asset sales, yes.
Q. Are potential asset sales included in the plan forecasts as a potential source of revenue?
A. No.
Q. Okay. So, is it fair to say that, because they're not in the forecasts, you don't have an opinion on the likelihood of revenue that

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will arise from asset sales in the future?
A. That's correct.
Q. Okay. What are the uncertainties that exist over the next ten years that could impact the forecasts?
A. I think we went through them, right, in the report? The risk and opportunity.
Q. So, yeah -- to the -- to the extent there are uncertainties, if I want to know what your view on that is, I should read your report?
A. You should. And it's the section on risk and opportunity.
Q. Do you agree that changes to the law is an uncertainty that could impact the forecast?
A. Changes to what law?
Q. Any law.
A. That impacts the City? It could.
Q. Changes to the tax law could certainly impact the forecast?
A. Yes.
Q. Did you study the likelihood of changes to tax law?
A. Generally, no.
Q. The macroeconomic condition of the

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United States could impact the City over the next ten years, correct?
A. It could.
Q. Did you conduct a separate analysis of that question?
A. No.
Q. What kinds of information were you unable to examine regarding the forecasts?
A. I -- the -- the exhibit here of what the open requests I was not able, I obviously haven't -- they're still open requests, so I haven't looked at that.
Q. Anything else other than that that was something that you would have liked to have had but you didn't?
A. Not that I'm recalling.
Q. What about information regarding grants? Did you undertake an assessment of what grants the City is or is not likely to get in the future?
A. Only as it relates to the departmental reviews, not a broad review of grants that are available that it doesn't apply for, no.
Q. What are the assumptions that area in

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the forecasts regarding what grants the City will get?
A. It -- again, there's an exhibit in here that identifies the grants and the totality of the grants, but they -- they're fire and safety, public safety and transportation primarily.
Q. And did you undertake any assessment of the likelihood that they would get those grants?
A. No, I mean in terms of -- no. I mean there -- I assumed -- I looked at the grants that they're assuming they're going to get and I agreed that it looks like they're going to get those grants.
Q. On what basis?
A. On the fact that they've applied for those, like the SAFER grants for the fire department, those sort of things.
Q. So the extent of your confirmation was to confirm that they had, in fact, applied for the grants?
A. No. My -- my analysis of that was to get comfortable that the grants that were in the

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forecasts were likely and reasonable, not -- again, my job was not to look for more grants, right? That's not what I'm doing. I'm not looking for more.

I'm just looking to see that the grant funding that's in the plan appears reasonable based on where they are today and the kinds of programs that they're engaged in. That was it.

Q. How did you do that?
A. By talking to the people involved in grants.
Q. Okay. So let's say that the City has applied for a grant from the federal government for fire equipment. Hypothetical, okay? So $10 million grant.
A. Uh-huh.
Q. Okay. What work did you do to test whether they'll get that grant or not?
A. Really only discussions with fire department.
Q. So if the fire department said we'll probably get it, that was sufficient for you to conclude this is a reasonable assumption?

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MR. KANE: Wait for him to stop asking the question before you start answering.
THE WITNESS: Right. Yeah. Right.
BY MR. HACKNEY:
Q. Okay. And you didn't assess the likelihood that the City could get incremental grants, correct?
A. Correct.
Q. Do you know whether all the grants that the City gets are in the forecasts in the plan?
A. I do not know that.
Q. And have you taken any efforts to study the City charter?
A. No.
Q. Ever -- okay. I take it you haven't undertaken an assessment of the extent to which the current structure of the city charter will impact the feasibility of the City?
A. Generally, no.
Q. I'm generally correct when I say that?
A. That's correct.

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Q. Now, when you were retained, it was about a week after there had been a lot of announcements about agreements that the City had struck with certain retiree associations. I'll represent to you that, I remember well, came about in mid-April okay.

I don't -- do you generally remember when you were being appointed that you were coming in at a time when the City had just announced a less steep cut to pensions and seemed to have some level of consensus from some of the retiree parties. Do you remember as a general concept?
A. I really don't --
Q. Okay.
A. -- because I was not -- I had very little knowledge of what was going on in the bankruptcy before April 15th or whatever that was.
Q. No, I understand that. I meant more as you're appointed and you start to get up to speed do you remember having a recognition that the City had just struck certain agreements with the retiree associations?
A. I remember that they had -- that those settlements were -- were being reached, yes.

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Q. And you know that the plan that you were studying was one that called for 4 1/2 percent cuts to base pensions on the GRS side and zero percent cuts to pensions on the PFRS side, putting COLA to one side?
MR. KANE: At what point?
THE WITNESS: I don't/I don't specifically remember that.
BY MR. HACKNEY:
Q. Okay. So --
A. Okay?
Q. -- you don't remember -- well, you agree that those are the cuts in the current plan?
A. The cuts in the current plan are 4 1/2 percent on the base to GRS, NO cut on the base to PFRS. COLA cuts on the PFRS side and Cola cuts ON the GRS side.
Q. Right. That's the plan that -- that's the current plan.
A. That's the frozen old plan generally.
Q. Do you -- do you remember studying a plan that ever had different cuts?
A. I don't.
Q. Are you aware that the plan that was

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initially filed in February, two months before your appointment, called for steeper cuts than are in the current plan?
A. I -- I have no recollection of that.
Q. So, just as you sit here today you're not generally aware of the fact that the City reduced the pension cuts significantly between the first -- reduced the pension cuts between the first plan and the plan that's on file?
A. No. I -- when I got appointed, right, the -- was the day before I went I think for my interview with the Judge, the fourth plan got filed and, at that point, I didn't look at anything other than the fourth plan going forward. So I just -- I don't have any --
Q. I see.
A. I don't have any recollection.
Q. So -- okay. Let me ask it then as a hypothetical. Okay?
A. Okay.
Q. If the prior plans included steeper cuts to pensions than the current plan --
A. Okay.
Q. -- from your standpoint, that would

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increase the likelihood that the prior plans, all things being equal, were feasible, correct? Because it would make the City's ability to comply with the plan a lower bar?
MR. ALBERTS: Objection.
THE WITNESS: More cash available improves feasibility.
BY MR. HACKNEY:
Q. If steeper cuts to pensions increases the amount of cash that's available, steeper cuts to pensions makes the plan more feasible. Do you agree?
A. I'm not sure if it's -- that's it's if P then Q, and you're saying Q therefore P. I'm not sure that -- that you can do that, right?
Q. Why not?
A. Well, because again, it's -- it's the totality of the cash that's available. So would I like to have -- again, I have been very clear in my report. I'm being very clear today.
I would like to see more cash that's not committed to somebody or something available in this plan to provide cushion for variabilities that are necessarily going to happen. So if -- if

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any of the settlements would, would reduce the amount of cash the City has to pay to somebody, I'm going to think that improves the feasibility.
Q. Understood. I wasn't trying to trap you into a notion where, you know, if you cut pensions more, but then you give the savings and more to someone else?
A. Right.
Q. I was saying all things being equal, the steeper the cuts to the pensions, the more feasible the City would become from a financial standpoint?
A. And again, I just have conceptually a hard time isolating a single action around, you know, what you're trying -- to get. It sounds to me like you're trying to get me into the best interest of creditors and I'm just not going there.
Q. No. I'm trying to assess your own definitions of feasibility.
A. Yes.
Q. Which you admit is on a continuum, correct?
A. It is on A continuum.

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Q. So feasibility isn't just a magical point on the spectrum, right?
A. Right. It's a hurtle.
Q. It's a --
A. You got to get over the hurdle of feasibility and then it's a continuum.
Q. And the hurdle is the obligations imposed on the City under the plan, right?
A. Yes.
Q. The lower those obligations, the lower the hurdle. Do you agree with that?
A. All other things equal, yes.
Q. Have you ever seen another municipality do a ten-year forecast?
A. I have, but, again, not -- generally, it's around long-term financing in terms of -- it tends not to be a full-blown revenues and expenses. It tends to look at certain kinds of long-term obligations or long-term revenue sources, yes.
Q. Have you ever seen another municipality do a comprehensive general fund forecast over a ten-year period?
A. I have not.

Q. Have you ever seen another municipality do a comprehensive general fund forecast over a 40-year period -- a gen -- comprehensive general fund forecast over a 40-year period?
A. Forty years.
Q. Yeah.
A. No.
Q. So, the two that are in the plan, the 10-year and the 40-year, are the first you've ever seen a municipality do, correct?
A. That I've ever seen? Yes.
Q. Have you ever seen a municipality do a forecast when it was undergoing this level of change?
A. Personally? No.
Q. Ma'am, have you ever been qualified in a court of law as an expert before?
A. I have.
Q. Okay. And tell me how many times that's happened to you?
A. We should go back and look at my testimony list, right? Probably -- I don't think it's in there. I think it's in my proposal. I

referenced it.
MR. KANE: I've got some copies of it if you want it.
BY MR. HACKNEY:
Q. Okay. I missed that.
A. Yeah. More than two, probably less than five, ten. Something like that.
Q. Okay. So that means that's where a Court has said Ms. Kopacz is an expert and I'm going to allow her to testify on Subject X?
A. Right.
Q. And it's somewhere between two and five?
A. That's what I'm thinking.
Q. What were the subjects of your testimony?
A. Generally, it's all been insolvency and restructuring oriented. So whether or not, you know, an entity was solvent or insolvent. Whether or not -- it's all -- I mean, my career has been spent in restructuring, so it's all in that context.
Q. A very typical restructuring expert testimonies that I come across in my practice, an

example would be valuation. Have you been qualified as an expert in valuation?
A. I don't think so. I don't think so.
Q. You talked about solvency.
A. Yes.
Q. Have you ever been qualified as an expert in whether an entity is or is not solvent?
A. Yes.
Q. Have you ever offered expert testimony as to whether or not a plan was feasible?
A. I don't think so in terms of that narrow definition of feasibility.
Q. Okay.
A. Right?
Q. Have you ever offered expert testimony in a Chapter 9 case?
A. No. No.
MR. KANE: Other than this one?
BY MR. HACKNEY:
Q. Other than this one -- other than today?
A. Yeah.
Q. Have you ever offered expert

testimony on whether a plan satisfies the best interests of creditors test?
A. No.
Q. Other than expert testimony on insolvency, do you remember any -- any other areas where you testified as an expert?
A. Yes. And I have testified -- I have testified on behalf of clients in a variety of bankruptcy hearings and confirmation hearings and I -- to be honest with you, I don't really know if that's expert or fact or some sort of mix of the two. All right? I -- very few times in my career have I been hired exclusively as an expert. I've generally been the financial advisor, the chief restructuring officer or had some other role before I got to the witness stand.
Q. And it does create some complexity because sometimes an FA will be a witness to facts that happen in the bankruptcy.
A. Yes.
Q. And then they will also have the expertise to render opinions, as we lawyers think of them, in connection with their testimony. So I under -- understand what I think you're alluding

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to, which is it can sometimes be hard to distinguish. Is that what you're saying?
A. It is. And -- and I've -- like I said, I've testified on projections and reasonableness and solvency and ordinary course and -- all that.
Q. Have you ever worked in connection with a Chapter 9 bankruptcy other than this one?
A. No.
Q. Just to tie it up, have you testified as an expert in a deposition or at trial in the last four years?
A. Live testimony?
Q. Yup.
A. Yup, the answer to that --
Q. I don't want to dead ones.
A. -- the answer is no. Okay? There are --
Q. Well, I guess you could do depositions on written questions I guess, if that's what you meant.
MR. KANE: Are you done answering?
THE WITNESS: I am done answering.
BY MR. HACKNEY:

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Q. So you've not testified, to the best of your recollection, as an expert in a deposition or at trial in the last four years, correct?
A. That's correct -- I -- that's correct. I'm thinking hard.
Q. Okay. Maybe I'll just ask to confirm that the report doesn't identify any and so I assumed that there weren't any, but maybe just to confirm to be safe.
MR. KANE: I've got the application that's of record in the -- the court case already that includes expert testimony experience, so I can get that at a break either now or later. But it was already of record.
MR. HACKNEY: It's not urgent. If -- I don't know if you remembered whether there was one in the last four, but it --
MR. KANE: To be honest, I don't remember.
MR. HACKNEY: -- you're saying it would be there. Yeah.
MR. KANE: It would be there.
MR. HACKNEY: That's fine.

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THE WITNESS: Yes.
BY MR. HACKNEY:
Q. So, Ms. Kopacz, you have an impressive record in the restructuring industry. I've spent a lot time on the Internet reading it.
I won't go into all of your different experiences just other than to say I was impressed by them; But I do want to sort of clarify the boundaries of your expertise so that we know where you are holding yourself out as an expert and where you're not. Okay?
You are not an actuary, correct?
A. I am not.
Q. And you don't hold yourself out as an expert in actuarial science, correct?
A. Correct.
Q. You are not offering opinions as to what the appropriate discount rate is or assets or liabilities of a pension system, correct?
A. That's correct.
Q. Now, you are not an economist, correct?
A. That is correct.
Q. And you are not holding yourself out

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as an expert in economics, correct?
A. That's correct.
Q. And you are not opining on the macroeconomic factors that are or are not likely to impact the City of Detroit in future years, correct?
A. That's correct.
Q. You are not a statistician, correct?
A. That's correct.
Q. I think when you ask someone if they're a statistician that every single person is happy to say that they're not, other than statisticians.
MR. KANE: Other than baseball.
MR. HACKNEY: Well, and we won't get started on that. Maybe now she's going to say that she is. You might be an expert on baseball statistics.
BY MR. HACKNEY:
Q. You don't hold yourself out as an expert in statistics, correct?
A. I do not.
Q. You have not conducted statistical analysis of the forecasts to determine, for

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example, whether they fall outside the standard of deviation for mean analysis, correct?
A. I have not attempted to calculate a standard deviation for the forecasts; that is correct.
Q. And you have not applied statistical science to the forecasts?
A. That's correct.
Q. Now, you are not a real property appraiser, correct?
A. That's correct.
Q. And you don't hold yourself out as an expert in property appraisal, correct?
A. That's correct.
Q. You have not conducted any studies to determine the reasonableness of the City's property tax appraisals, correct?
A. Correct.
Q. Do you agree that the assessed value of the City's property tax base is an important consideration to any analysis of property tax revenues?
A. Repeat -- say that again.
Q. You bet.

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Do you agree that the assessed value of the City's property tax base is a key consideration to any analysis of property tax revenue?
A. I -- yes, in the sense that you need to know what the assessed value is.
Q. And also, what it's likely to be in the future, right?
A. You have to make an assumption around it, yes.
Q. Yeah. Because the assessed -- do you understand the nomenclature difference between "assessed value" and "taxable value" in Michigan?
A. A little bit.
Q. Okay. There are differences between the two terms.
A. Yes.
Q. I'd like to find a way to not get caught up in them, so maybe I'll --
A. Why don't we just say property values?
Q. Yeah. Yeah. At a general level, the property value's actually itself is a different term from assessed value.

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A. It is.
Q. So it's just a horrible thing all around. But the -- the assessed value is important to forecast of property tax revenue because it represents the base against which the millage rate is applied against which the collection rate is applied from which you get an understanding of what property tax revenues may be.
A. That is correct. I agree with that.
Q. Okay. Now, you interviewed Mr. Evanko the City's assessor; isn't that right?
A. I did not. One of the members of my team did.
Q. So you have not had a chance to speak with him?
A. I did not.
Q. Who did?
A. We'd have to go back on the contact log.
Q. Okay.
A. To know who all was present in that meeting.
Q. And by "speak with," I meant even on

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the phone.
A. I have not spoken with him, no.
Q. Did you e-mail with him?
A. I did not.
Q. What did your team tell you about what Mr. Evanko thought?
MR. KANE: About what?
THE WITNESS: About what?
BY MR. HACKNEY:
Q. Anything. I will make a loose prediction that it related to property tax assessments, but I don't mean to limit my question. I'm looking for my team -- my guys talked to Evanko and they came back and told me X.
A. They thought he was very capable.
Q. Yeah. Okay. Did they tell you what he thought about future property tax valuation -- property -- future assessed property values in the City?
A. I'm not real -- I'm not recalling a conversation that I had with my team on that specifically.
Q. Do you understand that property tax assessed values are equalized within a

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jurisdiction?
A. Yes.
Q. And then do you understand that that jurisdiction's property tax values are then equalized with other jurisdictions?
A. When you mean "other jurisdictions"?
Q. Meaning other jurisdictions outside that city -- that municipality. Do you understand that there are multiple levels of equalization as you go up towards the state level?
A. I'm not sure I'm aware of that process outside of Detroit.
Q. Okay.
A. Okay?
Q. Are you aware of that process to the extent it relates to Detroit? Meaning -- let me ask it another way.
Do you know that the tax roll in the City ultimately goes through an entity at Wayne County that then looks at the City's tax roll and looks at other municipalities and then determines an equalization factor to determine whether the City of Detroit is over or under-assessed compared to other municipalities?

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A. Generally, yes. Specifically, no.
Q. Okay. Meaning you have a general sense that that happens, but you don't have a specific understanding?
A. I don't know how it does it.
MR. KANE: Wait for him -- wait for him to stop asking a question before you start answering.
MR. HACKNEY: That's okay. It's mainly for her benefit, so that she can go one and one.
MR. KANE: And your benefit to make sure you know what the question fully is.
BY MR. HACKNEY:
Q. And do you know what an equalization factor of 1.0 means?
A. I do not.
Q. Do you know what Detroit's equalization factor was over the prior 15 years?
A. I do not.
Q. Okay. You are also not trained in the social science of urban planning; is that correct?
A. That's correct.

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Q. And you're not holding yourself out as an urban planning expert, correct?
A. That's correct.
Q. You're not opining on whether or not the restructuring and reinvestment initiatives involve the an application of urban planning disciplines to the City of Detroit, correct?
A. Correct.
Q. What are the key variables when it comes to assessing future income tax revenue for the City of Detroit?
A. For the City of Detroit? It occur -- it occurs at three levels. There's a rate for residents, a rate for nonresidents and a rate for businesses.
Q. And so within those levels, what are the key variables that you have to study?
A. We have to look at for -- for the people, for the residents and the nonresidents, we have to look at the number of people employed and what the wage rates are. Okay? For the corporations, it's -- it's corporate income.
Q. So you look at the number of people that are working, average wage or income levels?

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A. Correct.
Q. And then the tax rate, correct?
A. Correct.
Q. And then you also have to assess the rate of collection, correct?
A. Yes.
Q. Any other variables that you can think of that go into forecasting future income tax revenues other than those?
A. No. That just they're slightly different for the corporations.
Q. Understood. Understood.
Now, let's take something like average income data, which I think is -- is presented as a -- as a different concept from wage data in the forecasts, correct?
A. We're going to need to --
Q. Take a look?
A. Yeah.
Q. Okay. Let me -- let's take a step back and look -- think of the concept of income in a broad way that includes salaries or wages. Okay? I might be mistaken.
You haven't independently assessed

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the average income data for the City of Detroit, correct?
A. That's correct.
Q. Okay. You relied on data that was given to you by Ernst & Young?
A. That's correct.
Q. Okay. And you haven't taken steps to assess the accuracy of that data, correct?
A. That's correct.
Q. And with respect to the level of unemployment in the City, you also relied on data that was given to you by Ernst & Young, correct?
A. Yes.
Q. But you did not attempt to independently verify that data --
A. I'm not --
Q. -- correct?
A. -- sure. I'm not sure what independent information we had on employment -- on unemployment.
Q. Okay. You may have. You may not have. You just don't know?
A. Yes.
Q. Is it true that unemployment in the

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City of Detroit bottomed out in 2010?
A. I don't know that.
Q. Isn't it true that year over year since 2010 unemployment has decreased?
A. I don't know that.
Q. Do you know how the City's current unemployment rates compare to last year's unemployment rates?
A. I don't.
Q. Let me ask you some questions about the wagering revenues.
What is the tax rate that's applied to the wagering revenues?
A. It's in my report. It's 10.95? We can look it up.
Q. Did you conduct any independent analysis of the gaming market in the City of Detroit?
A. I did not.
Q. Okay. So you didn't do an independent study to understand, for example, the impact that the Toledo casinos will have on the casinos in the City of Detroit; is that correct?
MR. KANE: He'll direct you to this

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if he wants you to look for the specific page.
MR. HACKNEY: Yeah, that's okay.
THE WITNESS: Yeah. No.
BY MR. HACKNEY:
Q. I am correct when I say that, right?
A. Correct.
Q. And you also did not conduct any sensitivity analysis around casino gaming revenue, correct?
A. Whatever's in here is what we did.
Q. Okay. So if you did sensitivity analysis, it's in your report, correct?
A. That's correct.
Q. If it's not in your report, it's because you didn't do it?
A. That's correct.
Q. What is the utility user's tax?
A. It is a tax that the City of Detroit assesses on telephone, cable, utility charges to residents in Detroit.
Q. Now, when it came to historical data about utility user tax revenues, you relied on what was given to you by Ernst & Young; is that

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correct?
A. That's correct.
Q. You did not attempt to independently assess that data, correct?
A. Correct.
Q. And to the extent you conducted sensitivity analysis around the utility user's tax, it will be in your report?
A. We did not.
Q. You did not? I --
A. Did not.
Q. It's not a memory test, but it's fine.
Let's talk a little bit about your experience -- your personal experience forecasting municipal revenues -- or I'm sorry, doing municipal forecasts of both revenues and expenses. Okay?
A. Okay.
Q. So tell me about the times that you've had the opportunity to do it personally.
A. I have not directly worked for a municipality in projecting revenues or expenses.
Q. Okay. What do you mean by

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"directly"?

A. Well, I've -- I worked extensively for the Nassau County Interim Finance Authority, which is the state control board that oversees the finances in Nassau County here in New York. So, the -- that -- that is -- again, it's not the county itself. It's the control board that oversees the county.

Q. Understood. Okay.

A. Right.

Q. Now -- so let's try and -- let's try and break it down a bit.

You personally have never done a municipal forecast, correct?

A. That's correct.

Q. You have worked with municipal forecasts in connection with your work for Nassau County, correct?

A. Correct, and other entities in municipalities.

Q. Okay. That was my next question, which is other than Nassau County, what engagements have you had where you worked with a municipal forecast understanding that you're not

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the one who created it?

A. In -- I had an engagement where I've been retained by seven transit authorities.

Q. One engage meant?

A. Yes, it was interesting. New York, Chicago, Boston, San Francisco, Minneapolis. I'm trying to think. Oh, Dallas was part of that group, right. So I worked with their forecasts and their budgeting and planning system.

Q. Oh, I see.

A. Right.

Q. And that was limited to just their enterprise funds?

A. I -- I -- to be honest with you, I don't know if they were just enterprise funds or general funds, but it would have been departmental level budgeting and projecting.

Q. Can I describe your work for those -- those transit authorities as looking at their operations and at the forecasts that related to them and trying to understand how they could improve operations in order to improve the forecast? Is that a generally accurate description?

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A. It could be -- you could generally say that, but yes.

Q. Okay. Is it fair to say that in -- in that retention you weren't studying the accuracy of the forecasts. You were trying to help the transit authorities improve?

A. No. In that situation we were dealing explicitly with the revenue side of transit businesses and advertising income and, you know, pricing that.

Q. Okay. So you were trying to understand the accuracy of the forecasts of the transit revenue?

A. And the -- and the potential to transit revenue.

Q. I see. Okay. So it was kind of a mixture of trying to understand, first, whether you agreed with forecast and then, second, trying to understand whether doing things like advertising might improve --

A. No. It had to do with long-term contracts for advertising revenue to those transit authorities relative to the person who -- the entities that had contracted with them for the

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advertising revenue.

Q. Okay. So, we have NIFA, right, which is the Nassau County --

A. Yes.

Q. I learned all about NIFA. And then we've got transit authority retention?

A. We've got the transit authority.

Q. Any other municipal retentions where you've worked with a municipal forecast?

A. In the -- in the Legal Aid Society case, because the vast majority of the Society's revenue comes from New York City or New York state, okay, in terms of we worked with those municipal entities relative to our own budgets.

Q. I see. So because they get money from the state --

A. Right.

Q. -- you worked with --

A. And the City and has to be appropriate and legislated, yes.

Q. And does that mean that you worked with the state and city forecasts because had you to understand them in order to prepare a forecast for the Legal Aid Society?

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A. We had to understand what the possibility of funding was from state and the City, okay, and how the City's budget process worked and how we got appropriated our monies.

Q. But in that context, you were not assessing the accuracy of either the state or city forecasts?

A. That's correct.

Q. Okay. And in the Nassau County retention, were you assessing the accuracy of the Nassau County forecast?

A. Yes.

Q. Okay. So you were -- part of your job was to evaluate the Nassau County forecast to determine whether you agreed with it?

A. Yes.

Q. Okay. That's helpful.

What is the methodology that a municipality typically employs when preparing a forecast for its general fund?

A. I'm not sure there's a typical.

Q. Okay. So, I noticed in your CV that you said one aspect of municipal -- I think you said, we can get it out, but it was something like

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municipal accounting and budgeting is that there is no standard.

A. Correct.

Q. Do you remember saying that in your CV?

A. Yes.

Q. What did you mean by that?

A. Well, there's no -- government accounting -- there's something called the Government Accounting Standards Board, okay, that would like to believe that it creates standards analogous to generally accepted accounting principles. But there is a great deal of variability in what the GASB prescribes in terms of municipal accounting procedures, right? And there is no standard for budgets. Okay? There is no accounting standard that covers budgets. Accounting covers historical recording of revenues and expenses.

Q. So, you're not aware, as you sit here today, of any either government agencies or -- or associations that have promulgated methodologies for forecasting municipal revenues?

A. There are. Okay? Either it's things

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like the Government Finance Officers Association. There are trade associations. There are quasi-oversight committees that -- panels and groups that are trying to promulgate a set of standards for municipalities in these areas, but there's nothing that is as uniform and acknowledged as we have with generally accepted accounting principles and the way that the SEC oversees that.

Q. Okay. So have you reviewed the publications of the Government Finance Officers Association?

A. I saw them.

Q. Okay. It's fair to say that you didn't review them in connection with this case, correct?

A. No, that's correct.

Q. Okay. So, have you ever reviewed An Elected Officials Guide to Revenue Forecasting, which is a publication by the GFOA?

A. I may have.

Q. I'll show you what it looks like. It looks like this.

A. I would probably have looked at it

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online. I would probably not have looked at it in a hard copy like that.

Q. It's fair to say you didn't rely on it though, correct?

A. I did not.

Q. Have you ever seen this book? Revenue Analysis and Forecasting. It's by Barry Blom and Salomon -- Barry Blom and Salomon Guajardo?

A. No. That I know I have not seen.

Q. Okay. Do you know what the different types of qualitative forecasting methods are that are specified by the GFOA?

A. Not off the top of my head, no.

Q. And do you know what the quantitative methodologies are that the GFOA specifies?

A. Not off the top of my head, no.

Q. So, for example, do you know what naive forecasting is? I didn't make that up?

A. You didn't make that up?

Q. No.

A. No.

Q. Okay. Do you know what Delphi forecasting is?

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A. No.
Q. What about judgmental forecasting?
A. No.
Q. Consensus forecasting, do you know what that is?
A. Consensus generally means that everybody agrees on It. It's -- it's the way that Michigan does its revenue forecasting and Detroit does it.
Q. That's using multiple people to check one another, correct?
A. Yes.
Q. And then do you know what expert forecasting is in the qualitative context?
A. No.
Q. Fair to say that you have never consciously applied these methodologies in your own forecasting work?
A. That's correct.
Q. And you did not in connection with the City's forecasting?
A. That's correct.
Q. Now, let me ask you some questions about the -- the quantitative types.

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Have you ever heard of econometric forecasting?
A. Yes.
Q. Okay. You did not perform any econometric forecasting, correct?
A. That's right.
Q. Neither did the City, right?
A. I'm not going to answer for the City.
Q. Oh, you don't know whether they did or they didn't?
A. I'm not -- again, I didn't do any, but I didn't -- I haven't seen any, so...
Q. Sorry. Maybe I'm not asking my question the right way.
In connection with the City's forecasts, you're unaware of anyone associated with the City performing an econometric forecast?
A. Like I said, I'm not aware of it, but I don't know.
Q. Okay. So I'm not trying to -- I'm not trying to sharp shoot you, but one of your jobs here was to understand everything about the forecasts, so --
A. Yes.

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Q. To -- when you say I'm not aware of someone doing it, your expectation is that it wasn't done?
A. That's correct.
Q. Okay. And similarly, have you ever heard of regression analysis?
A. Yes.
Q. You didn't perform any regression analysis with respect to the City forecasts?
A. That's correct.
Q. And to the best of your knowledge, neither did the City, correct?
A. Not that I'm aware of.
Q. Okay. Are you aware of -- of what's called a time series forecast?
A. Yes.
Q. You didn't perform any time series analysis of the City's forecast, correct?
A. That's correct.
Q. And to the best of your knowledge, neither did the City?
A. Not that I'm aware of.
Q. Okay. And then you're aware of a concept of trend analysis, correct?

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A. Yes.
Q. You didn't perform trend analysis with respect to the City's forecasts?
A. That I would say we did.
Q. Okay. That is something you would say that you did do?
A. Yes.
Q. And did the City do that?
A. I believe the City did that.
Q. Okay. Now, have you reviewed the National Advisory Council on State and Local Budgeting and their publications?
A. I have not.
Q. Do you agree that forecasting is a highly subjective area?
A. Yes.
Q. And, as such, it's subject to the biases of the person doing the forecast, correct?
A. Yes. And -- and -- but I would qualify biases as neither good nor bad.
Q. Understood. It's not a -- it's not meant to be a negative word like -- like racial bias.
A. Right.

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Q. It's meant to be a word that says your own personal viewpoint can have an impact on your forecast?
A. That's correct. I agree with that.
Q. And do you -- as a restructuring professional, do you understand the idea that the City here has an incentive to have a very conservative forecast?
MR. KANE: Objection. You can answer.
THE WITNESS: I --
BY MR. HACKNEY:
Q. Thinking about it from the stand -- just as a restructuring professional and drawing on your experience, do you understand the general concept that the City has an incentive to have a conservative forecast because then it can say to creditors, I have nothing more to give you, but if it does better than the forecast, it will have more cushion later.
MR. STEWART: Objection.
THE WITNESS: I'm struggling --
MR. STEWART: Did you get my objection to the question?

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THE WITNESS: I'm not under -- I'm -- I'm struggling with incentive.
BY MR. HACKNEY:
Q. Okay. Let's turn it around then.
You didn't consider or analyze what the biases of the City forecasters were, correct?
A. Correct.
Q. Okay.
MR. HACKNEY: Ma'am, there is just five minutes left on tape, and one of the things I like to tell people is that a deposition is not akin to being stretched out on the rack. So, if you would like to take a lunch break, this could be a good time.
THE WITNESS: I would like to take a break.
MR. HACKNEY: Okay. Absolutely.
THE VIDEOGRAPHER: Thank you. The time is now 12:17 p.m. We're off the record. This is the end of Disk Number 2.
(Whereupon, a lunch break was taken from 12:17 p.m. to 1:20 p.m.)
THE VIDEOGRAPHER: The time now is approximately 1:20 p.m. We're back on the

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record. This is the beginning of Disk Number 3.
BY MR. HACKNEY:
Q. Ms. Kopacz, welcome back.
A. Thank you.
THE VIDEOGRAPHER: Do you have your microphone on?
MR. HACKNEY: I don't. Neither of us do.
MR. KANE: Let the record reflect I have mine on.
MR. HACKNEY: Teacher's pet.
(Whereupon, a brief discussion was held off record.)
BY MR. HACKNEY:
Q. Okay. Ms. Kopacz, so do you agree that in order to minimize the impacts of subjectivity, it is important for a forecaster to utilize a reliable methodology?
A. Never thought about it.
Q. Okay. Having thought about it for the first time, do you agree?
A. I don't know. I don't know.
Q. How about put it this way: Do you

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agree that it's important for a forecaster to use a reliable methodology?
A. Yes.
Q. What methodology did the City use?
A. I'm not understanding the question.
Q. Okay. Methodology is one of those words that's kind of hard. It -- the more you try define it, the more you can roll around in it.
Do you have a general understanding of the concept of a methodology?
Let's try and get on common ground in terms of what the word means and then we can try and ask the questions.
A. Okay.
Q. So, when I talk about forecasting methodology, what does that mean to you?
A. Approach.
Q. Okay. Okay. And so what approach did the City utilize in compiling its forecasts?
A. There's not -- I'm struggling because I think the way you're using it is as if there's a professional standard for methodology. There are like -- like we were talking about generally accepted accounting principles. There aren't --

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there's no -- there are no standards like that for forecasting. There are approaches that people use, but I don't think there's any -- there's no check-the-box sort of standard for forecasting.

Q. Okay. So you're not able to point to a forecasting methodology that exists and say whether the City employed that forecasting methodology or not, correct?

A. That's correct.

Q. And that's because to the best of your knowledge, you're not aware of a standard forecasting methodology for municipal forecasts like these, correct?

A. Or -- yes, that's correct.

Q. And you took a lot of time to learn what the City did, right?

A. Yes.

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

A. Yes.

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

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

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

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

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

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

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

A. In -- "industry standards" being?

Q. Municipal forecasting industry.

A. Promulgated by whom?

Q. Anyone.

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

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

A. That's correct.

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

A. Yes. Yes.

Q. Did you attempt to compare the City's approach to literature on the subject of municipal

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forecasts?

A. No.

Q. Could you have done that?

A. I think we've got to go back and decide -- define again what we're talking about.

I'm talking about the projections in the plan of adjustment. Okay? There are no standards that govern projections in a plan. Whether that's a plan of adjustment, a plan of reorganization or anything like that. Okay?

The -- the quote, standards, and I -- and I put that in the finger quotes because I think what you're trying to talk about is the City budget or something -- again, like I said, I don't -- there aren't standards that you would go to to say how do you prepare these projections for the plan of adjustment.

Q. Okay. And there's not literature either?

A. In the sense of?

Q. Scholarly literature on the subject of municipal forecasts of revenues and costs?

A. I believe that there are -- there are people that write on what would be good municipal

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finance practices; what would be good pension forecasting practices; what would be good actuarial -- I mean, there's lots of professional literature on any topic that you want to find, but that's not what we're talking about here.

Q. Let's give an example. There's literature from the GF0A of which you are aware, correct?

A. And with all due respect none of it covers a situation like a Chapter 9.

Q. No, it covers municipalities, right?

A. It covers municipality.

Q. And for example, you didn't attempt to take the City's forecasts and compare them to the methodologies identified by the GFOA?

A. No, no.

Q. I'm correct when I say that?

A. You are correct.

THE VIDEOGRAPHER: Counsel, excuse me. You're rubbing against your mike. I'm sorry for the interruption.

BY MR. HACKNEY:

Q. Are the City's forecasts amenable to statistical testing?

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A. I don't know.
Q. Okay. Now, I think we talked about earlier the fact that you haven't done any?
A. That's correct.
Q. Any statistical testing, correct?
A. Correct.
Q. Is it fair to say that the City's forecasts are -- and I'm talking about the ones in the plan of adjustment, you understand that, right?
A. Okay.
Q. The City's forecasts are principally the product of the judgment of the City forecasters?
A. I don't know who that is.
Q. You don't know --
A. What are -- tell me who those people are.
Q. Well, I was talking about the forecasters that are the subject of your expert opinion.
A. Right.
Q. So those forecasts are principally the product of the judgments of the forecasters.

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Do you agree with that?
A. I think so. Yes. The people who prepare the forecast, it seems circular. They prepare the forecast, they make the assumptions and the calculations, yes.
Q. But the assumptions are ones that they use their judgment to determine, correct?
A. I believe that's correct, yes.
Q. Who are the forecasters on the revenue side for the City?
A. Ernst & Young.
Q. Yeah, I meant the people.
A. Bob Kline and his team.
Q. Who else?
A. I -- I would -- I would have to -- we could look and see who we talked about, but I remember Bob.
Q. Okay.
A. And there are a couple of women who worked with him.
Q. Do you remember Caroline Sally?
A. That's sounds familiar.
Q. Okay.
A. But, yes.

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Q. And then Gaurav Malhotra?
A. No.
THE REPORTER: I'm sorry.
MR. HACKNEY: Gaurav Malhotra.
And general spellings I can definitely give them you at a break.
Q. You remember Gaurav?
A. Absolutely I remember Gaurav.
Q. I didn't hear your answer, I'm sorry.
A. I said Bob Kline and his team, okay --
(Cell phone interruption.)
THE VIDEOGRAPHER: I'm sorry that shouldn't happen.
MR. HACKNEY: That's okay. That's a good ringer.
A. Bob Kline and his team, who are a division of Ernst & Young in some way, shape or form, were the professionals that worked on the revenue projections.
Q. On the revenue projections?
A. Correct.
Q. I see what you're saying.
Okay. So, are you distinguishing

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Gaurav from Bob Kline's team --
A. Bob --
Q. Is it Bob Kline or Ron Kline?
A. Bob. Bob. I think so.
Q. Mr. Kline.
A. Mr. Kline.
Q. Let's get a sense of who's on Mr. Kline's team and whether Gaurav is on that team.
A. Gaurav is the Ernst & Young partner responsible for the Detroit engagement.
Q. Got it.
A. Okay? Gaurav has work groups, right, from various parts of Ernst & Young working for him on this.
Bob Kline is the Ph.D. economist that has a group of people also working for him that worked on the revenue projections.
Q. And the cost projections principally came from Conway MacKenzie; is that right?
A. No. No. It depends on which --
Q. I see?
A. The RRIs came from the Conway MacKenzie.

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Q. The historical call cost expense came from whom?

A. The historical costs came from the City. The cost projections came primarily from Ernst & Young, a group of people that worked for Gaurav.

Q. I see. Okay.

So if I was thinking broadly about the forecasts in the go-forward years, if I was thinking about revenue forecasts, I'm thinking about Mr. Kline's team?

A. That's how I think of it, yes.

Q. If I'm thinking about cost projections that don't entail RRIs, I'm thinking about Mr. Malhotra's team?

A. Right. And he has specific people that are responsible for specific parts of the cost projections that work for him.

Q. Understood.

Then if I'm thinking about RRIs and their impacts on either costs or revenues, I'm thinking about the Conway MacKenzie team?

A. Generally that's correct.

Q. And is this, by the way, part of the

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reason that you found the forecasts confusing is because they were the product of actually three different groups of forecasters?

A. It's not that there are different people involved. It is that they were never harmonized and concatenated in a way that they're all in one kind of place.

Q. What is the experience of Mr. Kline and his team when it comes to forecasting municipal revenues?

A. I don't know.

Q. Okay. Did you make any effort to assess that?

A. I did not.

Q. Was that important to you?

A. I looked at -- I used all the information that was available to me and all the people that were available to me and -- got satisfied with the projections in the plan as being reasonable revenue projections.

Q. Were you working under the assumption that Mr. Kline and his team had substantial experience forecasting municipal revenues?

A. I did not make that assumption, no.

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Q. You hadn't thought about it one way or the other?

A. No, I did not make a determination one way or the other.

Q. Okay. Did you ever meet them in person?

A. I did not.

Q. You spoke to them on the phone?

A. I did.

Q. And what was the experience of Mr. Malhotra's team when it came to forecasting municipal expenses?

A. I don't know.

Q. And what was the experience of the Conway MacKenzie team when it came to projecting the costs or revenues associated with a municipal restructuring?

A. I don't know.

Q. Now, when you were assessing the reliability of the assumptions that are in the forecasts, did you independently seek to develop your own assumptions first and then compare so that you could then compare them to the City's assumption and see how they compared?

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A. No.

Q. Okay.

A. Generally not.

Q. So what you did, instead, was you first understood what the City's assumption was and then you tested the reasonableness of that assumption, correct?

A. Generally that's correct, yes.

Q. Okay. Why didn't you, for example, kind of in order to avoid just, you know, the impact that even seeing their assumption can have on you, why didn't you say, What do I think wages will be year over year for the next ten years, and do the work independently and then see how it mapped?

A. Generally two reasons, time. When I was appointed I had, I think, 62 days originally between when I was appointed and when my report was due.

Q. Yeah.

A. Okay. Secondly, I learned very quickly the condition of the historical records of the City, and realized that in order to get done with my assignment, I was going to have to rely on

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the assimilation of data that the other professionals had acquired. And that included the creditors' professionals, as well.

Being the last person at the dance, so to speak, I needed to rely on not only on Ernst & Young and Conway, but Alvarez and FDI --

Q. Yeah.

A. -- and Houlihan, to help get us to the best data that was out there.

Q. So let me see if I can summarize, the time that you were allotted which we discussed and which I've told you I'm of the view wasn't very much, but it was what it was, but the time that you were allotted did not allow you to either independently verify the data or independently generate your own assumptions?

A. I -- I wouldn't go so far as to say we didn't independently verify because we did, specifically on the revenue projections and things surrounding those, we did seek other third-party sources of data. So --

Q. There were instances where you sought some form of corroboration?

A. Separate and apart from the City.

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

MR. KANE: Objection. Go ahead and answer.

A. Yes.

Q. You agree with me?

A. Yes.

Q. Your reliance materials only list the City's CAFR for 2012 specifically by name?

A. Uh-huh.

Q. Is that the only CAFR that you reviewed?

A. We did not get the CAFR, the '13 CAFR until after my report was filed.

Q. Understood.

So we've had a conversation about the '13 CAFR and how some of the information in it may have been known to you --

A. Right.

Q. -- and other parts of the information may not have been?

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A. Right.

Q. Let's put that to one side, now let's go backwards in time.

Did you review any CAFRs other than the 2012 CAFR?

A. I did not.

Q. And whether your team did or not, you don't know?

A. I don't know.

Q. Do you -- is it your opinion that none of the prior year CAFRs prior to 2012 have any relevance to the City's financial projections?

A. Like I said, I didn't look at it. Don't know if my team did or not.

Q. So, do you think they are relevant or not?

A. I don't know.

Q. You don't know. They might be, they may not be?

A. They weren't part -- they weren't part of the basis for my opinion.

Q. Okay. But I'm asking about the relevance of them?

A. I don't know.

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Q. You don't know what the relevance is?

A. Yes.

Q. Would you agree -- let's go back to our word methodology which you've used to describe as approach.

Methodologies is an important word in the legal setting, that's why lawyers are always asking about methodology.

But would you agree that the City did not employ a uniform approach in constructing the forecasts?

A. Yes.

Q. Would you also agree that the City didn't apply a uniform methodology in constructing the forecasts?

A. I don't like the word methodology.

Q. Okay. You're more comfortable with approach?

A. I'm more comfortable with approach.

Q. But can you describe what the approach was?

A. It depends on -- it depends on which model we're talking about. The original baseline E & Y model, the Conway models, or the E & Y

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10-year, 40-year model. It depends on what the line item that is being projected is, okay?

And there are different approaches used for estimating both revenues and expenses depending on which one you're talking about and who did it.

Q. And then are there different approaches even within categories like did they employ a different approach to estimating different types of revenue?

A. Yes. Well, revenue -- revenue in terms of the E & Y models, no. Okay. There are differences in approaches, for example, to salaries and wages, depending on whether it's a Conway model or whether it's an E & Y model.

Q. Did you say in your expert report that you found the City's model to be convoluted?

A. And confusing.

Q. Yeah. Did you also say convoluted?

A. Yes.

Q. Okay. I will put my hand up and agree with you on that.

MR. KANE: Objection.

MR. HACKNEY: For now?

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MR. KANE: What?

BY MR. HACKNEY:

Q. So we've talked a lot about -- we've talked about industry standards and -- but have you ever seen another city employ the approach for its forecasts that was employed here?

A. No, because as we've established, I've never seen another city like this doing forecasts for a plan of adjustment.

Q. True, but you have seen other cities doing forecasts, right?

A. Budgetary forecasts, yes.

Q. Yeah. Have you ever seen any of those cities employ a methodology or an approach, sorry, like this one?

A. No.

Q. When it comes to forecasting revenue, do you believe that the forecasting technique that you employed depends on the nature of the revenue source that's being forecasted?

A. Can you explain that?

Q. Sure. So do you understand that there are -- certainly understand that there are different types of revenue, right? You understand

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that?

A. Yes.

Q. Income tax revenue is a different type of revenue from wagering revenue, right?

A. Yes.

Q. Do you understand the idea that there are -- there are -- that revenue is often divided into two board categories of whether it's deterministic on the one hand or volatile on the other?

A. I would agree there are different types of revenue that have the different bases for -- around which you would estimate. But I would want you to define those words before I would agree or disagree with them.

Q. Deterministic I use in the sense that it means predictable and volatile means unpredictable.

A. Yes.

Q. Have you ever -- do you understand the idea that you can classify revenue streams as being either predictable or unpredictable?

A. I would think that is the analyst's choice of how they want to describe them,

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generally.

Q. Yes. Right. And did you undertake a revenue portfolio analysis in this case?

A. A revenue portfolio analysis? Don't know what a revenue portfolio analysis is.

We looked at all the revenues that were presented in the plan of adjustment projections.

Q. So I guess can I say that to the extent you undertook a revenue portfolio analysis, you didn't do so consciously?

A. I wouldn't -- I don't think -- that sounds like a term of art, it doesn't sound like something that you would think about.

Q. That's -- that sounds like a term of art from the world of revenue forecasting?

A. It's somebody's -- it's somebody's term of art, but it's not my term of art.

Q. Okay. Did you make an independent assessment for yourself as to whether or not the City's revenue streams could be classified as either predictable or unpredictable?

A. I looked at each revenue stream and assessed whether I thought the City's forecast or

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projection of that revenue was reasonable.

Q. You did not otherwise attempt to classify a revenue stream, correct?

A. No. It wouldn't serve my purpose.

Q. Okay. Do you agree as a general matter that qualitative methods are useful for forecasting new or volatile revenues sources?

A. What qualitative method?

Q. Qualitative methods like the naive method, expert, judgmental, trend. Any of those.

A. Again, that's not the way that I think about the analysis that we did of the City's projections.

Q. Okay. Is it fair to say you never took a step back from the City's approach and tried to determine whether the approach should be different for different revenue streams?

A. No, that's not fair to say.

Q. That's not fair?

A. No.

Q. Did the City employ different approaches for different revenue streams or did it employ the same approach?

A. When you say "approach," right, we're

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talking about, they -- each revenue stream is forecasted on its own set of assumptions and then they're aggregated to come up with a total revenue projection. So income tax and the various types of income tax are estimated differently than wagering tax.

Q. How are they estimated differently?

A. Well, income tax looks at the change in wages, it looks at the change in employment. Whereas, wagering taxes looks at the change in casino revenue.

Q. From my standpoint, I think of those as being different data inputs but not necessarily different approaches. But in your analysis, is it a different approach?

A. They're -- they are definitely different inputs and a different type of assumption. I don't know whether that's a different approach or different methodology, whatever -- right -- whatever you say is they have different inputs.

Q. I guess, you are an educated woman and very experienced, I mean -- let me -- let me quibble with you a little bit and say you have

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heard the term methodology before, right?

A. Uh-huh. Yes.

Q. And you understand that that different methodologies can all employ assumptions, right?

A. I would agree, yes.

Q. And so do you understand the difference between testing the assumptions that go into a methodology from the idea of testing the propriety of the methodology itself?

Do you understand that distinction, right?

A. I understand the distinction you're making right now, yes.

Q. You did not attempt to determine or critique the methodology the City employed, instead, you focused on the assumptions that the City adopted, correct?

A. Yes and no.

Q. Okay.

A. Okay. Methodology in terms of what we evaluated was the approach used by E & Y and Conway. Okay? Methodology is a term, to me, that is lower case, there's not a capital methodology,

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it's not a proper noun. Okay? It is a word that describes how something is done. Okay? Depending on what -- particularly on the cost side, what costs were being estimated for the projections, there were multiple methodologies used. Okay?

What was important to me was to assess the outcome of that estimate and whether or not that was reasonable. So, looking at the assumptions, looking at the input, looking at how those were mathematically manipulated and what the output was and assessing whether or not that was reasonable, is the approach that I used to fulfill my responsibilities as part of this -- this appointment.

Q. So let me give you an example, see if we can kind of refine our conversation a little bit. Take a single revenue stream like property tax revenue.

A. Okay.

Q. Okay. Do you understand that you can look at historical evidence of property tax revenue collections and then apply just individual judgment to the different components of it in order to forecast property revenue into the

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future?
A. I agree with that, yes.
Q. That's a possible approach?
A. Yes.
Q. Correct?
A. Uh-huh.
Q. But separately, you can use a statistical method like a time series forecast in order to forecast future property revenues, correct?
A. You could, yes.
Q. Let's describe those for purposes of my question as two different methodologies, okay?
A. Okay.
Q. You never attempted to look at the City's approach to any of the revenue streams and say, they are using the wrong methodology, correct?
A. That's correct.
Q. Now, within their methodology, what you did do is you looked at the assumptions that went into the methodology the City adopted and determined the reasonableness of those assumptions, correct?

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A. That's correct.
Q. Okay. And I take it as a corollary of that, you don't have an opinion as to whether the City utilized the correct methodology, not assumptions, in forecasting the revenue that it forecasted, correct?
A. I accepted the methodology, whatever that may be, that the City used and evaluated the result of that methodology, plus the inputs and the assumptions.
Q. Okay. You did not attempt to critique whether they employed the correct methodology, correct?
A. I don't know that there is a correct methodology, so --
Q. Okay.
A. -- the answer is I don't know.
Q. So, you don't know if there is one so you couldn't have critiqued it, right?
A. I think that's correct.
Q. Okay. Now, have you -- you know that the City's forecasts in one form or another, they go back to the prefiling period 2013, correct?
A. In terms of their preparation?

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Q. Well, so let me -- I didn't ask that very well.
So, do you understand that there was a -- that there was a ten-year forecast in the June 2013 proposal to creditors?
A. Yes.
Q. And do you understand that that proposal to creditors included a forecast both with and without the RRIs?
A. I don't recall.
Q. Okay. Let me put it more generally.
Do you remember that there was a forecast for what happens if there's no bankruptcy and then there was a forecast for what happens if there is a bankruptcy, or if there are restructuring initiatives?
A. My recollection of the June '13 projections that were provided to creditors was -- was this is the projection of what will happen. Okay? What is going to happen to this city in terms of its obligations in the future.
So this was -- right -- and again, I don't know about --
Q. You don't remember --

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A. -- multiple -- I don't remember multiple versions.
Q. Okay. So, I'll tell you my recollection of it was there was a so-called steady state five-year forecast, but there was also a ten-year forecast where they also presented in an aggregate level the RRIs and then the delta was amounts available for distribution of creditors.
But if that doesn't ring a bell --
A. My recollection of that projection was that this is what's going to happen to this city if nothing else changes.
Q. Let's go up a level and I'll try to not get bogged down in some of the specifics, but let's do it this way:
You -- you agree that when the forecasts -- that the forecasting process had already begun prior to the bankruptcy, correct?
A. Yes.
Q. And the forecasting process that has resulted in the forecasts that are in the plan has continued throughout the bankruptcy, correct?
A. Yes.

Q. And so as a result of the passage of time, as we sit here today, there are now actually historical results that we have that are historical as of today, that can be compared to what was once a forecast, correct?
A. That's possible, yes.
Q. I take it you have not done that?
A. I have not done that.
Q. So you haven't attempted to validate what the prior forecasts against subsequent historical information that's come in?
A. No, I have not.
Q. Okay. You have not -- I want to talk briefly about taxes, okay?
You did not include -- you did not conduct analysis of whether the City can increase taxes, correct?
A. That's correct.
Q. Both from the standpoint -- you didn't analyze whether it legally can increase taxes, correct?
A. Correct.
Q. You also didn't analyze whether economically if it did increase taxes, what would

happen to the City, correct?
A. Correct.
Q. And you're offering opinions on tax policy in this case, correct?
A. I am not.
Q. Now, is it correct -- I want to talk about property value, okay?
Is it correct that the average assessed value per parcel in the City of Detroit decreased by 37 percent between 2008 and 2013?
A. I'm not familiar with that data point.
Q. Do you know -- do you agree that there was a substantial decrease in the assessed value per parcel in the City of Detroit between 2008 and 2013?
A. I don't know what "substantial" means but I can say, yes, I am aware that property value -- assessed property values decreased.
Q. What would you define "substantial" as?
A. I don't know.
Q. I mean, you can do whatever you want.
A. Property -- assessed property value

decreased.
Q. Do you know how much it decreased?
A. I don't.
Q. I take it you don't know what the City's assessed property values are as you sit here today?
A. I do not.
Q. And you haven't engaged in an independent effort to determine what the assessed value should be, correct?
A. That's correct.
Q. Now, is it reasonable to assume that the assessed value per parcel in the City of Detroit will fall by an additional 50 percent between -- over the next seven years?
A. I am not --
MR. STEWART: Objection.
A. I have no way to know that.
Q. You have no way to test that assumption?
Let's start -- you did not test that assumption, correct?
A. That's correct.
Q. Okay. There is a way to test the

assumption, though, correct?
A. I don't know.
Q. Okay. Do you understand that the City's forecasts include assumptions about future assessed value per parcel?
A. I don't know -- I know that the City's projections include estimates for property taxes going forward, right.
Q. Yes.
A. I don't know what their per parcel estimates have been.
Q. Okay. I take it you made no effort to validate any assumptions regarding assessed value per property?
A. That's correct.
Q. Or in the aggregate, correct?
A. Or in the aggregate?
Q. Meaning to the extent the City aggregated assessed values across the City and made assumptions about that, you did not test those assumptions, correct?
A. Correct.
Q. Now, do you know what Mr. -- do you know that the City reassessed its properties in

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Decem -- December of 2013?

A. I believe it's in the process of assessing a lot of properties, right.

Q. So I want to distinguish between these two concepts, so I'm going to ask you about them separately, though, because you're right, there is a citywide appraisal, and you're right, it is ongoing. Put that here for a second, mentally, okay?

A. Okay.

Q. Now, are you aware there was a reassessment in December of 2013?

A. Vaguely, yes.

Q. So "vaguely" means?

A. I was aware of it --

Q. You are --

A. Anecdotally I am aware of it, yes.

Q. Okay. You did not -- do you know the impact of that assessment on taxable value in the City of Detroit?

A. I don't.

Q. Do you know the approximate impact of it?

A. I don't.

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Q. Do you know what impact it had on the forecasts?

A. I know that property tax forecast -- property tax revenue forecasts declined between the May 5th and the July 2nd projections.

Q. Do you know why it declined?

A. It declined as a result of -- Ernst & Young's view that the assessed value was going down.

Q. Was going to go down or had gone down?

A. I don't -- I don't have a precise time recollection on that.

Q. Do you know whether the citywide reappraisal has begun?

A. I don't know.

Q. Do you know when it will -- it is estimated to conclude?

A. I don't.

Q. Do you know anyone in the City of Detroit who is more knowledgeable about the assessed values of property in the City of Detroit than Mr. Evanko, the chief assessor?

A. I don't know.

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Q. Is it fair to assume that he is the most knowledgeable person in the City of Detroit?

A. I don't know.

Q. That's not a question you've considered?

A. It is not.

Q. Do you believe that Mr. Evanko's opinions regarding the effect of the citywide reappraisal will have on property values are relevant to determining future property values?

A. Could you repeat that question?

Q. Yeah. So do you believe Mr. Evanko, who is the City's only Level 4 assessor, right?

A. Uh-huh.

Q. Yes?

A. Yes.

Q. Sorry. That's okay. I do that all the time.

Do you agree that Mr. Evanko's coast views about the impact of citywide reappraisal that we were just talking about, that the impact that that will have on taxable value in the City of Detroit is an important data point to consider?

A. Yes.

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Q. If Mr. Evanko told you that he has no idea whether that citywide reappraisal will cause taxable values to be lower or higher, would you consider that an important data point?

A. I -- I'm -- I would consider what he said to be relevant. Okay? So I don't know what he said so I can't really say whether I think I agree or don't agree. I would think that the City's assessor would be an important person to consider as somebody who is looking at this.

Q. Understood. So do you understand that the Ernst & Young forecasts project the taxable value will decrease by 9 percent as a result of the citywide reappraisal?

A. I understand that as part of their assumption, yes.

Q. What is the basis for their assumption?

MR. DiPOMPEO: Objection.

A. Their assessment in consultation with the City.

Q. Okay. But like what -- they talk to people that told them that?

A. That is my assumption, yes.

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Q. That's your assumption about their assumption?
A. Yes.
Q. Okay. Have you independently verified the reasonableness of that particular assumption?
A. I have not.
Q. Do you believe -- this get -- so do you believe it's reasonable to assume that taxable value in the City of Detroit will decrease over the next -- by 9 percent, as a result of the citywide reappraisal where the City's senior assessor says that he doesn't know whether taxable value will go up or down.
MR. STEWART: Objection.
A. I don't know.
Q. You don't know if that's reasonable or not?
A. Yes, I do not know if that's reasonable or not.
Q. It's not something you've considered before today?
A. That's correct.
Q. One of the interesting things about

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when you are feasibility expert is we were talking earlier about the notion of there being a hurdle and your job being to assess whether the City will get over that hurdle, right?
A. Correct.
Q. Do you remember that testimony?
A. Uh-huh.
Q. Isn't it true that if the City adopts an assumption about taxable value which is that in the future it's going to go down by 9 percent, as it did, right? Correct?
A. We can look at it.
Q. If you want to double-check it, that's totally fine.
Do you want to?
Take a look at Page 59.
A. About Page 59, there is a typo on Page 59 about two-thirds of the way down, there are two numbers, FY 215, 2015, followed by another FY 2015. The second FY 2015 should be 2016.
Q. Okay. So what this is saying is that because of the citywide reappraisal, there's going to be a 9 percent drop in real property assessments in fiscal year 2015 and then another

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three to four percent drop in fiscal year 2016, right?
A. That is --
Q. What it should say?
A. -- the -- yes, it should say '16.
Q. That's what you meant it to say?
A. That is what I meant it to say.
Q. Now, if the available evidence shows that -- and Ms. Kopacz, this is kind of a -- this almost goes to your own methodology, so consider this for a second.
If the available evidence shows that there's unlikely to be any drop in taxable value in either 2015 or 2016, would you still consider this a reasonable assumption because it's conservative?
You see the point of my question? Which is I'm trying to tease out a little bit what you were thinking about when you were testing assumptions.
Consider a situation where the available evidence actually suggests that there will not be any drop in real property assessments, okay? But the City employs a methodology that

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says that there will be a nine percent drop in 2015 and a three to four percent drop in 2016, okay?
Isn't it true that based on your task as the feasibility expert, you could still find that assumption to be reasonable. Correct?
MR. KANE: Hold on a second. So there's a lot in there so, one, I will object on vagueness. But I'm not trying to interfere, I just want to clarify.
Are you asking her to assume that the available evidence shows that?
MR. HACKNEY: Yes.
MR. KANE: Okay. So he's asking you to assume --
MR. HACKNEY: It's a hypothetical?
MR. KANE: That's all I want --
A. It's an assuming there's evidence to say that property values won't decline.
Q. That's right.
A. And that this forecast says they will decline, right?
Q. Right.
A. That is a positive contributor to my

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assessment of feasibility.
Q. Okay. So do you understand how whether or not the -- in that hypothetical, where the available evidence shows -- predicts that there won't be a drop in real property assessments, but the forecasters project a drop, do you understand that the reasonableness of that assumption depends very much on how you are looking at the question?
MR. STEWART: Objection.
A. And the question is?
Q. Do you understand that the reasonableness of the assumption depends on what you're evaluating the forecast for?
MR. STEWART: Objection.
A. I only evaluate it for purposes of feasibility, okay. And therefore, if the projection relative to property tax revenue is conservative, right, then I consider that to be a good thing relative to my feasibility assessment. Okay?
Q. You said exactly what I was driving at. Isn't it true the more conservative the City gets, the happier you become about the

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reasonableness of their assumption, in terms of evaluating feasibility?
MR. STEWART: Objection.
A. Consistent with the standard that I laid out, okay, the reasonableness of the projections, okay, are going to be influenced by both assumptions that I find to be aggressive and assumptions I find to be conservative. Okay? There are instances of both of that, those -- in these projections.
Q. If the assumptions were all conservative, it would be more likely that you'd find feasibility than if some were conservative and some were aggressive. Do you agree?
A. I think in totality the answer is yes.
MR. STEWART: Objection.
Q. Okay. In fact, your test for reasonableness means as long as an assumption is not exceptionally conservative, it is reasonable, correct?
MR. STEWART: Objection.
A. I'm not sure -- I'm not sure I know what exceptionally conservative is.

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Q. Okay. So --
A. Go ahead.
Q. Okay. So I'm not going to sharp shoot you, so don't take this wrong way.
A. That's okay.
Q. I'm going to read from your report. Let's take a step back, okay?
A. Okay.
MR. KANE: What page are you on?
MR. HACKNEY: This is Page 18.
Q. You're talking about reasonableness here, okay?
A. Reasonableness. And we're in -- I know where we are. We're in the definition of feasibility.
Q. That's right.
A. Yes.
Q. So, of course, I'm looking here at -- it's like the -- sort of second, third of the big paragraph.
"Of course at the outer edges of 'reasonable,' values become unreasonable either because they are exceptionally conservative or wildly aggressive," right?

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A. Yes.
Q. Those are the terms you used in your report?
A. I did.
Q. What I want to establish is when we think of Marti Kopacz's definition of reasonableness, we should see a continuum, right?
A. Correct.
Q. And on one of end of the continuum we should see exceptionally conservative, correct?
A. Yes.
Q. And on the other end of the continuum, we should see wildly aggressive?
A. Correct.
Q. And as long as the assumption falls between those two points, it fits your definition of reasonable?
A. Yes, as long as it's not exceptionally conservative or wildly aggressive, right. In other words, it's not in -- it's in that middle of those ranges, right, then I'm -- I am going to accept that it's reasonable.
Q. But wouldn't an exceptionally conservative plan be highly feasible?

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A. An exceptionally conservative plan, if everything was conceptually -- if everything was exceptionally conservative, then it would be highly feasible to the point of being a slam dunk or a guarantee.
Q. What's wrong with that?
A. Hmm?
Q. What's wrong with being a guarantee, from your standpoint?
A. Well, I don't think it's realistic.
Q. Because?
A. No forecast or projection is the ever going to be met the way it's laid out to be.
Q. Well, will the City earn a hundred dollars of revenue next year?
A. Yes.
Q. Okay. So we can guarantee, if the budget -- let's go to the absurd, right?
A. Right.
Q. I mean, we know the City will have a hundred dollars of revenue?
A. Yes.
Q. Then we can actually say, I guarantee that the City will have a hundred dollars in

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revenue next year, correct?
A. Yes.
Q. I mean, I guess you get to the point and you say, well, maybe there's a neutron bomb or something and none us exist anymore. But within the way people use the word guarantee, we can guarantee that the City will have a hundred dollars of revenue, correct?
A. Yes.
Q. Now as you -- then you play the old game, right, as you go forward from that, at some point you kind of say goodbye to the point where you could guarantee?
A. Yes.
Q. Right?
A. Yes.
Q. Okay. So, I want to quibble a little bit with you about this idea that -- that there aren't any guarantees because if -- if the City set a budget that was a hundred dollars of revenue next year, and had obligations of $20, you could guarantee that the City would achieve that budget, right?
A. On that hypothetical, yes.

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Q. Okay. So, what my question, though, is from the standpoint of gauging feasibility, isn't it true as a plan becomes closer to this level of being guaranteed, it becomes more and more and more feasible, right?
A. Yes.
Q. Okay. So, I'm trying to understand why would it trouble you as, let's say, you pass exceptionally conservative, you're looking at it in the rearview mirror, that was like 10 adjectives ago, okay? As a feasibility expert, why would you not be able to say that those are reasonable assumptions that led us to this point?
You see what I'm saying?
A. No. I didn't -- I didn't --
Q. Why have a bound dry on the conservatism side where you'll stop saying that an assumption is reasonable? Why would you say I object to that assumption, City, it's exceptionally conservative, when you're a feasibility expert?
A. I lost you. Okay. I've --
Q. Okay.
A. I've absolutely lost you. In the

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sense of --
Q. Let's me ask it a better way.
MR. KANE: Were you done answering.
THE WITNESS: Yes.
MR. KANE: I'm saying, were you done answering?
THE WITNESS: I'm done answering. I lost him.
MR. HACKNEY: I didn't mean to interrupt. Let's try again.
THE WITNESS: Try again.
BY MR. HACKNEY:
Q. Let's say all the assumptions were exceptionally conservative, would you agree that you could find that plan feasible?
A. Arguably, yes.
Q. Would you also agree that under your methodology you would find those assumptions unreasonable?
A. What I said relative to my definition of my standard, okay, is that feasibility is a range, okay.
And I said at the point in time, when the plan is so conservative that it's a guarantee,

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right, I think that feasibility tips over to best interest of creditors and clearly I'm not going there, okay?

On the other hand, when -- as feasibility -- as assumptions individually and collectively, okay, move more to the middle or more down to the, you know, less conservative, more aggressive, right, the projections can be feasible, right, and that I believe that the test -- the definition, the standard that I've set out, establishes the -- the bar over which we need to get. Okay? And not how high up.

And I've said that, quite frankly, I don't -- I didn't evaluate if there is more money available or if there's an alternative plan. I simply looked at this plan, assessed it individually, in totality and got comfortable that this is a feasible plan.

Q. Okay. Going back to your continuum for assumptions, don't you agree that as a feasibility expert --

A. Uh-huh.

Q. -- you're much more concerned with aggressive assumptions than you are with

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conservative assumptions?

A. I'm much more concerned with aggressive assumptions than I am with conservative assumptions? That isn't how I approached it.

Q. Okay.

A. Okay?

Q. Do you remember we talked moments ago about if how all the assumptions were exceptionally conservative you could find the plan feasible?

A. You could find the plan feasible.

Q. If all the assumptions were wildly aggressive, could you find the plan feasible?

A. I don't think so.

Q. Okay. So do you see the difference between the nature of assumption from the standpoint of feasibility?

MR. KANE: Objection. You can answer.

Q. Aggressive assumptions threaten feasibility, conservative ones don't.

A. Conservative ones don't, correct.

Q. Okay.

A. But this plan has conservative and

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aggressive assumptions in it.

Q. I understand that's your opinion. I do.

A. Okay.

Q. But I'm trying to get a basic understanding of your methodology in approaching the question of feasibility?

A. Yes.

Q. Do you know anyone who is more knowledgeable about the likely impact of the citywide reappraisal than Mr. Evanko?

A. I don't know if there's someone more knowledgeable.

Q. And do you know what his view is of the likely impact?

A. I do not know.

Q. And I take it you haven't read his deposition?

A. I have not.

Q. Whatever his view is, you don't have a basis to disagree with it, correct? Or agree with it?

A. Yes, I don't have any basis.

MR. STEWART: Objection.

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Q. By the way, do you know whether the citywide reappraisal will even be completed by fiscal year 2015?

A. I'm not sure when it will be completed.

Q. Is it reasonable for the forecast to assume that the citywide appraisal, citywide reappraisal will have an impact on assessed property values if it hasn't been completed?

A. Say that again.

Q. Is it reasonable for the City's forecasts of assessed property values to be impacted by a citywide reappraisal program that hasn't completed?

A. I -- I'm not understanding. Okay.

Q. Okay. So if the citywide reappraisal program won't finish until 2016 --

A. Right.

Q. -- is it reasonable to assume it will have an impact on property values in 2015?

A. There could -- there would -- the appraisal, the reappraisal wouldn't have an impact before it was completed or implemented, other things might have an impact.

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Q. On assessed values?

A. Could be.

Q. Okay. But you would agree that to the extent you're basing your assumption, a person is basing their assumption that the reappraisal will have an impact on assessed values, do you agree that the reappraisal has to conclude before it can have the impact?

A. I would agree with that.

Q. And do you know when the reappraisal will conclude?

A. I don't.

Q. Would you agree -- let's talk about tax collection for a second, if we could, shift gears here.

A. Okay.

Q. Do you agree that the -- Detroit's tax collection enforcement mechanism has been broken for a number of years?

A. The percentage of tax that the City collects relative to the amount of tax that's due is poor.

Q. And I want to focus on the enforcement mechanism which is the tax collection

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efforts that's go into either property or income taxes, okay?

Would you agree that that enforcement mechanism has been dysfunctional for a number of years --

A. It has been --

Q. -- in Detroit?

A. It has been ineffective, yes.

Q. Do you agree that fixing the enforcement mechanism alone will have an improvement on the level of tax delinquencies in the City?

A. I believe it would, yes.

Q. In fact, you've expressed that opinion, haven't you?

A. I have expressed that opinion. Well that point of view, right.

Q. Yes.

A. Little O.

Q. Now, I hope I didn't ask this before and if I did I apologize. But you did not attempt to construct your own forecasts, correct?

A. Correct.

Q. Why didn't you?

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A. Because there would never have been enough time and the availability of information to do that, okay, would -- again, there wouldn't have been the time, the money, the anything to do that so...

Q. If you had had enough time -- have you ever heard of like in a scientific realm when they do double blind --

A. Yes.

Q. -- studies? Have you ever heard of that?

A. I have.

Q. You know that double blind study is where there's the drug that is being tested and then there's a placebo and the double blind is that the people don't even know what they're taking and then the researchers don't know who's taking what, right?

A. Right.

Q. Do you understand that the concept of using a double blind methodology is to protect against the types of biases that can actually even creep into things like pharmaceutical statistics?

A. Yes.

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Q. Do you agree if you'd had enough time, it would have been preferable for you to be able to construct your own forecast first and then compare it to the City's?

A. Oh, I think that's idealistic.

Q. It's -- it's idealistic?

A. Yeah.

Q. Given my idealism, would you agree that would have been preferable?

A. I'm not sure it's preferable or not. I mean, it would have been interesting. It would have been very interesting.

Q. You didn't have enough time to do that?

A. I wasn't asked to do that.

Q. And how much time would you have needed to construct a forecast?

A. I don't know.

Q. How much time did Ernst & Young and Conway MacKenzie need?

A. I don't know.

Q. Did they have adequate time?

A. I don't know.

Q. Would you -- do you -- is it your

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opinion that there is a material risk that the City will not achieve the forecasts set forth in the plan?
MR. STEWART: Objection.
A. A material risk that the City will not achieve the -- I don't -- again, I don't know what "material" means.
Q. I want to use your definition of material that you discussed earlier with Mr. Stewart.
A. If I -- yes, if I thought there was a material risk that they wouldn't meet these projections, I would not have an opinion that the plan is feasible.
Q. Okay. So to turn that around on you, it is your opinion that there is not a material risk that the City will fail to achieve its projections, correct?
A. I believe that the City has a reasonable likelihood of meeting the commitments it's laid out in the plan and delivering essential services.
Q. Okay. And using your definition of materiality, though, I want to confirm, you do not

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see a material risk that the City will fail to live up to the plan's forecasts, correct?
A. Again, I don't -- the City can meet its obligation -- I believe the City can meet its obligations in the plan of arrangement and deliver services, okay, within the confines of the projections.
I don't believe for a minute that the projections will come in exactly as they've been forecast.
Q. I understand. But in the aggregate, you would not have rendered your opinion if you believed a material risk of failure existed, correct?
A. That is correct.
Q. When it comes to evaluating the City's obligations, the ability to meet its obligation, Ms. Kopacz, in order to get your seal of approval, would you agree that you needed really to confirm that the actual results would not turn out to be materially worse than the forecasted results; that's what you're assessing, right?
A. I'm not assessing future actuals. I

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am assessing --
Q. There isn't any such thing, I think, but I know what you mean.
MR. KANE: Sounded to me like you were in the middle of a sentence. So if you were finished, if not, wait for him to --
Q. That's all right. I didn't mean to be rude and interrupt. I didn't mean to be, I apologize.
A. I didn't take it as that.
Q. Let me put it this way; that is, in order to get your seal of approval, you needed to find that in your opinion the City's likely results will not be materially worse than the forecasted results?
A. In the aggregate -- and I don't know how say it any differently than I've said it before or in my report, okay, I think the projections are reasonable. I think the City can meet its commitments in the plan. I think it can deliver services in the future.
Q. You do not perceive a material risk of the City failing any of those; else you would not have opined it's feasible?

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A. If I thought the City couldn't pay its commitments, couldn't meet its commitments or it couldn't deliver services, I would have said -- I would have found -- I would have had the opinion that the plan was not feasible.
Q. Now, let me ask you another hypothetical question which is pretend that you conducted -- constructed your own forecasts.
A. Okay.
Q. Okay? Same time period, same subject matter as the forecasts that are in the plan. If you found that the City's forecasts were 50 percent more conservative than yours, would you have still found the City's forecast to be reasonable, using your definition of reasonableness?
A. I don't know.
Q. Are you able to give me a percentage deviation from the hypothetical forecast that you constructed at which point you would say that the City's forecasts were unreasonable?
A. I don't think I could.
Q. All right. Let me direct you to your report in Section F.

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A. Section F.
MR. LERNER: Section what?
MR. HACKNEY: F.
A. What page?
Q. Let me see --
A. I think it's the expenses.
Q. No, these are revenues.
A. These are revenues.
Q. So take a look at Page 39.
A. Page 39?
Oh, yeah, revenues. Uh-huh.
Q. Okay.
A. Can we take a break?
Q. Of course, absolutely.
A. Thank you.
Q. We can always take a break when you want to.
A. I need a beverage. I need Diet Coke.
THE VIDEOGRAPHER: The time now is approximately 2:30 and we're going off the record. This is the end of Disk Number 3.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time now is

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approximately 2:44 p.m. We're back on the record. This is the beginning of Disk Number 4.
BY MR. HACKNEY:
Q. Ms. Kopacz, welcome back.
A. Thank you.
Q. To the extent that you relied on historical data in assessing the assumptions of the City in compiling its forecasts, is that historical data disclosed in the body of your report?
A. In the body of my report? I don't believe so.
Q. You don't believe so?
A. Right.
Q. Okay. So there could be historical data that you considered that's listed at Exhibit 2 that informed your assessment of reasonableness?
A. Yes.
Q. Okay. So, if you could turn to Page 39, this is the section of the report where you talk about the macro assumptions that go into the City's revenue forecasts; is that correct?

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A. Yes.
Q. I'd like to direct your attention to Page 40 where you begin your discussion of municipal income tax revenues.
Do you see that?
A. I do.
Q. And then, generally, this is broken down into an analysis of the ten-year forecast without RRI and then with RRI, correct?
A. Correct.
Q. And then within each section are your opinions regarding the assumptions that went into the ten-year forecast, correct?
A. I'm not sure "opinion" is right. It's -- it is -- this is an analysis and a summarization of what is in the projections.
Q. Okay. So that's a good way to describe it.
If you when you're reading Section F, what you generally see are two things, right? You either see your narrative description of what the City did?
A. Uh-huh.
Q. Or your assessment of what the City

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did, correct?
A. Yes.
Q. Okay. So, turn your attention, if you would, ma'am, to -- well, let's actually look at Page 41, okay?
A. Okay.
Q. Now, with respect to the ten-year plan without RRIs, you first found that the City's year-over-year taxable income growth was .85 percent for city residents, 1.18 percent for non-residents, and 1.63 percent for corporations.
Do you see that?
A. I do.
Q. And that's the part where you're narratively describing what the City's assumptions are, right?
A. Right. What the projections -- what the projections are.
Q. Okay. Now, take .85 percent as an example of the year-over-year income growth for city residents.
Do you see where I'm indicating there?
A. Uh-huh.

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Q. Is that .85 percent in real or current dollars?
A. It's in nominal dollars.
Q. So nominal dollars means current dollars, right?
A. Well, I don't -- nominal dollars means dollars that have not been adjusted for the time value of money.
Q. Or -- or inflation?
A. Or inflation.
Q. Okay. So, if I use the phrase "real dollars" to refer to inflation adjusted and I use "nominal dollars" to refer to percentages that are not inflation adjusted, will you understand what I'm talking about?
A. We can -- we can set up that definition, yes.
Q. You understand the distinction, right?
A. Yes.
Q. Because if I say wages are going to increase two percent from this year every year for the next five, in nominal dollars, you understand that you would calculate that by looking at wages

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today and then simply applying two percent to the base number for year one, two percent to the base number for year two and so on and so forth, correct?
A. It builds from year to year.
Q. Oh, so it's two percent of the prior year?
A. Right. If Page 42 shows the year-by-year growth assumptions.
Q. Okay. So in the nominal dollar calculation, if a forecast is two percent nominal dollars year over year, year one would be determined by taking the arithmetical calculation of two percent over the base year, correct?
A. Yes.
Q. Year two would be done by taking a two percent increase over --
A. Year one.
Q. -- year one?
A. Yes.
Q. And so forth, correct?
A. Uh-uh.
Q. Now, you understand that the distinction between nominal dollars and real

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dollars is the inclusion of an adjustment either for the time value of money or for inflation as the case may be, correct?
A. Some adjustment, correct.
Q. So if I say that there's a two percent adjustment in real dollars or in inflation adjusted dollars, you understand that that number comes embedded with an adjustment that's already been made for inflation, correct?
It's two percent over and above the inflation?
A. There are a series of -- there are more than one assumption going into that number.
Q. Uh-huh. Exactly.
A. Okay?
Q. And if I present it as 2 percent, that is the amount of noninflationary increase, correct? Or is it cumulative of inflation?
MR. STEWART: Can I have that reread? Do you want to just rephrase it?
BY MR. HACKNEY:
Q. Sure. So, the -- let's put it this way.
If there is -- let's say that I give

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you an inflation adjusted year-over-year increase in income of 2 percent, and a nominal dollar increase of 2 percent year over year, which one represents higher incomes? Which one will produce higher incomes?
A. The -- they could -- they could -- they could end up mathematically with the same number. Okay? There's not an inflation assumption to my knowledge in here.
Q. I know there's not in here. I'm trying to get our terminology straight as we begin to ask questions later.
A. Okay.
Q. So --
A. Can we just use inflation adjusted or not inflation adjusted?
Q. Sure. That's fine. And nominal dollars are not inflation adjusted.
A. Nominal dollars are not inflation adjusted in this, right.
Q. With respect to inflation adjustments though, do you understand that it's not presented in the percentage increase typically, that the inflation adjustment is applied to the base first?

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A. Yes, it can be, right.

Q. Okay. I'm talking about the typical presentment by government agencies and so forth.

A. I -- I'm not going to say what's typical. Okay?

Q. Well, do you understand that if you wanted to relate inflation adjusted dollars to noninflation adjusted dollars that you -- you have to add in the amount of the inflation adjustment in order to get an apples to apples comparison of total increase?

A. If you want to compare non -- noninflation adjustment estimates to inflation adjustment estimates, yes, you must add in the inflation percentage assumption.

Q. Right. To -- yes. So if you want to take inflation adjusted percentages and compare them to nominal percentages on an absolute basis, you have to add in the inflation adjustment to the inflation adjusted dollars so that you can see the nominal dollar comparison.

A. I think you just did that backwards.

Q. Okay. I think I may have, but I thought that I didn't. Because I --

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A. You thought that you didn't.

Q. -- well, I'll show you some later.

A. Okay.

Q. We'll try to use specifics.

A. Okay.

Q. But it's absolutely possible that I could be getting it wrong, so we'll see.

A. Okay.

Q. Now, do you see here that you say that "the taxable income growth assumptions appear to be reasonably conservative."

Do you see that?

A. Uh-huh.

Q. And this is your opinion with respect to the assump -- assumed year-over-year taxable income growth I just identified, correct?

A. Yes.

Q. Okay. Now, is that opinion based on anything other than the recent uptick in taxable income in 2011 and 2013?

A. The -- I can answer this more easily if we look at 42 -- Page 42 where you see the year-over-year projections for each of these categories.

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Q. Uh-huh.

A. Okay? And the average are, in fact, the numbers that you recited in the beginning of this section --

Q. Right.

A. -- 0.85, but it shows, if you will, a -- for each of the types of income tax, resident, nonresident and corporation, it makes individual assumptions for each year.

Q. Correct.

A. Okay? So there's -- there's a lot that goes into that.

Q. Okay.

A. Okay? To get to that average.

Q. But in terms of historical data that you used to judge reasonableness --

A. Right.

Q. -- did you rely on any historical data of taxable income other than fiscal years 2011 to '13?

A. Did we -- I'm -- I'm pretty confident that we looked at a much longer time frame on taxable income revenues.

Q. Historical?

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A. Historical.

Q. You believe that you did?

A. Because if there was a down and there's then beginning to tick up now.

Q. Okay. So do you know what the ten-year historical taxable income was in the City?

A. Not off the top of my head.

Q. Now, what you present here is that residents' taxable income growth averaged 3.4 percent for that three-year period, correct?

A. Right, right.

Q. And that is -- that's more than quadruple the assumed average, right?

A. It is the estimate for fiscal '14/'15 is about half of that rate. Okay?

Q. Right. So --

A. But mathematically, the ten-year average, right, is, what, a third of what it's been the last couple of years or more?

Q. Does it make sense to you that the City's residents' taxable income growth tails off substantially after the first two years?

A. It does in the sense that I think

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the -- the assumption is based on the recovery in income from the recession in '08 and '09, and even before that, the -- the deterioration in the economy in Southeast Michigan as a result of the automotive thing. So there's a period now where incomes are coming back up and -- but to assume that that trajectory continues for ten years would be an aggressive assumption.

Q. So, is it that 2011, 2012 and 2013, because they come on the heels of the recession, are not representative --

A. As a percentage.

Q. -- years when it comes to projecting future income growth?

A. That would be -- I believe that's the assumptions that Ernst & Young made in this, and I would conclude that it was -- that's a reasonable assumption to make, that you're not going to continue that high rate of increases ad infinitum.

Q. Take -- sorry. Take a look at fiscal year 2016 for residents. The projected taxable income growth is .46 percent, right?

A. Correct.

Q. That's about one-ninth of the

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three-year trailing average, correct?

A. I don't know what the -- the -- I'd have to do that math, but it's a half percent versus 3 1/2, right?

Q. Right. What's the basis for your conclusion that that's a reasonable assumption for fiscal year 2016?

A. As -- as I said, I think it is -- it's appropriate, it's reasonable. It's reasonably conservative to make the assumption that at some point the percentage of growth will begin to flatten out in terms of income growth.

Q. Understood that that's your general opinion, but how do you specifically arrive at .46 percent?

A. I did not.

Q. I understand.

A. This is -- right. This is what -- I looked at this and said, you know, does that look reasonable in the context of everything we know, and -- and I concluded that I am not -- that that assumption is reasonable in the context of trying to project income tax over the next ten years for the City.

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Q. So let's break it down.

As to how Ernst & Young got .46 percent, you don't know, correct?

A. I -- I don't know specifically, correct.

Q. But in evaluating whether, irrespective of how they got it, whether that number was reasonable, you came to the conclusion that it was?

A. I did.

Q. What's the basis for that conclusion?

A. The basis for that conclusion is that the City has been increasing income tax over the last few years.

Q. Increasing income tax?

A. Municipal income taxes have been growing.

Q. The revenues?

A. The revenues have been growing.

Q. Not the rate?

A. Not the rate. The rate stayed the same.

Q. Got it. Sorry to interrupt.

A. Okay? They have been growing --

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Q. Okay.

A. -- right? And I would expect that they would continue to grow, but probably not as quickly as they have in the recent past giving -- given that the City is coming off of a recession and a prior significant decline in its major industry.

Q. Why not?

A. Because I think this is a prudent assumption that doesn't -- that it -- I mean, again, you could say it could grow by 10 percent, right? You could get really bullish and say it could grow at 10 percent, but is that going to be reasonable? You don't want to -- I wouldn't want to have to make a commitment to pay people based on an aggressive assumption.

Q. What is the typical income recovery period after a recession?

A. I don't know.

Q. What was the income recovery profile after the Great Depression?

A. I don't know.

Q. Do you agree that the Great -- that the recession we just went through is often called

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the Great Recession?
A. The Great Recession, right. Yes.
Q. Yes? And that's sort of an homage to the fact that it was -- it was so serious, right? It was almost like the Great Depression, right?
A. I don't know where -- I don't know where it comes from, but yes, it's been long.
Q. So how -- how -- how can we know that taxable incomes as an economic matter shouldn't be expected to grow at the 3.4 percent rate for a decade?
A. We don't.
Q. Okay. So how do we test your finding that .46 percent is reasonable?
A. It's not unreasonable.
Q. How do we test that?
A. I don't know that we do.
Q. Do you know of a way that we could test that opinion?
A. I don't know that we can.
Q. Do you see that taxable income growth for nonresidents is 3.5 percent, correct?
A. 3.5 -- yes, 3.4 versus -- yes, 3.5.
Q. Is it true that the -- the taxable

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income growth is fairly consistent between residents and nonresidents in the City in your experience?
A. It has been. Uh-huh.
Q. It has been?
A. It has been.
Q. And yet, in the presentation, wouldn't you agree that the forecast for City residents year-over-year income growth is more conservative than the historical evidence suggests in terms of disparity from nonresidents?
Let me put it to you another way.
A. Yes, please.
Q. Do you see that in the three prior years taxable income growth for residents versus nonresidents was something like 97 percent of what nonresidents saw?
A. Can you tell me where you're getting the data --
Q. Whatever 3.4 is over 3.5?
A. -- where are you getting the data?
Q. So if you put 3.4 over 3.5, and think of 135th, okay, being about 3 percent?
A. Uh-huh.

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Q. Nonresident -- or I should say resident taxable income growth over the prior three years was about --
A. Has been a little bit less.
Q. -- 97 percent of nonresident growth, right?
A. Well, I think you're -- I think you are trying to be very precise with a number that is an average of a lot of other -- of a variety of numbers. So, but yes, if you want to take 3.4 over 3.5 it will be --
Q. About 97 percent, right?
A. If that's the math, yes.
Q. And then -- but when you look at .85 percent for City residents in the forecast on average over the next ten years, and you compare it to 1.18 percent, do you see that that's more on the order of three-quarters?
A. But that doesn't -- I mean, again, that doesn't concern me. I'm looking at '14, '15, '16, I'm looking at that nonresidents, working in the City of Detroit, okay, versus City residents in the City of Detroit, I would expect nonresidents' income to grow faster than

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residents --
Q. Why?
A. -- based on this general economic -- you've got so many more residents at the poverty level in the City versus the suburbs.
Q. Why didn't it do that in the prior three years?
A. Could be as a result of number of people working.
Q. How would the number of people working impact the average growth of the income of people that were working?
A. No, no, no. The -- the --
Q. Let me -- let me ask it again.
So, you would agree that in the prior three years, 2011, 2012, 2013, there was not a significant differential between the year-over-year income growth of residents versus nonresidents?
A. I would agree with that, yes.
Q. In the projections, however, there is a material difference that's presented.
A. I'm not sure I would agree with you that there's a material difference. There is a

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difference, but I'm not sure I would say it's material.

Q. Okay. What is the basis for the distinction between resident and nonresident percentage year-over-year taxable income growth?

A. What is the distinction.

Q. The basis for the distinction.

A. It has -- the difference is around wage growth versus employment growth. Okay? And there are each of those estimates Ernst & Young made independently. Okay? And so there is a -- we have to look at each of the categories, and there's some more charts back here.

Q. But I mean on wage growth, I'm saying this is an assumption that you said is reasonable. Nonresidents' year-over-year taxable income growth will grow on average 1.18 percent from fiscal year 2014 to '23, but resident growth will only be .85 percent.

You've said that's a reasonable assumption, correct?

A. In totality, I believe all these assumptions are reasonable.

Q. Understood. What's the basis for

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this one?

A. The --

Q. This differential.

A. I feel like we're going in circles. The basis for the assumptions?

Q. I under -- so let me -- let me --

A. Different assumptions that underlie wage growth and employment growth --

Q. Understood.

A. -- For each of these distinct group of taxpayers.

Q. Understood.

A. Right.

Q. What is the basis for the distinction between resident and nonresident income growth in the forecast?

A. Okay. Different assumptions of how wages grow for residents versus nonresidents and differences in assumptions between income growth for residents -- I mean employment growth for residents and employment growth for nonresidents.

Q. Okay. So put employment growth to the one side. I'm just talking about income growth. I understand there are different

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assumptions.

A. You have to have wage and employees to make income.

Q. Understood. We're talking about the residents' income, right?

A. You want -- okay, residents.

Q. Right. I'm talking about resident versus nonresident income growth on Page 41.

A. Right.

Q. Just so we're communicating, I'm talking about .85 percent versus 1.18 percent.

A. Right.

Q. What's the basis for the distinction?

A. The basis for the distinction is for each of those, whether you're looking at residents or nonresidents, okay, there are different assumptions for wage growth and employment growth in each of those categories of taxpayers, and it is an aggregate of, in essence, four separate assumptions that are blended together and compared so that the math is different.

Q. Right. But with respect to the different assumptions that underlie resident versus nonresident income growth, what is the

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basis for them?

A. Mr. Hackney, I am sorry, but I can't answer it any differently than what I've answered.

Q. So, let me first say that employment growth is a separate assumption that's addressed on Page 43 and that I'm holding constant. I'm just trying to understand --

A. No.

Q. -- what the basis for the --

A. You can't do that.

Q. Why not?

A. Because to get to income growth, right, you have to use both employment growth and wage growth.

Q. Why?

A. Why? Let me try to -- let me try to construct a model for you -- for you and I. Okay? I'm trying to think -- there are, to get to income tax you have two components.

Q. I totally agree to get to income tax --

A. That's what we just talked about.

Q. No. We were talking about income growth.

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A. This is tax -- this is municipal income tax. Okay?

MR. KANE: Go ahead. Finish your answer.

BY MR. HACKNEY:

Q. Okay. I understand -- okay. Let me take a step back.

Are you saying that the .85 percent versus the 1.18 percent are findings of two different sets of assumptions that impact taxable income growth; one of those assumptions being wage growth and the other assumption being employment growth?

A. Yes.

Q. Okay. In order to discuss this differential then, are you saying that you have to drop down to the level of wage growth --

A. Yes.

Q. -- and employment growth --

A. Yes.

Q. -- and talk about those things?

A. Yes.

Q. Okay. Okay. Understood. That's helpful to me. One last question though.

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The historical taxable income growth of 3 -- 3.4 percent, are those inflation adjusted numbers or are they nominal dollars?

A. I would say they are nominal dollars. I mean, they're -- they're not -- they're not adjusted -- they're -- they're actuals.

Q. Do you know where that number comes from?

A. Do I know as I sit here today? No.

Q. Okay. Do you know whether the Michigan State Department of Treasury presents income growth numbers in inflation adjusted or nominal dollars?

A. I don't recall.

Q. Okay. Let's drop down, like you said, and talk about wage growth then.

A. Okay.

Q. Okay? Do you see that average wage growth on Page 42 in the ten-year plan without RRIs. Do you see that section?

A. Uh-huh. Yes.

Q. Do you see that the ten-year plan estimates that for both City residents and nonresidents average wage growth of 1.25 percent

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for fiscal year 2014 through fiscal year 2023?

A. Yes.

Q. As far as I can tell, in your report, you do not present a comparable historical number for that.

A. I don't.

Q. Are you aware of one?

A. Am I aware of one? No.

Q. Okay.

A. Not that I recall.

Q. Do you know what the basis for this 1.25 percent assumption is?

A. No.

Q. Okay. So let's get back to kind of our two step.

Somebody at Ernst & Young decided to use 1.25 percent, correct?

A. Correct.

Q. You don't know why they decided that, right?

A. Not as I sit here today, no.

Q. Okay. Now, you do know that you have found that this estimate appears reasonable, correct?

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A. Correct.

Q. And let me -- let me quibble were you a little bit.

What's the difference between when something is reasonable and when something appears reasonable? Is there a difference in your opinion?

A. I would say is reasonable you can only make after the -- after event, right? It appears reasonable.

Q. Okay.

A. Looking at it prospectively.

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

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

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

A. To test that conclusion?

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Q. To test the reasonableness of your assumption?
A. I don't know how you would test the assumption until after it happens.
Q. Okay. But if the -- if the Court wants to test your finding that this is a reasonable assumption, you're not aware of a way it can test it, correct?
A. No, I am not.
Q. Okay. So what is your basis, though, for finding that 1.25 percent is a good average?
A. I looked at all of the information that was available, okay, about all of these topics, all of these assumptions, both the revenue side and the expense side. I looked at the recent tax history. I talked to the people who made the assumptions, asked them questions about how they came up with this assumption or that assumption or what they did and, you know, how much if you changed this, how much would that change. Okay? And concluded that, in totality, the estimates contained in the projections provide a reasonable basis for forecasting what the City is going to do from an economic perspective during the life of

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this -- these projections.
Q. Understood.
A. And I didn't -- you know, again --
Q. You didn't -- did you not consider whether any individual assumption was reasonable standing by itself? You only considered them in the aggregate?
A. I looked at all of the individual assumptions.
Q. You did?
A. I did. Okay?
Q. Okay. So let's talk about this one.
A. Right.
Q. What's your basis for your opinion that 1.25 percent appears reasonable?
A. This -- it is reasonable because it is not either too low or too high when you look at all the surrounding data points.
Q. What are those data points?
A. It is the prior experience in terms of what's been collected over time, all that, right? It's looking at information that comes from the state.
Q. Okay.

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A. I know we looked at some federal estimates, right?
Q. So what was the prior experience with income with average wage growth?
A. I would have to go back and look at the historical information that we looked at at the time to be able to answer that today because I don't recall.
Q. But do you have like workpapers that show that?
A. There would be documents that we looked at that showed that. I'm sure.
Q. Okay. And they'll be -- they'll be somewhere on Exhibit 2?
A. Tell be somewhere on Exhibit 2 or they'll be somewhere in the -- in the data room.
Q. Okay. And what did they show? You can't remember the specifics, but what time period did they show?
A. I can't remember. I remember that income taxes went down and income taxes have started to grow back.
Q. Okay. Was it aggregate income tax data that you reviewed?

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A. I don't recall.
Q. Do you remember when we were looking at taxable income growth you had some historical comparisons that you showed here in your text, right?
A. That's correct.
Q. But here you didn't present any, correct, in the body of your report?
A. There are other data points shown on Page 47.
Q. Aren't those forecasted data points?
A. They are forecasted data points.
Q. Okay. Did you rely on any historical -- so is -- are these the data points that you relied upon these forecasts?
A. These are forecasts made by other forecasting entities that we looked at to analyze and assess the forecasts for wage growth and on Page 48 for employment growth that the City used.
Q. Okay. So, for example, in the ten-year without reinvestment scenario, do you see that box on Page 47?
A. Yes.
Q. First of all, was your basis for

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analyzing this assumption -- and by "this assumption," I mean the 1.25 percent assumption.

A. Right. Without reinvestment.

Q. Was it the -- was it these forecasted data points from other entities?

A. I'm sorry. Repeat that question, please.

Q. Let me turn it around.

A. Yes.

Q. Did you rely on any historical information relating to wage growth in reaching your opinion that 1.25 percent was reasonable?

A. I consider -- I am sure that we considered historical information in looking at the totality of these assumptions, okay?

Q. So it's part of the basis for your opinion that it's reasonable is the historical data relating to wage growth for residents and nonresidents, correct?

A. There is -- there is some relevance to historical data relative to these current estimates, okay?

The -- without reinvestment assumptions, okay, are not particularly meaningful

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to me because I believe the City is going to make reinvestment decisions, okay?

So, I mean we -- we analyzed this or we laid out in our report the way the City had laid it out, okay? As a practical matter, the -- what I think is relevant is the ten-year plan with the reinvestment.

Q. Okay. So is it fair to say that you not focus as hard on the ten-year plan without reinvestment as you did the ten-year plan with reinvestment?

A. That is correct.

Q. Okay. Do you know what? Let's talk about -- well, let's just first note that the -- do you -- I'm sorry if I reasked this. I don't mean to.

The -- do you see that on Page 47 you produced comparable metrics from the Michigan Department of Treasury, the Michigan Senate Fiscal Agency and the CBO, which means the Congressional Budget Office?

A. The Congressional Budget Office, right.

Q. Do you know whether their metrics are

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real or nominal -- are inflation adjusted or nominal dollars?

A. I don't.

Q. If they're inflation adjusted, what is the relevance for them as a comparable?

A. I don't know without knowing what the inflation adjustment is.

Q. Okay. So you would have to change these numbers some way. Would you change them up or down?

MR. KANE: What numbers?

THE WITNESS: What numbers?

BY MR. HACKNEY:

Q. The -- to the extent anything -- let me reask that.

If any of these numbers from the Michigan Department of Treasury, the Michigan Senate Fiscal Agency or the CBO are --

A. Have inflation in them?

Q. -- are inflation adjusted, what would you have to do to them to make an apple to apples comparison to the nominal dollars?

A. I'd have to look -- I'd have to look at what the inflation adjustment is.

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Q. Okay. And did you do that?

A. I did not. I -- I don't think I did. I mean I don't think my team did. I don't have any recollection of it as I sit here today.

Q. Remember when we were talking about whether you'd have to add inflation or subtract it?

A. Uh-huh.

Q. I could be wrong, but my understanding of CBO real wage growth -- do you see that?

A. Uh-huh.

Q. -- means that 2.47 percent is after taking into account inflation. Do you disagree with statement?

A. So it would be higher than the nominal rate, right?

Q. That's right. That was -- my understanding was if you wanted to know what the CBO's nominal dollar wage growth estimate was.

A. You would have to remove inflation.

Q. No, you'd have to add it.

A. You'd have to add it.

Q. That's my understanding, but don't

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let me -- I could really be wrong. I talked to my economist about this, but I'm also an idiot so I could have gotten it wrong.

MR. STEWART: Objection.

MR. HACKNEY: What's that?

MR. STEWART: I don't think -- I don't think you're an idiot.

MR. HACKNEY: Mr. Stewart's looking out for me.

BY MR. HACKNEY:

Q. So my understanding is that if you want to know actual dollars -- if you want to know what the CBO thinks about actual dollars, my understanding, tell me if you disagree, is that you have to take their real wage growth percentage and add to it inflation assumptions so that you --

A. Yes.

Q. -- can get an actual to actual; is that correct?

A. Yes.

Q. If inflation were 2 percent in the CBO hypothetical, do you agree that the CBO's actual wage growth in nominal dollars would be 4.47 percent?

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A. Yes.

Q. Okay. But I think we've established you don't know whether these numbers from the state and the Feds are inflation adjusted or not?

A. I don't.

Q. Okay. Would you -- if the CBO number actual wage growth number was 4.47 percent, would you still consider the 2.16 percent ten-year plan with reinvestment assumption to be reasonable?

A. I don't know. I'd really have to look at -- I'd really have to look at the CBO estimate in detail.

Q. Okay. I'll stay focused on the parts of this that relate to ten-year plan with RRIs. Okay?

A. Uh-huh.

Q. Take a look at Page 45 and 46. Do you see that the assumption for City resident and nonresident wage growth on an average basis over the time period presented is 2.16 percent?

A. I do.

Q. But do you see that for corporations it's 2.65 percent?

MR. STEWART: You mean 3.65?

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THE WITNESS: No. It's 2.65.

BY MR. HACKNEY:

Q. You do see that it's 2.65?

A. I do.

Q. Okay. Do you see that the forecast assumptions for corporation -- corporation wage growth, you know, whatever you want to call it.

A. Yeah. Income growth, yeah.

Q. It's equivalent to the Michigan Senate Fiscal Agency's projection, correct?

A. Well --

Q. That's what you say. The wage growth forecast for corporations is 2.65 percent or equivalent to the Michigan Senate Fiscal Agency assumption, correct?

A. That's without -- before -- where are we?

MR. KANE: It's okay if I tell her what page you're on?

BY MR. HACKNEY:

Q. Absolutely. I don't mean to turn you around, 46.

A. What page are you on?

MR. KANE: You're on 46?

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BY MR. HACKNEY:

Q. Yeah.

A. You're on 46? Okay. Thank you.

Q. That's okay.

A. I was on the wrong page.

Q. A million numbers in here?

A. Right. The wage growth forecast for corporations is 2.65 or equivalent to the Michigan State Fiscal Agency assumption.

Q. Right. So you agree that the forecast -- the City forecasters' assumption is identical to the Michigan Senate Fiscal Agency's assumption about corporation wage growth, right?

A. Yes.

Q. But the City forecasters' assumptions regarding average wage growth for residents and nonresidents is substantially below the Michigan Senate Fiscal Agency's assumption; isn't that correct?

A. I am not seeing -- 2.16 is less than 2.65.

Q. That's for corporations. Do you know what the Michigan Senate Fiscal Agency's assumptions for residents in the City of Detroit

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were?

A. I am not seeing that here.

Q. Do you know separate and apart from the presentation here?

A. I don't.

Q. Let's go down to employ -- sorry. Let's go down to Employment Growth. Do you see that the number of city residents that are employed is forecasted to increase .15 percent?

A. Can you tell me where we are?

Q. Yes. It's on Page 46 right down below "Employment Growth with RRIs. It's in the prose section, the number of city residents employees forecasted to increase .15 percent. Do you see that?

A. Over a ten-year period, yeah.

Q. Yes. For the fiscal year period.

While the nonresidents' average annual employment is anticipated to increase .21 percent. Do you see that?

A. Yes.

Q. Now, in -- this is one of those sections in your report where you are just narrating what the assumptions are, correct?

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A. That is correct.

Q. You did not make a finding in your report that these two assumptions were reasonable specifically, correct?

A. Correct.

Q. Do you -- did you make a specific finding that these two assumptions were reasonable?

A. I did not.

Q. Is it -- am I correct in reading your report that if there is a section that describes -- like this one, that describes what the City's assumptions are, but does not include your specific seal of approval as to finding that the specific assumption being discussed, that I should infer that you did not make a specific finding about that assumption?

A. I did not make a specific finding about 2.16 or any of that sort of thing. What I did is, as I said before, I looked at all the information that was available to us, historical, projections, talked with people who did this, looked at other people who make projections about these things. I did the sensitivity analysis that

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said what if they're off by a percentage point one way or another, what does that do? Okay? And in totality of looking at all of that stuff, I concluded that this is a reasonable assumption for, in this case, municipal income tax.

Q. Well, wait. I would rephrase that and see if you agree with how I rephrase it.

You included that in the aggregate all of the assumptions were reasonable, correct?

A. Correct.

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

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

Q. Okay. So speaking to your expertise in terms of what your training and experience renders you capable of doing, you are capable of assessing whether or not a forecasted increase of

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.15 percent in City resident employment is a reasonable assumption, correct?

A. Could I do that? Absolutely.

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

A. I did not.

Q. Okay. Is that a reasonable assumption?

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

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

A. You'd have to ask them.

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

A. Right.

Q. -- is reasonable?

A. Again, as I said, I did not -- in this case, I looked at this assumption. It did not appear unreasonable to me. Okay? And when I factored in the result of all of these estimates in terms of coming up with the revenue

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assumptions, and I did the sensitivity analysis, the result of what the city is projecting in terms of municipal taxable income and all the other individual revenue items is reasonable.

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

A. That is correct.

Q. Okay. Take a look at Page 48 where you have another one of your comparable metrics.

A. Uh-huh.

Q. Do you see that?

A. I do.

Q. Do you see that the -- so there are comparable metrics here from the Michigan Department of Treasury and the Michigan Senate Fiscal Agency. Do you see that?

A. I do.

Q. And do you know whether those metrics are statewide metrics or City of Detroit metrics?

A. My recollection and I -- I was trying to find it in the report, my recollection is that these are statewide estimates.

Q. I see. So these are -- are

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respective entities estimations of employment growth statewide for the fiscal years denoted, right? That's your belief?

A. That's my recollection. It is not the clearest recollection I have.

Q. Okay. Now, do you see that you did the sensitivity analysis on Page 49?

A. Yes.

Q. Do you remember when you were testifying with Mr. Stewart that you described this as an arithmetical exercise that tells you what every 1 percent change in annual taxable income growth amounts to in terms of dollars?

A. Yes.

Q. You did not do an assessment of the likelihood that taxable income would be 1 percent lower or higher though, correct?

A. That's correct.

Q. Okay. Did you ever -- I know that you presented multiple sensitivity analyses for different types of revenue and cost in this opinion; isn't that right?

A. Yes.

Q. Did you ever take the sensitivity

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analyses and say, Now I'm going to link them all together and I'm going to assume that taxable income growth is down a percent, property tax is down a percent, gaming revenue is down a percent, and utility users' tax revenue is down a percent and then step back and look to see what impact it had on whether the City can achieve the forecasts?

A. I did not do that analysis.

Q. Okay. So do you agree that this sensitivity analysis tells you what a 1 percent change is worth when it comes to municipal income tax revenue?

A. Yes.

Q. It doesn't tell you how likely a 1 percent deviation is.

A. Correct.

Q. And you did not conduct that analysis, correct?

A. I did not.

Q. Take a look at -- I'm going to move into the state revenue sharing if I could. Take a look at Page 50. You give a general introduction into state revenue sharing on Page 49.

A. Right.

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Q. And you talk about the constitutional revenue sharing function and then the discretionary EVIP portion -- E-V-I-P portion. Do you remember that?

A. I do.

Q. And then you start with the constitutional portion on Page 50. Do you see that?

A. I do.

Q. Do you understand that constitutional state revenue sharing in Michigan is driven by a municipality's percentage of the state's total population?

A. I do.

Q. So you understand that forecasting the constitutional portion of state revenue sharing requires you to forecast the population of the municipality, correct?

A. It -- it does.

Q. Now, isn't it true that in every instance in your -- in the City's forecasts, the City made a determination that the presence of the RRIs would have an impact on the forecasts, correct? So, for example, wage growth without

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

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Someone on my team did.
Q. Okay. Somebody looked at it. Do you remember if they told you when it was done?
A. I don't recall.
Q. Do you know whether the SEMCOG authors were considering the idea that there might be in excess of a billion dollars pumped into the City of Detroit during the very ten-year period they were studying?
A. I don't know one way or another.
Q. Would you expect that if a city like Detroit puts a billion dollars into itself in the form of restructuring reinvestment that it would have an impact on its population level?
A. That's what everyone is hoping.
Q. Okay. Do you know whether the City adjusted its population estimates with respect to constitutional revenue sharing to take account of the impact the RRIs might have on its population estimate?
A. The answer is I don't know, and they would also have to estimate the change in population in the state because Detroit gets -- it's -- if both the Detroit population and the

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state population are moving in the same direction, it wouldn't necessarily change the percentage of revenue sharing that Detroit gets. If they're changing in opposite directions, it would have -- it could have an effect.
Q. Right. Right. Because the ratio wouldn't change in the former instance.
A. Correct.
Q. But if putting a bunch of money into Detroit pulled population from the surrounding municipalities into Detroit without otherwise changing the larger state's population, that could have an impact on Detroit's population as a percentage of state population?
A. That could, yes.
Q. This is not something you thought about?
A. No. I mean it's not something I attempted to quantify.
Q. Okay. You didn't study or evaluate the assumptions regarding population?
A. Correct.
Q. Now, take a look at Page 51. Now you're going into statutory payments. Okay?

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A. Yes.
Q. These are the -- this is the EVIP portion of state revenue sharing, right?
A. Yes.
Q. Now, do you see here that the ten year -- you say, "the ten-year projections assume that the City continues to receive 100 percent of its possible state allocation or approximately 140 million annually for the entire 2014 to 2023 time period," correct?
A. Yes.
Q. Now, you did this make a specific finding as to the reasonableness of this assumption, correct?
A. No. I relied on the fact that the City has received a hundred percent of its possible EVIP allocation over the recent past years.
Q. Has it?
A. It has.
Q. Over what time period?
A. I'd have to -- I'd have to look at that, but it's been overlooked -- over the years that that EVIP has existed.

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Q. Okay. Because that didn't come in until Governor Snyder?

A. It was a governor Snyder thing.

Q. Okay.

A. Yes.

Q. But did you independently assess whether on a go-forward basis it's likely that the City will continue to receive a hundred percent?

A. My assumption is that if the state believed that Detroit had met the requirements to receive EVIP previously, given the change in the administration and all of the RRIs around accounting and systems, that it is highly likely that it's going to get its EVIP going forward.

Q. Well, for example, like in Category 3, Unfunded Actual Liability Plan relates to the level of your unfunded liabilities and whether you're doing a good job to reduce them, right? That's a component of whether you get EVIP?

A. It is -- you are to produce a plan.

Q. Okay. Is it -- let's see if we can summarize your testimony on this in a way that's -- that's accurate.

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Is it fair to say that you basically made a single assumption that whatever went into getting EVIP payments that Detroit would be better at it going forward?

A. Yes.

Q. And it's on the basis of that assumption that you concluded that Detroit is likely to receive 100 percent of its EVIP payments going forward?

A. Correct.

Q. But you did this test the assumption beyond that level?

A. Correct.

Q. Now, there's another sensitivity analysis on Page 52. Do you see that?

A. Yes.

Q. And do you agree that this is an arithmetical analysis of the impact of a 5 percent change in the E -- no, in -- in -- yes, it's the impact of a 5 percent change in the state revenue sharing numbers on the general fund, right?

A. It's a sensitivity analysis of a 5 percent change in the -- in the -- of fact of a population change on the statutory revenue

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sharing.

Q. But the statutory revenue sharing is the EVIP payments, right?

A. Yes.

Q. And those are independent of population?

A. It is, but it is -- statutory is an independent of population and the constitutional will change in 2021.

Q. Let's break it down.

You did two different things in this sensitivity analysis, right?

A. Yes.

Q. The first thing you did is you said what's the -- what's the impact of a 5 percent change downward in population on the constitutional portion?

A. Yes.

Q. You separately said what's the impact of just a 5 percent reduction in the statutory portion?

A. Yes.

Q. And you presented it here in this box, right?

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A. That's correct.

Q. Okay. Now, you did not take undertake an assessment of the likelihood that there would be a 5 percent reduction in the population in the City, correct?

A. Correct.

Q. And you did not undertake an assumption of whether or not there would be a 5 percent reduction in statutory payments, correct?

A. Correct.

Q. So you're not presenting the likelihood that this will occur; you're presenting the impact if it does occur?

A. Correct.

Q. And you have not considered the likelihood that this will occur, correct?

A. That is correct.

Q. But isn't it true that the forecast, when you talk about a 5 percent reduction are you talking about -- oh, that's based on the 2010 census figure, correct?

A. Yes.

Q. So you're saying I'm going to

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evaluate what will happen if there's a 5 percent reduction in the population compared to the 2010 census in 2022 as a result of 2020 census?

A. Okay. If the population declines -- how do I say this very precisely?

If the -- if Detroit's population percentage of constitutional payments declines as a result of its share of statewide population by 5 percent, then the constitutional payments will decrease by the amount shown here.

Q. Oh, I see. So, when it says on the top of Page 52, "the analysis below estimates the impact of a 5 percent change in the 2020 census forecasted population: That's not quite right. It means --

A. Yes.

Q. -- if it -- if there's a change that has the net impact of being 5 percent less as a percentage of the state as a whole?

A. Yes.

Q. Okay. Am I right in the way I've reformulated what you meant?

A. I think you are. The measurement won't occur until 2021.

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Q. Okay.

A. And then there will be a new percentage allocated to Detroit for state constitutional revenue sharing for the next ten years.

Q. Okay.

A. Okay? And that is an assumption that has been made and this sensitivity says what if that's off.

Q. Okay.

A. What if that -- what if that changes by 5 percent? That's what this says.

Q. So if do you know what's supposed to -- what is projected by SEMCOG or others to happen to the state's population around Detroit, meaning excluding Detroit?

A. I don't recall.

Q. Now, you remember SEMCOG says that Detroit's will go down by 12.3 percent --

A. Right.

Q. -- correct?

A. Correct.

Q. Do you agree that if the rest of the state's population goes up at all -- well, I guess

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that doesn't follow, does it?

A. No.

Q. What -- what percentage as a ratio of Michigan's population does a 12 percent decrease in Detroit's population represent if the rest of Michigan's population stays constant?

A. I don't know.

Q. Okay. Let's talk about the wagering taxes if we could.

A. Sure.

Q. And by the way, you nailed that percentage right on the nail head there. It was 10.9 percent. Remember, you said that earlier?

A. Plus one.

Q. Okay. And then you see here that -- yeah, so when you were -- when you were analyzing wagering receipts, you assume that the tax rate would be constant, correct?

A. That's correct.

Q. And so you're -- the focus then was on what are the casino gross receipts against which the rate is applied, right?

A. Yes.

Q. Now, you see that the ten-year

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projections assume two-and-a-half percent year-over-year declines in fiscal year 2014, a one percent decline in 2015, a half a percent increase in fiscal year 2016 and '17, and a one percent increase thereafter through 2023, correct?

A. Yes.

Q. You did not make an independent finding as to that assumption, as to its reasonableness, correct?

A. Correct.

Q. Similarly, with the sensitivity analysis on Page 54, do you agree that that is an arithmetical exercise that's designed as to present what the impact of a one percentage point change in the gross receipts assumption is?

A. Yes.

Q. And what it is is it's about $16.3 million over the ten-year period, right?

A. That's correct.

Q. But you didn't undertake an assumption of the likelihood that that would happen, correct?

A. That's right.

Q. And just to save time, that's true

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for all the sensitivity analyses that you did, correct?

A. Yes.

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

A. That's correct.

Q. Now, did you see -- on Page 55, do you see that there is discussion around sales and charges for services?

Do you see that?

A. I do.

Q. You note in the pros that's below the table some changes that will happen around the -- the public lighting authority replacing the public lighting department.

Do you see that?

A. I do.

Q. That's presented in the fairly dramatic decrease in revenue that the PLD line item observes during that ten-year period, right?

A. Yes.

Q. So that, you're describing why that's happening there, right?

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A. Yes.

Q. Why that is forecast to happen, right?

But with respect to the other numbers, the other revenue categories other than PLD, your narrative says that the balance of these revenue categories are assumed to remain relatively constant over the time period, correct?

A. That's correct.

Q. And you did not make an independent assessment of whether that assumption was a reasonable one, correct?

A. Let's -- the -- the reason I think that this is reasonable is this is the baseline. Okay? There are a variety of changes, if you will, that will occur pursuant to the RRIs in some of these departments that you see in the revenue assumptions with the RRI. And this, you know, this goes to my desire to have a single set of projections built by department for the City.

So, you know, an easy example is fire. Right. These are these are ambulances charges and false alarm things. Okay? Because of changes in that department that are envisioned

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with the RRIs and the investment and the reconfiguring of that, you will see revenue enhancements in the fire department but they sit over in the RRI model.

Q. I see. So what you're saying is, separate and apart from the benefits that the RRIs drive on the sales and charges for services front, which is presented separately with them, it is reasonable to assume that sales and charges for services will not otherwise increase.

So you're effectively --

A. Yes.

Q. -- saying, I'm going to take the preliminary forecast which keeps them constant --

A. Right.

Q. -- but I'm comfortable with that because I know in the presentation of RRIs, there are revenue enhancements that include sales and charges for services; is that right?

A. It is. And the one --

Q. Okay.

A. -- thing that fundamentally changes in the baseline is the transfer of the lighting, okay, to the -- to the authority.

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Q. Which we talked about.

A. Right.

Q. Absolutely. Sorry. I meant with that caveat, I apologize.

A. Yes.

Q. Okay. So, the -- if we wanted to test the reasonableness of the City's assumptions regarding increases in sales and charges for services, what we really have to do is get under the hood of the RRIs and their likely impact on sales and charges for services?

A. You really have to combine them on a departmental level basis and then look at them.

Q. Right. We could build off these things if we added them all together --

A. Correct.

Q. -- and then looked at them?

A. Correct.

Q. Now, you didn't make that presentation, correct? In your report?

A. In our report I did not, no.

Q. And the City hasn't made that presentation either, correct?

A. That's correct.

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Q. So it's interesting. So in every other instance, though, where -- where the EY forecasters were forecasting revenue, they considered the impact of the RRIs, right, to the best of your knowledge?

A. Clearly with income tax and property tax.

Q. Oh, right. Good point. Good point.

A. They do it both ways.

Q. Yes. Fair -- fair correction.

But is it your understanding that when -- when they were forecasting --

A. Not wagering taxes.

Q. Right.

A. Not wagering taxes and not sales and services tax. Income, not taxes income.

Q. Yes. But is it your understanding that the EY forecasters did not consider the impact of restructuring reinvestment initiatives on sales and charges for services?

A. The Bob Kline group didn't do sales -- didn't do the categories we're talking about right now; sales and charges for services.

Q. Okay.

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A. That was done by somebody in on Gaurav 's direct team.

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

A. Yes. We did this.

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

A. Correct.

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

A. That's correct.

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

A. That's correct.

Q. We did talk about the nine percent, I'm sorry, we actually skipped forward to this

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page, didn't we?

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

A. I do.

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

A. That's correct.

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

A. I do.

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

A. Yes.

Q. Fair to say you did not test the assumptions around the specific utility user tax revenue assumptions by the City forecasters, correct?

A. Correct.

Q. So, let me ask you a question about

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the feasibility of the POA, if there's no exit financing.

In your opinion, you assumed that there would be. Do you remember that?

A. I did.

Q. Let's engage the hypothetical where Mr. Buckfire fails to obtain exit financing. How does that impact your finding of feasibility?

A. If there is no replacement source of funding?

Q. Yes.

A. Then I would conclude that the plan is not feasible.

Q. Why is that?

A. Because the -- going back to my definition of feasibility, it is both a quantitative and a qualitative assessment. I think the reinvestment initiatives, the RRIs, are important to the City's ability to deliver municipal services, to pay the commitments in the plan and the City does not have the surplus, the structural surplus in the next couple of years to execute on the RRIs without the exit financing.

Q. What is the basis for your assumption

that there will be exit financing?
A. Based on my discussions with Mr. Buckfire.
Q. What did he tell you?
A. He was highly confident that he was going to complete the exit financing at, you know, reasonable pricing which he's estimated to be six percent.
Q. Is that his estimate of the percentage?
A. That's -- that was his estimate at the point in time when I talked to him which was a couple of weeks ago.
Q. If the City places exit financing at a high interest rate, like a junk level interest rate, but it gets the exit financing, okay, so it gets the money but it's got to pay eight percent, then what happens to your feasibility opinion?
A. The interest rate probably does not affect feasibility simply because interest rates are generally low. And -- I have to look at it. I'd have to analyze it.
But -- but my concern about exit financing is much more binary; either you get it

or you don't.
Q. You want to get -- if you can get the cash to fund the restructuring and reinvestment initiatives, you're comfortable that it's feasible?
A. I am.
Q. Unless it's a ridiculous interest rate?
A. If it's 15 percent, it might be a problem --
Q. Credit card --
A. Yes.
Q. Yeah. Let me ask you to turn to Exhibit 3 to your report which details a lot of your communications.
A. Okay.
Q. And I note that I believe in your reliance material -- your -- in Exhibit 2, I don't want to characterize this, I think you talked about Exhibit 2 being all the sources of information that you or someone on your team reviewed in connection with your opinion, correct?
A. Correct.
Q. And I think you listed on there

communications with City of Detroit personnel, financial advisors, creditors and so forth, correct?
A. Correct.
MR. HACKNEY: I was wondering if I could make a request of counsel to get access to the e-mail communications that are listed on Exhibit 3. They are ostensibly things that she reviewed and it seems to have indicated they considered at some level or someone did. And I was thinking it wouldn't be too burdensome because it's a relatively defined time period and it's mainly what she was doing and they're all logged here so...
MR. KANE: Let us consider that and get back to you promptly. I think the Court's Order was pretty clear about what she was supposed to produce. So I'm not saying no, but we'll -- we'll talk it over outside the deposition and get back to you.
MR. HACKNEY: Yeah. So the Court said that -- that she should produce copies of any documents cited in the report or otherwise considered by the witness,

excluding documents previously produced in discovery and publicly available in professional literature?
MR. LERNER: Which order are you referring to?
MR. HACKNEY: That's the Order appointing Ms. Kopacz.
MR. LERNER: There's a subsequent Order that changes that.
MR. HACKNEY: That changes what she has to produce?
MR. LERNER: Yes.
MR. HACKNEY: But does it take this out?
MR. LERNER: It's confined to what she relied on, not what she considered.
BY MR. HACKNEY:
Q. Okay. Did you rely on these communications in Exhibit 3 in reaching your opinions?
A. I would really have to go through each one of them.
Q. Okay.
MR. HACKNEY: Well, I guess we would

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request that that occur. Your counsel can decide for themselves.

I guess my personal view is that the quickest course would be to produce them all and I can suss out which are the substantive once and which are the ones that say, I'll talk to you at 3:00. But I leave that for you all to decide.

A. I will represent to you most e-mail is about --

BY MR. HACKNEY:

Q. Scheduling?

A. Scheduling.

Q. Yea?

A. There's very little, if any, substantive dialogue.

Q. That's understood. I guess my expectation would be that you probably didn't rely on e-mails that say, I'll talk to you at 3:00.

A. No.

Q. But to the extent there is a substantive e-mail in which someone says, Here's some analysis or here's this, that's the type of e-mail you might have been more likely to rely on

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and that's the type of e-mail I would want to see.

Could you take a look at -- I'm sorry, these aren't numbered so we're going to have to work together with the dates a little bit.

Take a look on April 23rd, your first entry for April 23rd. That was the day after your appointment; is that right?

A. Yes.

Q. And do you see that you met with Judge Rosen there?

Do you see that?

A. I did.

Q. He's the Chief Judge of the Eastern District of Michigan. He's also the chief mediator in this case; is that right?

A. That's correct.

Q. Was that an in-person meeting?

A. It was.

Q. Where was it?

A. In his chambers.

Q. Tell me what you discussed with Judge Rosen?

A. That meeting --

MR. STEWART: I want to pose this one

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objection: Only that I don't know how this effects testimony with the mediation order. It's really your call. I just want to make sure you --

MR. HACKNEY: I just can't imagine that the independent expert who doesn't have a stake in the case is part of the mediation, but --

MR. STEWART: I didn't take a position. I just want to make sure that we didn't back into a problem.

BY MR. HACKNEY:

Q. Well, let's -- I mean, you never considered yourself to be part of the mediation, correct?

A. Correct.

Q. You're not a party to the case?

A. I am not.

Q. So -- so, you didn't understand yourself to be having communications incidental to the mediation when you talked with Mr. Rosen, correct?

A. Correct.

MR. KANE: Let me just make a

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statement.

She doesn't know. She -- counsel has never evaluated that on her behalf, so to the extent she asks questions, you ask questions and she answers them that are subject to some restriction or confidentiality, we're relying on all of you to say that's appropriate.

MR. STEWART: My concern would only be if Judge Rosen told her something that unbeknownst to me, you or her was from the mediation session; so I don't know. It's -- you'll have to question skillfully to avoid it is all.

MR. HACKNEY: I just think if Judge Rosen did, we'd better know.

MR. KANE: Here's what I'm saying, just so the record's clear. I'm not saying you can't ask her about it. I'm saying I don't want anyone saying she shouldn't have testified about that for some other reason or order that neither she nor her counsel knows about 'cause it's not within her or our scope.

MR. HACKNEY: Understood.

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And let me just respond to that, counsel, by saying, I am familiar with the mediation order and it is my personal expectation that we're going to have a whole separate set of problems if you were exposed to a bunch of communications that we can't examine you on, and I don't think you were, by definition, because I don't think you're part of the mediation.

I've asked you questions that indicate that you don't think you were either, and I don't know what more I could do to establish that it's not.

So, okay. I just want to let you know I'm not trying to trap you into telling me a bunch of things you ought not to. I gave this some thought and I don't see how you're part of the mediation.

THE WITNESS: My directions and my instruction from Judge Rosen, which we subsequently clarified after I was allowed to hire counsel, was that I don't really have any protection in terms of confidentiality or my discussions or any of that sort of thing.

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MR. HACKNEY: Fair enough.

BY MR. HACKNEY:

Q. So with that helpful colloquy, can you tell me what you discussed with Judge Rosen in this first meeting?

A. This meeting was at Judge Rosen's request and he -- we had lunch in his chambers and he welcomed me to Detroit.

He welcomed me to the case and he gave me background information on where the case was. He asked questions of me as to what I thought feasibility meant and what I intended to do. He offered to arrange a tour of the City for my team. That's what I recall.

Q. How long did you meet with him did you meet with him?

A. Probably an hour.

Q. Do you remember what specifically --

A. Lunch.

Q. Oh, it was over lunch?

A. It was lunch, he had sandwiches.

Q. It was lunch in his office?

A. It was lunch in his office.

Q. What do you remember he told you

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about the case background?

A. I -- you know, I really don't -- he gave me, you know, kind of a background on who all the players were, who the lawyers were, who the parties were, who the mediators were.

Q. Do you remember any specific people that he identified? Like do you remember him talking about Syncora?

A. No.

Q. Do you remember him talking about Mr. Stewart?

A. No.

Q. Any specific names you can remember, specific creditors?

A. I remember it was Eugene Driker, D-R-I-K-E-R. Mr. Driker is a mediator in this case, but I also worked with him many, many years ago on a matter and so we had a conversation about how Gene and Elaine were.

Q. Okay. And that was kind of how are they doing personally?

A. Yes. And, you know, it was just -- it was a common -- it was something we had in common.

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Q. Did you talk about the grand -- it's kind of hard to talk about the Detroit case without talking about the grand bargain.

Did you discuss the grand bargain in this meeting?

A. That was the first time I think I had heard the term "grand bargain."

Q. What did he tell but the grand bargain?

A. The grand bargain was -- I remember him telling me I didn't name it the grand bargain. But it was a -- in essence it was a public/private partnership, if you will, between the City and other private parties that would facilitate getting monies to retirees.

Q. Do you remember anything else he told you about the grand bargain?

A. I don't.

Q. Did he tell you that it was his idea?

A. I don't think he did.

Q. Did he tell that you Gene Driker was involved in the creation of the grand bargain?

A. I don't recall.

Q. Did he tell you about his efforts --

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whether he had engaged in of efforts to obtain funds from the foundations?

A. I don't recall.

Q. Did he tell you about how the amount of the grand bargain came about?

A. I don't recall.

Q. And then do you see that the very same day you get a call from Eugene, I think it means to say Driker on here?

A. It should say Driker, it's a typo.

Q. Was that a short call, just scheduling the tour?

A. Yes.

Q. What did you talk about with Mr. Driker on that call? Do you remember?

A. We talked about how long it had been since we had seen each other. Right? And that he wanted to arrange a tour for me and my team. And we talked about when I would have my team in place in Detroit so that we could do that.

Q. Okay. And was there anything else that you can recall about that call?

A. I don't.

Q. Now, do you see that on April 25th

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you had a call with Arthur O'Reilly of Honigman -- you had an e-mail from him?

A. Yes.

Q. You had an e-mail with him?

A. I had an -- I don't know if --

Q. Is that you to him or him to you?

A. Most of these e-mails were outbound from me to these people.

Q. Why did you want to schedule a meeting with the DIA?

A. I was -- I was on my listening tour during those early weeks and I was trying to schedule meetings with everybody that could give me information and all of the various stakeholders in the matter.

Q. How does the DIA figure into the City's feasibility, if at all, though?

A. At this point it does not. But --

Q. Okay. Why is that?

A. -- at that point -- because the grand bargain has -- has transferred those assets out of the -- they're not in the plan, so...

Q. Sorry. Were they ever in the plan?

A. No, they were never in the plan.

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Q. So, were you just -- I guess I'm trying to understand when you were thinking, I need to talk to the DIA, why were you thinking that you need to talk to the DIA to assess feasibility?

A. I needed to -- I wanted to talk with everybody that could give me information that would help me understand the status of the case, what the plan was about, and anything that might impact on my assessment of feasibility.

Q. Okay. I guess -- so let me take a step back.

Here's a fair point which is, I guess if the funding for the DIA is not going to come in, that could have an impact on feasibility; is that fair?

A. Yes.

Q. And was that one of your concerns?

A. Yes.

Q. And did you have communications with Mr. O'Reilly or others that were aimed at understanding the likelihood of the foundations to make their contributions?

A. Yes.

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Q. Who did you -- and the general background of why the foundations contributed and the whole nine yards?

A. I -- I met with the executive team from the DIA. Right? I met with chairman of the board. I met with foundations -- I mean, I think they're all detailed in here.

Q. So, like when it came to the executives -- let's start with the foundations.

What foundations did you speak to specifically about the grand bargain?

MR. KANE: Can I interject for a minute. Did you view this as going to her opinion on feasibility or reasonableness of assumptions?

And the only reason I'm asking that, and I will, again, defer to parties who know more about the issues and dynamics of the case, is because the Order appointing her also limits what she's supposed to testify about to those two issues.

So, again, in my interest, limited to protecting Ms. Kopacz's interest, I don't want her to go outside the bounds of that

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Order as reflected in Exhibit 2.

MR. HACKNEY: Well, I guess these are all communications that the Court ordered her to log and I'm trying to make sure I understand all of the content associated with them so I can evaluate whether it did.

So it's a little bit unknowable because I can imagine situations where people told her fact X about why a foundation contributed or whether it was good for the money and that has an impact on --

MR. KANE: Hold on --

MR. HACKNEY: -- feasibility in terms of City contributions.

MR. KANE: And I don't object to that and to the extent you're assessing whether it relates to that, I wouldn't object to it. All I'm saying is I'm making you aware of her limits on her testimony here so --

MR. HACKNEY: Yes.

MR. KANE: Okay.

MR. HACKNEY: I mean, I understand people may have told her things like their favorite flavor of ice cream, but -- not to

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be disrespectful, I'm not being --

MR. KANE: No, I --

MR. HACKNEY: But I'm saying to pick something that is clearly unrelated to her opinion, I am still trying to exhaust her knowledge on all of these subjects, even if somebody told you something is mundane, just because we tend not to decide today what is and is not something that could have impacted you, we just try to understand it all.

MR. KANE: Fair enough.

MR. HACKNEY: I appreciate the interjection, but --

MR. STEWART: Do you want to mark this? I don't want to get in the middle. I'm just raising the same question.

Paragraph -- this is the Judge's order of May 14th. Maybe there are other orders, you all are closer to it than me. When he talks about what is disclosed, Paragraph 3 of this Order says, "All information that the expert witness relies upon would be subject to disclosure in connection with the expert witness' report,

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deposition and trial testimony."

So, if it's something she relied on, clearly it's within this paragraph. But if it's not something she relied on, I'm assuming it's beyond the scope of what she can be examined about.

Maybe I'm wrong --

MR. HACKNEY: No, no, no. Because the standards for discovery are reasonably calculated to lead to discovery of admissible evidence.

MR. STEWART: I'm just wondering whether his order doesn't trump that.

MR. LERNER: By the way, this is the order to which I was referring, amends the original order that limits disclosure --

MR. HACKNEY: I mean, guys, this is a discovery deposition. I mean, I'm asking questions about communications the witness had. You know, it's -- they're logged in a report.

MR. KANE: And I haven't stopped you --

MR. HACKNEY: I know.

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MR. KANE: But once we establish what it was about -- and I'm not even trying to stop you now.

MR. HACKNEY: I understand. I just note the second sentence here says that she may not accept any information on the -- with the promise or representation of confidentiality. So it's sort of like don't -- don't mislead people into thinking they can tell you things on the sly and then you won't have to testify.

So my personal view it's been transparency across the board for Ms. Kopacz, and I don't what want to have to get the Judge on the phone and spend more time. I just want to go through these things and understand what she was told.

MR. STEWART: Let me suggest this. You could ask questions for foundational purposes, see if it's something she relied on and then we'll --

MR. HACKNEY: I actually, I don't accept that limitation.

MR. STEWART: Then I was going to say

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you can give me a standing objection and I'm not going to interrupt.

MR. HACKNEY: Absolutely. This doesn't preclude you from objecting to that on trial. Absolutely.

MR. KANE: Steve, I'm going to say one more thing and then just to kind of tie a bow around what I'm saying.

Exhibit 2 that we have marked, the earlier Order, Paragraph 3 limits the things she is, to quote, testify about.

So now that I've raised that, my view is Ms. Kopacz's interests are addressed and where that line is drawn is for the rest of you with objections or otherwise to address, not for me or her.

MR. HACKNEY: I appreciate that. And I acknowledge all admissibility objections are reserved. So maybe we can make that clear and get through the rest of this. 'Cause I -- I think that if we work together I can get through today and not carryover for tomorrow, and I know someone sitting across from me who will be glad to see the back of

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me. But when we lose time a little bit, I'm not complaining. But I do want to get through this.

BY MR. HACKNEY:

Q. You were saying that had you met with the foundations -- certain of the foundations themselves.

A. I met with the Kresge Foundation.

Q. That's Mr. Rapson?

A. That's Rapson. Yes. And Laura Trudeau.

Q. What did you talk about with them?

A. Lots of things.

Q. And I know that you can also discuss Detroit future city with Kresge because they're involved in Detroit future city. Let's separate grand bargain from Detroit future city.

What did you talk about on the subject of the grand bargain?

A. On the grand bargain we talked about the fund raising for the grand bargain from the foundations and the various private funding sources.

Q. What did Mr. Rapson tell you about

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that or Ms. Trudeau?

Rapson, R-A-P-S-O-N.

A. That he was very encouraged. He was pleased with the earlier responses. He was -- at that point in time he believed that they were going to be able to raise more than the 300- or $350 million that was originally projected for the foundation's contribution.

Q. Did he tell you why the Kresge Foundation decided to contribute?

A. I don't think so.

Q. Did he tell you about any of the communications that he had with the other foundations about what people said in terms of their enthusiasm or whatnot?

A. Yes.

Q. What did he say?

A. I remember him telling -- we talked specifically about the Ford Foundation and the fact that the Ford Foundation many years ago had moved to New York, but was really interested in contributing again to directly into Detroit.

We talked about the Carnegie Mellon -- one of the Carnegie Mellon type of foundations

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because of their commitment to art.

So it was, it was a broader outreach both in terms of endowments and -- and foundations that were really committed to the preservation of art and those that were committed to the City of Detroit.

Q. Did he tell you how it came to pass that the money was directed to the retirees instead of to the City?

A. No.

Q. Anything else that you can recall discussing with Mr. Rapson?

A. We talked -- we had an extensive conversation about future cities and we talked about the level of private funding that Detroit experiences, separate and apart from the things that were particular to the bankruptcy.

Q. And private funding is germane to feasibility because it impacts things that happen in the City in terms of its health, correct?

A. It's -- it was it was factor that I considered positively in that there's a lot of private funding that has gone in and Mr. Rapson believes will continue to come into the City that

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kind of supplements what -- what the City spends.
So a perfect example of that is when Roger Penske and Dan Gilbert bought police cruisers. That's unheard of. The private citizens write checks to governments to do things that governments should do.
Q. So, let me -- with these first two, you get an e-mail that -- you have an e-mail exchange with Mr. O'Reilly.
Was it merely to schedule your meeting with the DIA folks?
A. It was.
Q. We can talk about that later when we hit it on this log. I take it you didn't have any other interaction with Mr. O'Reilly?
A. I don't know Mr. O'Reilly, no.
Q. What did Mr. Levin write to you about the --
A. I actually think that I reached out to Mr. Levin first. I mean, they're all the same date, so it's kind of hard.
Q. These are you e-mailing people?
A. Yes. And I think, because I know Mr. Levin, I reached out to him and he said really

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the person you need to talk to is Mr. O'Reilly.
Q. Got it. Take a look down on April 30th. Do you see that you do a bus tour of the City with Mr. Driker and Jerry Stroop?
A. Yes.
Q. How long did that bus tour go on for?
A. About three hours, three and a half hours.
Q. And do you remember what Mr. Driker described during that bus tour, if anything to you?
A. We -- on that bus tour was my team as out there, there was Mr. Driker and his wife, and Jerry Stroop from Wayne State and the bus we were on was courtesy of the president of Wayne State.
And we did Mr. Driker's the good, the bad, and the ugly in Detroit.
Q. Can you remember what was discussed on that bus tour?
A. I mean, we -- we went to Bell Isle --
Q. Mainly pointing out areas saying this is Bell Isle, this is the art institute?
A. We went to Bell Isle. We went to the art institute. We did the midtown stuff. We

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looked at blight. We looked at the waterfront. We looked at the old Packard building. We looked at the Michigan train station.
Q. Anything else you can recall from that tour?
A. No, not really.
MR. HACKNEY: We're about near the end of this tape so it might be a good time to take an afternoon restroom break and we can try and push through the rest of this here.
THE WITNESS: Okay.
THE VIDEOGRAPHER: Thank you. The time now is approximately 4:27 p.m. We're going off the record. This is the end of Disk Number 4.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time now is 4:39 p.m. We're back on the record. This is the beginning of Disk Number 5.
BY MR. HACKNEY:
Q. Ms. Kopacz, welcome back.
A. Thank you.

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Q. Ma'am, I'd like to save some time because I questioned you fairly extensively about the revenue assumptions and with respect to the cost assumptions, I'm happy to go through each one of them like we did before. But I was wondering if I could establish something that I thought emerged fairly consistently on the revenue assumption which was, to the extent a description regarding a particular cost assumption doesn't include a specific finding by you regarding the reasonableness of that cost assumption, is it fair for the Court to infer that you did not make a specific finding about that cost assumption and that you treated it merely as part of your aggregate opinion?
A. Generally, I think that is a correct statement.
THE VIDEOGRAPHER: Can you please put your mike on and then maybe repeat your answer. Thank you.
THE WITNESS: I said generally I believe that is a correct statement.
BY MR. HACKNEY:
Q. Okay. Ma'am, are you aware that --

you know what the COPs are, the certificates of participation?

A. Generally, yes.

Q. Do you know that the COPs -- that the City soon to invalidate the COPs?

A. I'm aware of that, yes.

Q. Do you know that the COPs assert that if the COPs are invalidated, that the pension funds have to give back the approximately billion-four that was raised?

A. I've heard you say that before.

Q. And do you know -- I know you and I have talked about this and I've tried to describe sort of the general lay of the land, we've had a conversation on that subject, right?

A. We have.

Q. I mean, separate and part from me like -- do you know the fact that there have actually been claims filed or that the COPs have indicated that they would file these types of claims in the litigation or is it just based on what I told you?

A. It's based on what you told me. I didn't do any independent research.

Q. So your kind of understanding of the COPs invalidity case is based on the conversation that you had and I had about that subject?

A. Yes.

Q. Let me just ask you a freestanding question, then, which is assume hypothetically that at some point in the future, it could be a year after the bankruptcy plan is confirmed or three years, something in the order of one to five years, assume that the pension systems are ordered to disgorge a billion-four back to the COPs. Okay?

Have you made a determination as to whether the City would be feasible in that instance?

A. I have not.

Q. In your opinion, you are assuming that that has not come to pass; is that correct?

A. Correct.

MR. LERNER: Let me interrupt. Your question is the City's feasible.

MR. HACKNEY: Is the City's plan feasible. Fair amendment. Is the City's plan feasible.

Q. And I think my question was did you consider whether the City's plan was feasible in that circumstance?

A. No.

Q. Okay. As you sit here today, do you believe the City's plan would be feasible if that were to come to pass; that the City had to -- that the pension systems had to disgorge a billion-four?

A. I don't know.

Q. Okay. Do you believe that that's a sufficiently material issue as it relates to the City's potential pension obligations, that it could impact your opinion?

A. It is -- it is an issue. I've identified it in my report, along with a lot of other issues that are unresolved, that, depending on how they ultimately resolve themselves and what position, condition the City's in, could --

Q. Oh, I see. I didn't take your -- I saw the disclosure on that, but I actually read the disclosure to say that if the COPs were determined to be valid, it might impose higher obligations on the city, not addressing the

situation where they're determined to be invalid but they get disgorgement back.

A. We can read it.

Q. That's okay. It says what it says.

Let me try to -- let me put it this way, though: If you knew today that there was a high probability that the pension systems would disgorge $1.4 billion and that the City would have the obligation to make up the difference, would you find the plan feasible?

A. I would have to talk with the City about how they intended to make up that deficiency or modify the plan.

Q. Certainly if you modified the plan to take account of it, that could be a way it could become feasible. But under this plan's forecast, would the City be feasible if it had an additional $1.4 billion obligation thrust upon it?

A. I don't know, but probably not.

Q. Okay. And it's not something you've evaluated?

A. It is not.

Q. Okay. Going back to this the chart here. If you look down at May 7th.

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A. Uh-huh.

Q. Do you have that in front of you, ma'am?

A. I do.

Q. Do you see that you had a call with Judge Rosen? Do you see that?

A. I did.

Q. And what did you and Judge Rosen discuss on that call?

A. I called Judge Rosen because I was having difficulty accessing some information and that the City's counsel had requested to participate in all meetings and interviews that I had and I was honoring the order that the Judge had entered in April appointing me not to have any ex parte communication.

And I didn't know where to turn and I called Judge Rosen and I said, this is what I'm faced with and he said, you have my permission to call Judge Rhodes.

Q. I see. So Judge Rosen gave you permission to call Judge Rhodes?

A. He said it's okay. He said, for something like this, you can call him. And that's

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what I did.

Q. Okay. So did you talk about anything else other than that?

A. No.

Q. Okay. So -- so that went in an unexpected direction for me.

So were you -- were you saying, I want to talk to Judge Rhodes about it or did he say --

A. No.

Q. -- you've got to talk to Judge Rhodes?

A. I said I -- I've got these issues, I don't know how to handle them. Right. And he said -- and I said, I know I'm not supposed to talk to the Judge. And he said, in this instance you need to call the Judge and ask him what he wants you to do about it.

And at that point -- I never, ever did talk to him at that juncture, but he said "send me a letter."

Q. Judge Rhodes did?

A. Judge Rhodes said "send me a letter." So that was my first letter that I sent to the

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Court and --

Q. Let me -- sorry. Let me catch up to you before you go ahead of me. I'm sorry, I didn't mean to interrupt you. I didn't mean to be rude. I'm just trying to keep it organized chronologically.

Did Judge Rosen say that he had talked to Judge Rhodes and that Judge Rhodes said it was okay or was Judge Rosen just saying that unbidden, as far as you could tell?

A. Judge Rosen said, you -- again, I think you need to touch base with Judge Rhodes on this.

Q. Okay.

A. And even though you're not supposed to have ex parte communication, you need to call his office, explain the situation, and get direction on how he wants you to handle that.

Q. Okay. And so, then did you just say, okay, I will do that?

A. Yes.

Q. Okay. Did you say how do you know, Judge Rosen, what Judge Rhodes wants me to do?

A. He --

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Q. You're in a tough spot, I'm just curious --

A. Judge Rosen said, If he gets mad at you, tell him I said it was okay.

Q. Okay. Well, that's fair enough. I'm not making fun of you, you were in a -- what was the problem you were having that militated the call?

A. There are really two things, we were having trouble getting the working models. Okay. And counsel had requested to participate in all of my interviews.

Q. Was that bogging you down a bit in terms of setting them up?

A. It was just -- it was raising the whole issue of, you know, what sort of openness I would have. And again, it wasn't going to affect the questions I asked. Right. But it might affect what people were telling me.

Q. Interesting. Okay.

Now, so then you -- okay, so I'm assuming you got off the phone with Judge Rosen and you called Judge Rhodes?

A. I called Judge Rhodes.

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Q. You called his chambers?
A. I did.
Q. You did not speak with the man himself, though?
A. I did not.
Q. Who did you speak with?
A. I spoke to Christine.
Q. Christine Secula?
A. Secula.
Q. Where you relayed to her and said Judge Rosen told me to call Judge Rhodes about the problems I'm having or words to that effect.
A. Yes.
Q. And what did she say?
A. She said let me -- she said I will make the Judge aware of it.
Q. Okay. So then -- then what happened on this front? Did she call you back?
A. And she called me back and said "send Judge Rhodes a letter."
Q. I see.
A. "And he will schedule it promptly for hearing."
Q. And not to sharp shoot you, I take it

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her calling you back is kind of subsumed in this entry here of your call to Judge Rhodes?
A. Yes.
Q. That was one where it kind of went bang-bang and so in your mind it was all one?
A. Yes.
Q. Okay.
A. I -- I would, yes. I would not have entered two --
Q. Yeah.
A. -- call reply.
Q. Okay.
A. No, all I'd be doing was logging stuff.
Q. Yeah, it gets tiresome too.
So, on May 7th -- okay, then this is all the same day. Okay? This is a big -- big day. Then Mr. Ravitch called you -- or you the call him -- or you meet with him. I'm sorry. Do you see that?
A. I do.
Q. Now, where did you -- first of all, who initiated the meeting?
A. I had reached out to Mr. Ravitch at

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some point after I had been appointed. I actually reached out to all of the other candidates that had been part of the -- the short list of people interviewed and I knew that obviously the Judge had -- had appointed Mr. Ravitch as a nontestifying expert and so this was I believe Mr. Ravitch's first visit to Detroit and Mr. Gleason and I met with him to give him some background on what we were doing.
Q. So this was -- and so where did you meet with him?
A. In the -- the work space we had at the City building.
Q. Was that the Coleman A. Young administrative center that you worked in?
A. Yes.
Q. Okay. I think --
A. City Hall.
Q. -- City Hall for lack of a better term?
A. Yes.
Q. And how long did your meeting with Mr. Ravitch go for?
A. I don't know. We could look at my

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time records.
Q. Okay. So you have time records. Okay.
Was it more than like, Hey, how are you doing? Was it an hour?
A. Like I said, I don't know. I mean it -- I'm -- I think it was more than an hour.
Q. Yeah. It was a substantive meeting?
A. Yes.
Q. And what did you tell him about what you all were doing?
A. I think we shared -- I'm -- I'm -- my recollection is we talked about what we were doing, what the approach was, how our team was structured. Who we had met with, who we were meeting with. Shared with him what we knew of kind of the professionals and what people were doing, what E&Y was doing, what Conway was doing, the other professionals involved.
Q. And then what did he tell about what he was doing, if anything?
MR. KANE: Wait a minute. Isn't he the Court's nontestifying expert?
MR. HACKNEY: Yeah.

MR. KANE: Then why would you be entitled to discover what he said about what he was doing or thinking?

MR. HACKNEY: Because it was communications that he had with the person who is doing the testifying. I want to know what she was told.

MR. KANE: Well, what he was doing would not be discoverable and under 26(b)(4), just because there's a communication with an expert doesn't mean it's discoverable at least since 2010.

MR. HACKNEY: Well, it's not privileged.

MR. KANE: You're trying to discover communications of a nontestifying expert, right?

MR. HACKNEY: I'm trying to discover communications with a testifying expert. If he says, I'm working on this and I think it's really important that whatever happens in this City includes a ton of blight remediation, I have to understand what he said because of the impact it may have had on

this witness.

MR. KANE: Because it's communication to her?

MR. HACKNEY: Yes. It's -- it's a clearly potentially discoverable communication.

MR. KANE: On what basis?

MR. HACKNEY: I want to know what Mr. Ravitch said to her.

MR. KANE: I know. That's my concern.

MR. HACKNEY: You're not -- you're not limited to asking someone about what they relied on. You're -- you're entitled to ask questions that are reasonably calculated to lead to the discovery of admissible evidence.

MR. KANE: Within the limites of 26(b)(4), which would tell you that communications with a party -- between a party and the expert are protected by work product --

MR. HACKNEY: Well, not --

MR. KANE: -- and specific communications you're asking her about are

Judge Rhodes' nontestifying expert.

MR. HACKNEY: I don't -- I can't imagine that I'm not entitled to ask her about these questions where the Judge's order forbids this witness from communicating with him. So to the extent that he's the party, 26(b)(4) wouldn't apply in this circumstance. This is not your normal circumstance. And if we have to get the Court on the phone, let's get him on the phone.

MR. KANE: Well, look, as I told you before, I guess I have both the burden and luxury of being in a position of ignorance about most of the issues about what's going on in the case. So, I guess if you guys are going to sort it out and you're telling her you want her to disclose to you what the Judge's nontestifying expert said, which I have no idea what it is --

MR. HACKNEY: I don't either.

MR. KANE: -- then I'm going to leave that to you and the rest of the parties.

MR. HACKNEY: I appreciate that. I'm not aware of any privilege that applies to

it. I don't know whether he said anything. He may have said I love Snickers bars, or he might have sat silently or whatever.

BY MR. HACKNEY:

Q. I just want to know what he told you. Until I know what he told you, I can't know what impact it may or may not have had on you.

MR. KANE: Or at least right now, before, again, from my position of ignorance, we should seek further guidance, go ahead and answer for know now.

THE WITNESS: Mr. Ravitch told me that he really had no clue as to what Judge Rhodes want him to do.

BY MR. HACKNEY:

Q. Okay. Anything other than that that you remember?

A. No.

Q. So the information transfer in this instance was mainly going from you to him. He was mainly listening and you were mainly talking?

A. Yes.

Q. Okay. Now, did you tell him that there was anything that he could or could not do

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with the information that commune -- you communicated to him?
A. I don't think so, no.
Q. Okay. And what was your expectation about what he would do with the information that you gave to him?
A. I don't think I had any expectation.
Q. Or just, I guess, help me understand why you were meeting with him.
A. Mr. Ravitch, the Judge had retained him to be his nontestifying expert. Mr. Ravitch has had enormous amount history and experience in difficult municipal situations and I think that, again, with -- my desire throughout this entire situation has been to absorb every bit of information that I can, to -- to get as much information as I can, to be a sponge, if you will. And Mr. Ravitch is very knowledgeable about municipal finance and a lot of things having from his days of turning around the MTA here in New York and being involved with the insolvency of New York City and various and sundry -- being lieutenant governor of the state. So...
Q. So were you mainly conveying what you

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were doing to him because you wanted to get his responses as to whether he thought you were doing the right types of stuff?
A. I wasn't so -- I wasn't concerned about whether Mr. Ravitch thought my approach or -- to it was right or wrong, right? I was -- I was comfortable in knowing what we needed to do. I was interested in picking -- you know, listening to what he had to say and what the lessons learned that he had from all of his prior experiences.
Q. Okay. Did he relay any of those to you in this meeting?
A. I don't know if it was in that meeting or -- or a subsequent meeting, but we -- you know, we have talked extensively about the New York situation and why they were successful in saving the City from bankruptcy and turning it around. Those kinds of things.
Q. And, in fact, you have had a number of communications with Mr. Ravitch either in person or on the phone; isn't that correct?
A. That's correct.
Q. Okay. And over time, did you continue to convey to him what you were doing on

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the case and what you were thinking about?
A. Generally, yes.
Q. And was it for the purpose of obtaining his feedback about what he thought based on his experience?
A. There -- there were --
Q. He's a pretty valuable resource, so...
A. He's a very valuable resource and -- and Mr. Ravitch knows a lot about municipal budgeting. He's got some very definite views on that. He knows a lot about public pensions and, again, he is one of many resources that, you know, I think I -- I have reached out to. I reached out to Peter Hammer who was also part of the short list of people interviewed.
Q. Now, sorry to interrupt.
A. Yeah.
Q. I was going to say, now, Mr. Ravitch, I don't have his order appointment in front of me, but he was somebody who was also I think interviewed for the position of feasibility expert, correct?
A. Correct.

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Q. And is it your understanding that the advice he was rendering to the Court was on a subject of feasibility?
A. I don't know.
Q. Okay. 'Cause in the first meeting he told you that he had no idea what the Judge wanted him to do?
A. Right.
Q. Did he subsequently convey to you that he now understood what he was doing and tell you what he was doing?
A. My recollection and I -- and I believe his order is the next one on the docket after my order, and I think that his order was to advise the Court on viability, maybe municipal finance or something like that. It was not -- it was not like my order.
Q. Was it -- my recollection is that it -- that one of the things that was on it was post-confirmation governance.
A. Maybe.
Q. Does that ring a bell?
A. Maybe. It could be.
Q. Now, post-confirmation governance is

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definitely something that factors in to feasibility, right?

A. Yes.

Q. That was an important part of your opinion?

A. Yes.

Q. Did you ever discuss post-confirmation governance with Mr. Ravitch?

A. Yes.

Q. Are you able to separate in your mind your meetings with Mr. Ravitch?

A. Not really.

Q. So if -- I'm going to -- I can go through them one by one. People tend to remember, you know, substance of communications with people as opposed to like the dates and so on and so forth. I am happy to do it either way. If it's helpful to go, oh, yeah, May 30th, I remember, we can do it that way.

A. I can, you know, for example, if we could determine when the original house bills related to the Grand Bargain were drafted and those came out with the post-oversight -- post-confirmation oversight provisions in them, it

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would have been around that time when I would have talked to Mr. Ravitch about post-confirmation oversight.

Q. Okay. Like, let me -- let me do it this way.

My recollection -- my perusal here, to me it looks like you had -- it looks like you had six or seven communications with Mr. Ravitch either on the phone or in person. Does that sound about correct?

A. If that's what they add up to.

Q. I'm going to go back to -- and I -- at no time did you tell Mr. Ravitch that he could not disclose what you were telling him, correct? You never limited who he could talk to, right?

A. I -- I don't think any discussion like that ever came up.

Q. Okay. Now, there are some notes here about what you talked about him with. I'm going to use those as kind of a prime to see if it helps you remember like what you were talking about.

One of the next notes on Mr. Ravitch relates to pensions.

A. Can you --

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MR. STEWART: What day?

THE WITNESS: What day are we talking about?

BY MR. HACKNEY:

Q. Oh, sure. I'm happy to look at the date. It's May 19, 2014.

A. Pension. Okay?

Q. Yes. Do you remember what you talked about on that subject?

A. Not specifically.

Q. Generally?

A. Generally, we talked -- I talked to Mr. Ravitch a lot about pensions.

Q. Okay. What have you talked about?

A. We've talked about the rate of return, the investment rate of return. We've talked about the appropriateness of using the rate of return as a discount for future liability.

Q. Anything else?

A. That's probably it.

Q. Now, did he convey to you what his thoughts were on the subject?

A. Yes.

Q. And what did he tell you?

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MR. KANE: Don't answer that without further guidance from the Court.

THE WITNESS: Okay.

MR. HACKNEY: Okay. This witness has said that she was specifically talking to Mr. Ravitch because he was effectively a wise person and a resource on the subject of things that relate to feasibility. That's why she's talking to him.

And he's telling her things about what he thinks and he's an acknowledged person that applied for the same position. And we're talking about pensions and what this person thought on the subject of pensions and pensions are in her report.

MR. KANE: Okay.

MR. HACKNEY: I mean, what is the possible basis to instruct someone not to answer the question?

MR. KANE: Well, two bases. You're trying to discover opinions, as I understand it, and I'm not telling you you can't ask about this. I just think you mentioned a number -- a number of times getting

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instruction from the Court. I think that might be a good idea in this case given Mr. Ravitch's role and his, as I understand it, and perhaps you all understand it better than me, role as a nontestifying expert for the Court.

Further, you keep saying that you are entitled to discover all communications with an expert. That's not accurate. 26(b)(4) specifically limits your ability to discover communications with even a testifying expert.

MR. HACKNEY: Well, actually, that -- that's interesting. I'll put it to you.

Are you asserting the privilege over communications between Ms. -- Ms. Kopacz and Mr. Ravitch?

MR. KANE: What I'm asserting, Steve, is that there is an order specifically limiting the subjects that Ms. Kopacz is supposed to testify about and that you're asking her to discover opinions about something you've acknowledge to do me when I asked is a nontestifying expert when I --

MR. HACKNEY: I cannot discover his

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opinions. I can't discover his opinions except by deposing him. I can discover what he told her. That's all I'm asking.

MR. KANE: Why?

MR. HACKNEY: I don't care what he actually thought. She doesn't know what he actually thought. She only knows what he told her. That's all I'm asking about on a subject that relates to her opinion.

MR. KANE: Well --

MR. HACKNEY: I just --

MR. KANE: If --

MR. STEWART: I don't want to slow anyone down. It's been's long day.

I actually do concur. This is probably a point that would not be a bad idea to get the judge's guidance.

MR. HACKNEY: Let's do it then. Let's get the Judge on the phone. I'm surprised at the level of obstruction that I'm achieving. I mean, we've had a lot of colloquies. Now we're getting the Judge on the phone.

MR. STEWART: Steve --

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MR. HACKNEY: Let's get the Judge on the phone. That's what I say.

MR. STEWART: Let's get the Judge whenever you can get him and circle back to this later.

MR. HACKNEY: Well, I want to do it now.

MR. PEREZ: Let's stop it and do it now.

MR. HACKNEY: Let's get him on the phone.

THE VIDEOGRAPHER: Off the record.

MR. PEREZ: Keep it on.

(Whereupon, a brief discussion was held off record.)

MR. HACKNEY: Does anyone have the chamber's number or should I look it up?

MR. LERNER: I have it.

MR. HACKNEY: Can you guys dial it over there? I can't reach it.

MR. KANE: We can't dial it from that phone. We're keeping the --

MR. STEWART: I'm asking --

MR. LERNER: 234-0020.

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MR. HACKNEY: Here, let's do this. Let's do this. Since we're coming -- let's do -- let's do non-Ravitch questions.

MR. STEWART: Right.

MR. HACKNEY: -- and see what we can get done and then let's engage the Court when we can and pick it up again.

MS. QUADROZZI: Can I make a suggestion? Maybe you can call the Court's chamber, let him know we have an issue since it's 5:00.

MR. HACKNEY: Yeah. It's 4:00 Eastern -- yeah, you're right. It's 5:00. So I just want to --

MS. QUADROZZI: I mean, you can keep on asking questions, but just say is there a time that we can call in and then we're not waiting around for it.

MR. HACKNEY: Yeah. I mean it -- I don't mean to impose, but if -- if there's somebody who doesn't mind stepping out in the lobby and calling, I'd be obliged and maybe we can keep going.

MS. QUADROZZI: I'm happy to call.

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MR. HACKNEY: Okay. So --

MS. QUADROZZI: I'm sorry. Can somebody repeat the number for me?

MR. LERNER: It's 313-234-0020.

MS. QUADROZZI: 0020. Okay.

BY MR. HACKNEY:

Q. Okay. So, ma'am, we're going to go around the Ravitch questions --

A. Okay.

Q. -- because of the -- the extreme controversy around those -- those questions.

So go back to the chart and take a look at May 7th, 2014, where you speak to Gene Gargaro, Graham Beal, Annemarie -- Annemarie Erickson of the DIA. Do you see that?

A. Yes.

Q. And was this the meeting that you had attempted to schedule a couple weeks earlier with Mr. O'Reilly and Mr. Levin?

A. Yes.

Q. And this -- the subject matter is "Art Disposition and Grand Bargain Feasibility."

Do you see that?

A. Yes.

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Q. So on the subject of the art disposition, what do you recall being discussed?

A. My area of inquiry to the DIA executives and Gene, who is the board of trustees, was really whether or not the art was salable.

Q. And why did you want to know that?

A. Because I knew that there were -- that it was an asset, if you will, arguably of the estate. And that it may or may not factor in in some way down the road into the reorganization plan.

Q. Okay. And what did they tell you?

A. Couple of different things that were important. One was the fact that the City really had not funded the DIA for more than 20 years. And they explained to me the history and how the City came to own the Institute of Art and explained to me all of the various requests and bequeaths of how much of the art came to the DIA over time and history and, you know, that sort of thing. So I got a good history lesson in how the Institute came to be and really I was surprised because the City had not -- the City had not funded or supported the DIA in at least about

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20 years.

Q. Why were you surprised by that?

A. It was -- I just -- you know, I expected -- I don't know why, but I expected that at some point I'd go to into the City budget and I'd find, you know, hundreds of thousands of million dollars going to support the DIA, and the City never did that, right? Because it couldn't, right? It never had the ability to -- to, you know, fund, if you will, the art and so I thought that was -- I thought that was interesting.

And then we really focused on the hundred million that the DIA was committing to the Grand Bargain and where that was going to come from and why they thought they could raise it. We talked a little bit about what they thought about the foundation's ability to raise money. We talked about the -- the last time they had done a capital raise to -- to do the renovation and that was -- and that was sum total of that.

Q. Where was this meeting?

A. At the DIA.

Q. What do you remember them telling you about the DIA's ability to raise money?

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A. That -- that they believed that Mr. Gargaro believed and Mr. Beal believed that the current benefactors of the DIA would be responsive and that they would be able to raise the $100 million that was proposed.

Q. Anything else you can recall in that?

A. No.

Q. And what did they say about the foundation's ability to make their commitments?

A. That they had -- again, they referred me to Rip Rapson at Kresge and that really they -- there was some small overlap between some of the foundation money and the DIA money in the sense that there were individuals who were supportive of the DIA that might be on the foundation side as well.

Q. Anything else that you can recall on that subject?

A. I can't.

Q. Do you remember how long this meeting lasted?

A. I don't. It would probably be in my time records.

Q. Now, the same day, on May 7th, you --

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you have a dinner party; is that right?

A. I was a guest at a dinner party, yes.

Q. Yeah. You attend a dinner party. You didn't throw it.

A. Yes.

Q. Okay. Who did throw it?

A. Bob and Susie Bluestein.

Q. And who are they?

A. They are mutual friends of Judge Rosen and Mr. Ravitch and Mr. Rapson and Mr. Lewand and Mr. Driker.

MS. QUADROZZI: When they transfer the Judge, he 's going to be on this phone.

MR. HACKNEY: Okay. So we're going to do it here? Let's do it on the record.

MS. QUADROZZI: Thank you.

(Whereupon, a brief discussion was held off record.)

MS. QUADROZZI: Hello?

JUDGE RHODES: Hello.

MR. HACKNEY: Hello, Judge Rhodes. Can you --

JUDGE RHODES: Hi.

MR. HACKNEY: Can you hear us okay?

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JUDGE RHODES: This is Judge Rhodes.

MR. HACKNEY: Judge Rhodes, can you hear me okay?

JUDGE RHODES: Yes. Who is on the line, please?

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.

Would you like us to all identify ourselves? It's also reflected in ths deposition transcript --

JUDGE RHODES: Yes.

MR. HACKNEY: -- for what it's worth.

JUDGE RHODES: Okay.

MR. HACKNEY: I expect that only me and -- well, it's up to you, Judge. Do you want everyone to say who is here?

JUDGE RHODES: I do.

MR. HACKNEY: Okay. I'm sorry. Go ahead.

MR. LERNER: Pass the phone around.

MR. KANE: So, Your Honor, this is Scott Kane from Squire who is defending

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Ms. Kopacz's deposition.

MR. PEREZ: Your Honor, Alfredo Perez on behalf of FIGC.

MS. DEEBY: Shannon Deeby on behalf of the retirement systems.

MR. SCHMITZ: Joe Schmitz on behalf of the retirement systems.

MR. STEWART: Your Honor, Geoffrey Stewart, Chris DiPompeo and Alex Blanchard of Jones Day on behalf of the City.

MR. BRILLIANT: Allan Brilliant on behalf of Macomb County.

MR. LERNER: Stephen Lerner also of Squire Patton Boggs for Ms. Kopacz.

MR. ALBERTS: Sam Alberts from Dentons on behalf of the official committee of retirees.

MS. SCHAPIRA: Lisa Schapira of Chadbourne & Parke for Assured Guaranty Municipal Corp.

MS. HITCHINS: Kathleen Hitchins with Sidley Austin on behalf of National Public Finance Guaranty Corporation. I also add, Your Honor, that this is being recorded by

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the -- 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.

Your Honor, if --

MS. KOGAN: Olga Kogan on behalf of Merrill Lynch.

MR. HACKNEY: Your Honor, if I could set it up and I'll turn it over to Ms. Kopacz's counsel.

We're at the end of day one of Ms. Kopacz's deposition and I am taking Ms. Kopacz through Exhibit 3 to her report, which includes all of her communications with

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anyone, that you'll recall she agreed to keep as a log of all of her communications, and I'm basically trying to exhaust her memory about what she discussed in all of these conversations. I'm asking her what she said to the person and what the person said to her.

The controversy has erupted around her communications with Richard Ravitch who is the Court-appointed expert.

Ms. Kopacz met with Mr. Ravitch on a number of occasions or spoke to him on the phone and when I've sought to examine her on what she said to him and what he said to her, there has been questions interposed by her counsel as to whether that's appropriate, and I really appreciate you getting on the phone with us because our hope is that we can get it knocked out and ruled on, one way or the other, and I'll turn it over to counsel to refine it any.

MR. KANE: Yes, Your Honor. So this is Scott Kane again. Here's how I would frame the issue and I did for Mr. Hackney.

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I guess I have the burden and the luxury of being ignorant about many other things that are going on in this case.

I do know that your order appointing Ms. Kopacz indicated that her testimony was to be limited to her opinion on feasibility and the reasonableness of projections, and I understand, generally, without knowing the details, that Mr. Ravitch is a Court-appointed nontestifying expert.

So, my concern about letting Ms. Kopacz testify about views held by a nontestifying expert without seeking guidance from the Court first is, I don't want her inadvertently to waive any protection for Mr. Ravitch's opinions or otherwise stray beyond what is supposed to be the permissible scope of this deposition.

MR. HACKNEY: And if I could just add, and I'll let --

JUDGE RHODES: Let me just -- let me just stop you all and -- and tell you that I think that Ms. Kopacz should have -- answer any -- excuse me -- any and all of your

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questions regarding her communications.

MR. KANE: He said Ms. Kopacz should answer any and all questions regarding her communications with Mr. Ravitch.

JUDGE RHODES: Yes, sir.

MR. HACKNEY: Good enough.

MR. KANE: Thank you for your guidance, Your Honor.

MR. HACKNEY: Sorry to trouble you, Your Honor.

MR. LERNER: Thank you, Judge.

JUDGE RHODES: You're welcome.

MR. HACKNEY: Thank you.

MR. LERNER: Bye-bye. Thank you.

JUDGE RHODES: Okay. Is that it?

MR. LERNER: Yeah. That's it. We're going to hang up. We appreciate your time, Your Honor.

MR. HACKNEY: Okay. That was exciting. So, we're going to finish this dinner party thing and then we'll go back to the --

MR. LERNER: As long as we can have cocktails.

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MR. PEREZ: What was served at the dinner party?

(Whereupon, a brief discussion was held off record.)

MR. HACKNEY: So, sorry. We got interrupted -- by the way, thanks a lot, Jaye, I appreciate it. She went away.

MS. QUADROZZI: Okay.

MR. HACKNEY: That was helpful. Thank you.

BY MR. HACKNEY:

Q. So, I think you were saying a lot of these folks knew each other. There were common bonds between them?

A. Yes.

Q. So you had this dinner party and it was at the Bluesteins' house?

A. At their house.

Q. And then the attendees were all listed here in your entry except their spouses that also attended for certain of the people that came, right?

A. Yes.

Q. And I take it that everyone that's

not identified by name on here is a spouse. You didn't leave any sort of principals off, so to speak.
A. No, I did not.
Q. Okay. And what did you talk about? How long did the dinner party go and what -- what did you all talk about?
A. I would say the dinner party was a couple of hours. It was a -- it was really an occasion for Mr. Ravitch and I to meet all of these people because other than Judge Rosen and Mr. Driker and I had just met Mr. Gargaro that day, the rest of those people I had never met and I don't think that, other than Judge Rosen and the Bluesteins, I don't think Mr. Ravitch knew any of these people. So it was just a -- it was a welcoming dinner, if you will.
Q. So, let me ask you a question.
Were you concerned at all as an independent expert about the informality, so to speak, of kind of breaking bread with, for example, Kevyn Orr?
A. Not at all.
Q. No? Why not?

A. Why would I be? I mean it's not going to impact my view of the plan whether or not I've had a meal with these people.
Q. Did you have -- did you take meals with any -- anybody else other than this? This is I think one of the only dinner parties I saw.
A. There were -- there were a couple of different dinner parties. I've had -- I've had breakfast with people. I've had -- I don't generally do lunch.
Q. Who was the other dinner party with?
A. There was another -- there was another -- there was another dinner party somewhere. It may be listed as a meeting, but it was after that -- it was -- it was June 11th.
Q. The one where it's with Judge Rosen?
A. Judge Rosen and that whole group of people. Steven was on the phone. He wasn't there. But basically this group left and went to dinner.
Q. On June 11th?
A. On June 11th.
Q. Was that a meeting that started in Judge Rosen's chambers?

A. Yes, it was.
Q. And then after it was revolved, everybody went out to dinner?
A. Everyone went to the Bluesteins' country club. They hosted again.
Q. Okay. Do you remember how many people were at that dinner?
A. Dozen. Maybe.
Q. So, what do you remember Judge Rosen talking about at the May 7th dinner party back on in 2014? He's a fairly voluble -- I won't characterize him, but he's a dynamic person. I -- I haven't met him in person, but I've seen his press conferences --
A. I'm trying to remember.
Q. -- he's not somebody who I -- I view as a shrinking violet, and I was wondering whether he had conveyed to you his views?
A. I'm not -- I'm trying to remember how the seating was because there were -- like the May -- at the May 7th, there were two large tables, one in their dining room and one on their -- on their patio or screened-in porch, and I remember the mayor was on my right. Mr. Ravitch

was on my left and Kevyn was across from me and Tom Lewand was over there. And to be honest with you, I can't remember who was at the rest of my table versus who was at the other table.
Q. But you know -- was Judge Rosen at the other table?
A. I think he may have been at the other table. I don't know.
Q. And so were people basically talking about the case and how it was going and the City and --
A. Not really. The -- the conversation was a lot more social and informal. I mean, I learned about, you know, where Kevyn Orr went to college and, you know, what Mike Duggan had done with his life and how Tom Lewand got to the City. I mean, that was the discussion, right?
Q. Okay. It was sort of getting to know the people more than it was talking about the substance of your assignment or the case? More polite sort of?
A. It was -- Yes. Yes. You know, and I think, you know, Dick was -- Dick Ravitch was -- was -- we were having all kinds lots -- of

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storytelling going on, my recollection.
Q. Now, let's go back to the communications with Mr. Ravitch and kind of run through those if we could.
A. Okay.
Q. So the -- the next -- the next one that I saw after the dinner party we were just talking about on May 7th --
A. Uh-huh.
Q. -- was on May 15th. Do you see that?
A. Yes.
Q. And what was -- what -- yeah, I'm actually one before, sorry. The engagement update, do you see that?
A. Yes.
Q. Tell me what you can recall occurring during that call.
A. I don't recall that call at all.
Q. Okay. I guess at some point maybe you wrote down "engagement update" like did you keep te log contemporaneously or do you know if you went back and --
A. No. For the most part I kept this contemporaneously within a day or so, otherwise I

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don't think I would have been able to do it.
Q. Do you know if engagement update means that you were updating him on your engagement or he was updating you on his?
A. No. Generally -- generally, the -- the communication that I had with Mr. Ravitch was telling him what we were doing.
Q. Okay.
A. Okay?
Q. And so, I just want to understand, when you're telling him what you're doing, why are -- I think I asked you this before.
Is it -- why are you telling him what you're doing? Is it so that he can give you feedback? Which is a fine reason to speak to someone with his experience. I just want to understand your state of mind --
A. Yes -- I mean, yes and no. In the sense of if there were -- you know, I -- I can tell you that, you know, there are points where Mr. Ravitch and I agree. There are points where Mr. Ravitch and I don't agree. And so in those, and we -- and that developed over time and over discussions during this case, so --

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Q. Were you telling him what you were working on because you mainly wanted to make sure he was just generally kept abreast of what you were doing? Were you like thinking I should update Dick on what I'm up to?
A. It's really just, I -- it's professional courtesy. It's politeness. He, again, you know, is -- is trying to do whatever it is that he's doing for the Judge and he doesn't have a staff, right? So, he's not going to be looking into things as deeply as we are or that sort of thing. So it was really just probably whatever I was thinking about at the moment.
Q. And you don't remember him updating you on what he was doing?
A. I don't -- I don't have knowledge of what he was doing necessarily, no. I just -- I don't.
Q. Okay. The next entry for Judge Ravitch -- Mr. Ravitch is May 19th, which is four days later, and it just says "pensions."
A. Yes.
Q. Do you -- so we had gotten started on that one and --

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A. Yes.
Q. -- you said that you talked about the discount rate for assets and liabilities and then I said --
A. Yes.
Q. -- what did he -- he tell you about what he thought? What did he tell you and what do you remember about that?
A. Well, I think, he's been -- Mr. Ravitch has -- has -- as part of the Bolger Commission and those sorts of things, he's been very outspoken on public pensions and so I -- we -- my team and I talked to Mr. Ravitch about his views and I can, for the most part, right, in addition to other people that I talked to about pensions, generally, Mr. Ravitch and I are in agreement on what I've written about in this report as it relates to pensions.
Q. And in this conversation on pensions was he conveying to you some of his thoughts on pensions in terms of how they're reported or --
A. Yes.
Q. -- you know --
A. Yes. I mean --

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Q. -- funding levels, et cetera?

A. -- Mr. Ravitch and I both fundamentally agree that, you know, at some point you should fund a pension plan fully.

Q. So let me tell you, ma'am, I'd hoped to get through, but I, for a variety of reasons, I'm not going to quite get there and I'm wondering given the length of the day whether it's more fair to the witness to call it a day. I don't think I have a ton of time, but sometimes you can keep stretching people and stretching people and all of a sudden you go 45 minutes past when you think. And I thought if it's okay with everybody, I didn't know if we could break for the day.

MR. LERNER: How much -- how much longer do you think you have?

MR. HACKNEY: The problem is I'm not sure. It -- it -- there's part of me that just wants to go for it and there's part of me that doesn't want to be sitting here an hour later and go, I didn't realize this was going to be that long.

MR. LERNER: Those who are content to ask other questions, maybe just give an idea

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of how much time you think you'll take knowing that it's just a guess.

MR. WAGNER: I would say probably 45 minutes an hour.

MR. BRILLIANT: You know, because Guy Neal is going to go first.

MS. QUADROZZI: I think that should be one or two hours.

MR. BRILLIANT: And then I -- I may have some, you know, follow-up questions -- just --maybe a half hour.

Jaye, are you asking questions?

MS. QUADROZZI: I think by the time Guy goes, he's got 45 and he's got a half hour, I'll--

MR. HACKNEY: Make no mistake, I'll push on. I just want to give fair warning that I thought that I'm not just five minutes away and so I thought it is 5:30.

MR. KANE: I appreciate the courtesy. She said she's okay.

THE WITNESS: I'm okay.

MR. HACKNEY: You're good to go?

THE WITNESS: I'm good to go.

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MR. HACKNEY: Okay. Let's see if we can get done then.

THE WITNESS: With all due respect though, I would like not to get into the detailed analysis of pensions until tomorrow.

MR. HACKNEY: That's fine, just because --

THE WITNESS: I'm happy to talk about conversations and all that sort of thing, but I don't want to do numbers right now.

MR. HACKNEY: Why don't we keep our march going here and -- and then there may be some tie-up questions and then we can --

THE WITNESS: Okay.

MR. HACKNEY: -- call it a day at 6:00. So that's a great idea.

BY MR. HACKNEY:

Q. So continuing on with respect to Mr. Ravitch, do you see that then now on May 28th is the next one that I see?

A. May 28, yup.

Q. Now, there it says, "report development discussion."

Do you see that?

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A. Yeah.

Q. Do you remember what that was about?

A. No.

Q. This is -- this was a meeting?

A. Yes.

Q. And I note that the one before on pensions, that was a meeting too?

A. That was a meeting in Detroit.

Q. Okay. So the pensions one was a meeting in Detroit?

A. Right.

Q. Do you remember where it was?

A. I -- I'm pretty sure it would have been in the CAYMC in our space.

Q. What's the CAYMC stand for again?

A. The Coleman A. Young Municipal Center.

Q. Okay. So --

A. C-A-Y-M-C.

Q. -- they just put that "A" in the middle of "MAC," so they don't say K-muck. Okay.

A. This was --

Q. You're getting your lingo -- you're Detroit lingo down.

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A. Yeah. This was in New York.
Q. Okay.
A. And it was the evening before the financial advisors' meeting.
Q. Okay.
A. The next big meeting on the 29th.
Q. And that's where you met with a bunch of creditor FAs and lawyers?
A. Yes. Yes.
Q. Okay. So does that help you remember it better?
A. I -- I don't remember -- I remember the meeting. Okay?
Q. Like where did it take place? Sometimes these they help spur the substance.
A. It -- we did it over dinner at some club in New York. Don't remember what it's called.
Q. Okay.
A. Mr. Ravitch arranged -- Mr. Ravitch arranged it and --
Q. Was it a like how are you coming meeting? It says report development, you're --
A. It was -- we were -- at that point in

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time we had, we were starting to -- we had gotten the working models, right? And so we were pretty deep in the analysis of the projections, and I'm sure that at this meeting we talked about pension. We talked about what he was interested in, in the post-confirmation. I probably shared with him what I would be interested in in that.
Q. To your knowledge, was he -- when you talk about post-confirmation, you're talking about what the Grand Bargain would provide with respect to legislative oversight of the City?
A. Yes.
Q. Was he -- did he tell you that he was involved in efforts to -- in efforts around that legislation?
A. He was -- I know that at some point in time he was in Lansing to meet with legislators.
THE VIDEOGRAPHER: The time now is 5:40 p.m. We're back on the record.
BY MR. HACKNEY:
Q. Okay. I don't remember where we burned out, but --
A. We were talking about dinner with

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Mr. Ravitch on the 28th.
Q. But you couldn't remember more than report development.
A. I don't.
Q. And we also talked about whether -- you told me he told you that he went -- you knew that he was in Lansing?
A. I knew at some point in time he was in Lansing.
Q. Did he tell that you?
A. He did.
Q. And he was telling you, here's what I'm up to lately in connection with the Grand Bargain or words to that effect?
A. It was in the context of scheduling.
Q. I see.
A. Okay. So in terms of when he was coming to Detroit and --
Q. I see.
A. Yeah.
Q. So he said, Well, I'm going to Lansing for X and that could be a good time to meet in Detroit?
A. To meet -- yeah.

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Q. I mean, at some point I guess what I'm interested -- maybe I've asked you this, Ms. Kopacz, if I did, I apologize, sometimes you ask it a different way.
But we talked about the first time you talked to him, he said he didn't know what the Judge wanted him to do. But at some point did he convey to you that now he understood what he was doing and tell you this is what I'm up to.
Like did you have the type of back and forth where you say, here's what I'm finding, this is what I think, here's where I'm at with my work, and he said, this is what I'm up to, this is what I'm up to, this is what I'm thinking about?
A. No. My communication and interaction with him was virtually exclusively about what we were doing and me asking him for input, thoughts, sharing with him, what we were thinking, talked to him as, again, just as we were developing the standard for feasibility, those kinds of things.
Q. So --
A. But I -- he has never shared with me --
Q. What he's doing?

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A. What he thinks his assignment is.

MR. GLEASON: You need to fix your microphone.

THE WITNESS: Thank you.

Q. So we've gone through a bunch of communications with him. Was there -- was there ever a meeting or a call where he drove it, he drove the call, he drove the meeting, he said, Marti, I want to meet with you, or Marti I needed to call you?

Or were all the meetings or calls ones where you said, Dick, I need to talk to you?

A. No, if I hadn't talked to Dick in a week or so, I would usually get a call from Rita, his assistant, who would say I have Mr. Ravitch for you and he'd say, how are you?

Q. And he would check in on how you were doing?

A. Yeah. He would check in.

Q. Okay. He would definitely check in with you to see how you were coming along?

A. Yes.

Q. So some of these meetings or calls were initiated by him and some were initiated by

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you?

A. Yes.

Q. Okay. So, June 3rd, 2014, you have one with him where you catch up on case developments. Was that just such a call where he might have called you --

A. And, again, I don't know if he called me or I called him.

Q. Okay. Do you remember what you talked about?

A. I don't.

Q. Okay. Now, take a look on the next page, if you could, at June 11, 2014. This is the -- this is the meeting that then moves into the dinner party that you talked about.

Remember that?

A. Yes.

Q. What was -- what was the subject -- what was the occasion for and the subject of the meeting in Judge Rosen's chambers?

This is kind of like -- this is a big group of people --

A. It is a big group of people.

Q. -- all of a sudden get together.

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A. At some time prior to this, okay, my team's relationships with Ernst & Young and Conway got frayed okay? And there were, this was basically all of the parties being called to chambers to be instructed to play nicely in the sand box.

Q. So did Judge Rosen initiate this meeting?

A. Judge Rosen initiated this meeting.

Q. So he called you and said I want to clear the air?

A. Yes, you're not playing we will continue sand box with the other children.

Q. He said that to you?

A. Yes generally that's, that's he didn't, he didn't use those words but it was like we need to have a conversation now. By the time we get to this meeting of which there was already this kind of dinner party plan, that same with Mr. Ravitch --

Q. There was already the plan for the dinner party?

A. This was, actually, that night was to be this group and E & Y and Conway didn't

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participate in the dinner. But that was to be the dinner in which I was going to -- and Mr. Ravitch were meeting with Dan Gilbert. All right. He canceled last minute. So we all went anyway.

But, yes, it was -- that was -- that was the way that I got on his calendar was for the Blustein's to throw a dinner party.

Q. So what happened at the meeting that was called because there was -- whatever, tempers were flaring or whatever?

A. Yes. By the time we got to the meeting, we had already worked out our issues and our differences.

Q. And so everyone was kind of like, we're good?

A. We're good. And we talked -- at that point in time we talked a lot about where my thinking was on the feasibility standard.

Q. In this meeting with Judge Rosen?

A. Uh-huh.

Q. What did Judge Rosen say during this meeting?

A. I'm not sure that Judge Rosen said a whole lot. It was mostly a dialogue with Jones

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Day and me and the advisors about, you know, how broad or narrow feas -- my assessment of feasibility was and should be.
Q. Was there a dispute about that?
A. I think there was, yes.
Q. And who was the dispute between and what were the contours of it?
A. I think generally the dispute was between the City and me in terms of things like the time frame. Right. And you know, where -- where I was coming out on my thinking about certain topics.
Q. Okay. Like what topics -- so let me see if I can set it up in a way that is fair and accurate.
Were you in communications with the City, communicating to them concerns that you had about the plan?
A. Yes.
Q. And was the City, in response, saying that's not your job to have those types of concerns, and so we think you're -- you're straying from what you are supposed to do, you're just supposed to take this plan and say whether

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this plan is or isn't feasible, you're not supposed to change this plan, or words to that effect. I wasn't there so --
A. Yeah. I don't think it was that cut and dry, if you will. Right.
Q. Okay. It was a debate about scope, though, right?
A. There was a debate about scope. There was also debate about -- I mean, at this point in time I am still very, very troubled by the lack of -- this is before the July 2nd projections, there's $160 million worth of RRI deferrals in the May 5th projections, and nobody's told me where those go. Okay?
So those are -- I'm having those kinds of discussions and disagreements, if you will, with the City as to whether or not that is an important issue for me or not an important issue for me.
MR. KANE: When you just said "at this point in time" you're referring to his questions about the meeting --
THE WITNESS: I'm talking about in this time --

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MR. HACKNEY:
Q. And you're saying now you know the answer to that question --
A. Now, I know the answer to the question because we have the July 2nd projection.
Q. That answered the question.
A. That got to the point where the deferrals are actually -- have been pushed back into the 40-year projections.
Q. They have been pushed outside the ten-year period into --
A. No, no. They're in the -- they're -- they're at a more granular level so that you can look at how the RRI money is going to be spent. Okay?
So those are the kinds of issues that I was having with E & Y and Conway and the City.
Q. And did those issues get discussed -- oh, I see.
So then -- okay. So did the conversation kind of morph in this meeting in Judge Rosen's chambers to one that was originally going to be about are remember getting along well --

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A. Yes.
Q. -- to one that was about, What is your role?
A. Right.
Q. And then was there a subsequent conversation held on that?
A. I think we worked it out. I mean, we ultimately had a -- we agreed to have a -- what we refer to as the big issues meeting here in New York. We had it in this room with the City, to go through what I consider to be the issues and in essence it almost looks like the table of contents to my report. Right?
Q. In terms of --
A. Feasibility.
Q. Did you go down the list of things that you thought was a big issue to the findings of feasibility? Is that what you mean?
A. Yes. We talked general -- we talked about what I thought was important to my feasibility assessment. And I listened to the City as to whether or not they thought those were big issues.
Q. And so, did -- in this meeting on

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June 11th --
A. Uh-huh.
Q. -- did Judge Rosen play a role in helping immediate, so to speak, the differences between you and the City?
A. It really wasn't -- I mean, at that point in time we were getting along. Right. We were getting along. We had a better flow of information. We had worked out the -- them attending interviews that I had. And we were -- you know, again, the City was very interested in trying to understand what it was I was thinking about the projections.
Q. I see.
A. And we agreed to have a meeting the subsequent week here in New York to hash out, you know, again, I would still like to have the pension sensitivity analysis, I don't have them.
Q. Yeah.
A. Right?
Q. Do you see on June 12th which is the day after the dinner, the meeting that went into a dinner party --
A. Yes.

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Q. You met with the DPOA and its counsel and also Dick Ravitch.
Do you see that?
A. Dick was in town those days, yes.
Q. Do you remember him being in on that meeting?
A. Yes.
Q. Why was he in that meeting?
A. Dick had specifically requested some meetings with the unions and I was interested in -- at that point in time there weren't settlements with these -- with the union and I was interested in finding out where those -- those were going to come out.
Q. Oh, in terms of their negotiations of their collective bargaining agreement?
A. Yes.
Q. Did they -- did the people at that meeting tell you where the union and the City stood on that subject?
A. They -- they shared with me what they thought what it was that they were seeking versus what the City had suggested, yes.
Q. Okay. And -- okay. And then, I

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mean, were -- you were just trying to understand what -- where they were at for purposes of interpreting the model because that ripples through the model in terms of the expenses?
A. The -- the projections had -- have always made assumptions about what the collective bargaining agreements would be.
Q. In fact, at the time you issued your report, you had not actually seen the collective bargaining agreements, correct?
A. I actually had gotten them the weekend before, but have not looked at them. I'm not -- and it has been represented to me and I believe what E & Y has told me, that the economics of the collective bargaining are appropriately modeled in the July 2nd projections.
What I haven't looked at is what the noneconomic terms might be.
Q. The work rules and so forth?
A. Yes.
Q. Anything else you can remember that about that June 12th meeting?
A. No.
Q. Now, on June 16th, four days later,

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there's another meeting with Mr. Ravitch.
A. Uh-huh.
Q. And this one says, Work on report sections pension -- pensions and post-confirmation issues.
A. Yes.
Q. Now, this is a little more substantive, at lease to my eye.
A. Yes.
Q. It looks like you are having a working session on report issues. But you tell me.
A. Yes, and I'd have to look at my time records to see. I don't remember. I -- I -- I think we were in New York I think that week.
Q. Was --
A. Yes, because we were here for meetings with AFSCME and Miller Buckfire and the big issues meeting.
Q. And I note -- and do you remember anything else about what you worked on on your report with Mr. Ravitch?
A. We -- we -- yes, I do. I remember the working through at that point in time we -- I

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believe we had what we thought was going to be the final legislation that may have been signed already on the Grand Bargain. And worked through -- talked through some of the issues relative to post-confirmation. And we talked through some of the analysis that we were doing on the pensions.
Q. By "we" you mean?
A. Phoenix.
Q. Phoenix?
A. Yes.
Q. Okay. So what was his role in that meeting?
A. We were -- we were sharing with Dick what we knew about the pension settlements and the new pension plan. Okay? Because, again, Dick has great knowledge about public pensions in general, but he really didn't have a lot of knowledge about the Detroit circumstance as it was. So we were simply talking through this is what the settlement looks like, this is what the funding looks like, this is how the restoration works, this is how the new hybrid plan works, those sort of things.
Q. I see. And then he actually goes to

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a meeting the next day with AFSCME and you?
A. Yes.
Q. Why did he go to that meeting and why did you go to that meeting?
A. Again, that meeting was to talk with the union about both the agreements they had reached and the -- there's many -- there are several AFSCME locals in Detroit, some of whom at that point in time had -- had reached agreement and some who had not. Okay. So again, I'm just doing my diligence around the status of the AFSCME deals and negotiation.
Q. In terms of, okay -- I mean, you can find out the ones that are done, what are the terms. Right?
A. And the ones that need to be done. Like, for example, the AFSCME for DDOT was not done at this time and that was important to me to know where that was going. I had heard from the City side as to what that was going to be about and I wanted to hear from the union side.
Q. So it was kind of like what are the issues in your negotiation --
A. Yes.

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Q. -- with the City?
A. Yes.
Q. And I take it both they and the City told you what the issues were that were keeping the parties apart?
A. Generally, yes.
Q. So, was Mr. Ravitch playing any role here, as almost like trying to get people together? Was he playing --
A. No.
Q. -- a quasi mediation role?
A. No.
Q. Just as a grand old man saying, look guys, like --
A. Great old man.
Q. He wasn't saying, look -- I mean, was he trying --
A. He -- again, the concern Mr. Ravitch had and the concern I had about post-confirmation issues was in the legislation that ultimately was signed. Okay? There is no oversight committee direct involvement in negotiations. Okay? There's an approval process.
There's also -- if, in fact, the

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unions don't have a negotiation and haven't resolved agreement now, there is still going to be the right to go to arbitration post-confirmation.
Some of the early draft legislation did not have the arbitration ability in there and that's, again -- it's -- it is one of those qualitative sort of risk factors, that if you don't get a deal with your unions pre-confirmation -- right?
Q. Yeah.
A. Then you may be subject to arbitration down the road and that creates more unknown.
Q. So, was it your understanding that Mr. Ravitch was basically trying to understand what the needs of the unions were so he had that understanding as he was talking to people about the Grand Bargain legislation?
A. I don't know. I don't know.
Q. Okay. It just wasn't clear to you, then, what he was doing there; is that fair?
A. I don't know why he sought to join me during that meeting.
Q. Okay. I'm not saying he's not a

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generally helpful guy. I'm sure he is. He has a wealth of experience.
But in terms of -- you knew why you were there, right?
A. I knew why I was there. I think he had already been to Lansing at that point.
Q. Okay. But if I walked up to you and said Marti, what's Dick doing here, you would have said, I don't know, he came along?
A. Yes.
Q. Okay. I said that we would break at 6:00, I'm happy to push on --
A. We can push. Let's try to get through this.
Q. Let's try to do it.
MR. STEWART: How much more do you have?
MR. HACKNEY: I'm getting much closer. I'll bet I don't have more than half an hour and I'll try to keep it shorter than that.
MR. LERNER: The record should reflect the air just went off, too.
MR. HACKNEY: That's part of my plan.

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BY MR. HACKNEY:
Q. Okay. And then -- take a look down at July 9, you have a call with -- you have a meeting with Mr. Ravitch and Mr. Kiernan of Schiff Hardin.
A. Yes.
Q. Who is Mr. Kiernan?
A. Mr. Kiernan is Mr. Ravitch's personal attorney.
Q. Okay.
A. He is also involved in the Blinken report.
THE VIDEOGRAPHER: I think your microphone is off.
THE WITNESS: It fell off, yes.
Mr. Kiernan is -- Mr. Ravitch refers to him as "my personal attorney on this matter," and Mr. Kiernan was also involved with Mr. Ravitch and the Blinken report.
Q. Okay. And then -- and then you talked about revised projections and impact on feasibility?
A. Yes.
Q. So how did this meeting come about?

- MARTI KOPACZ - VOLUME 1-
Did you request it or did he request it, Mr. Ravitch?
A. I don't recall.
Q. Okay. And this is just for reference, Ms. Kopacz, we're talking -- this is about three weeks ago.
A. This was about three weeks ago. We were in New York.
Q. Okay.
A. I know we were in New York. We had lunch at an Irish pub and Dick had asked Mr. Kiernan to do research on feasibility and to share that with us.
Q. Oh, his personal lawyer did legal research on feasibility?
A. Yes.
Q. Okay. So what did he say?
A. He told me about Mount Carbon which we already knew about, the Mount Carbon decisions and, you know, the kind of the -- what's the other district in Colorado, the other decision that references Mount Carbon? But they're all by the same judge. Right. And about the fact that there is very little case history on Chapter 9

- MARTI KOPACZ - VOLUME 1-
feasibility, and that was really it.
Q. Okay. So --
A. Mr. Ravitch was trying to be helpful.
Q. Okay. So you didn't ask Mr. -- because you have a fine lawyer of your own, I think the record will reflect --
A. I do.
Q. -- and presumably, I don't want to get into your communications with him. But to the extent that you had the need for legal advice, that's one of the reasons you got a lawyer, right?
A. I was allowed to retain Mr. Lerner and Squire Patton Boggs to help with procedural matters. Okay?
I -- and they have graciously helped me do other things, but as a practical matter, I've had no direct legal input into feasibility.
Q. Okay. From Mr. Lerner?
A. From Mr. Lerner.
They have gratuitously done some of that stuff. But remember, I was deep into this before I ever got to hire them.
Q. Yeah. Okay. So but did you say to Mr. Ravitch, can you get your lawyer to give me

- MARTI KOPACZ - VOLUME 1-

advice?

A. No, no, no, no, no.

Q. So this was his idea?

A. Mr. Ravitch independently wanted his own understanding of feasibility. He's not a bankruptcy guy at all. Right? In terms of really deeply understanding even Chapter 11. Most of us here understand Chapter 11, right?

So we at least understand what we think we understand about feasibility in Chapter 11.

Q. Okay.

A. Mr. Ravitch doesn't have any experience in that world so he has been asking Mr. Kiernan to help him research feasibility.

Q. But do you know -- did he ever tell you why?

A. I think because he's a curious man.

Q. Okay.

A. And he, you know, again, wants to understand what it is that Judge Rhodes is asking him. So he said next time you're in New York, let's have lunch and we'll bring my attorney and he'll tell you all of the things that he knows

- MARTI KOPACZ - VOLUME 1-

about feasibility.

Q. Okay. And then the last conversation with Mr. Ravitch is on July 16th, that's just a couple of days before your report was due?

A. Yes.

Q. Okay. And that was also a meeting?

A. Yes.

Q. Now, that one --

A. That was in our office --

Q. You might remember that one more clearly?

A. I do, I do.

Q. Okay. So what happened in that one? Who was there and what did you talk about?

A. That was a meeting in which Mr. Ravitch came to our offices. We were drafting the report and I asked Mr. Ravitch to review the section on pensions and post confirmation.

Q. Okay. And give you feedback? Or not?

A. Yes.

Q. If he liked it, right?

A. Yeah, it was. And again, because those are issues that I knew he really, really

- MARTI KOPACZ - VOLUME 1-

cared about, that I thought it was advisable, A, to have his input; and if he was going to have a different opinion, him also being a judge's expert.

Q. Right.

A. He should know that we were going to have a difference of opinion.

Q. Okay. And did you?

A. We did.

Q. You did?

A. We do.

Q. You do?

A. Yes.

Q. What was his different view?

A. He very strongly believes that the CFO of the City should report directly to review commission.

Q. I see.

A. And he believes that the City should be mandated to prepare budgets and plans according to generally-accepted accounting principles.

Q. That was a -- that was recommendation he had successfully implemented in New York, if I recall?

- MARTI KOPACZ - VOLUME 1-

A. Yes.

Q. And he wanted the same thing in Detroit?

A. Yes.

Q. And was he sort of, you know, encouraging you to adopt his view in the report?

A. No.

Q. Or did he just say --

A. No.

Q. -- I take a different view, this is my view?

Because your position was it was tolerable that the CFO not report directly, right?

A. That's correct.

Q. I think you say words that it would be okay if he did, but it's not a problem if he doesn't, paraphrasing.

A. That's fair.

Q. It's says whatever it says.

A. Yes.

Q. And then you didn't ultimately take a position on GAAP reporting, right?

A. I didn't. It -- by definition, GAAP doesn't apply to governments. Right?

- MARTI KOPACZ - VOLUME 1-

Q. Yes.

A. By definition, GAAP doesn't apply to budgets. All right. I lived through this in Nassau County, okay? Why people think GAAP applies to budgets is beyond me. GAAP applies to historical accounting.

Now, using GAAP-type principles to prepare your budgets so that they are easily comparable to your actuals and so that the categorization of revenues and expenses is similar, is very, very good.

Q. Okay. So just a few more questions here, ma'am.

A. Sure.

Q. Go back to May 13th at the bottom of the page, you have a call with Judge -- well, it's a call, looks like it's a call with Judge Rhodes.

But was it a call with Judge Rhodes?

A. May 13th, I'm sorry.

Q. It's at the very bottom of the page on May 13. It's Re: Supplemental order.

A. Yes.

Q. And this time did you actually have a call with him or was it just a call with his

- MARTI KOPACZ - VOLUME 1-

chambers?

A. No, this was a call with him.

Q. What did you all discuss on this call?

A. This was when we got the supplemental order on -- this -- this I know part of this was the question of whether or not anything I was doing was protected or privileged.

Q. Okay. So did you call him or did he call you?

A. I called him.

Q. And you said, I'd like to talk to the judge because there's a question around confidentiality?

A. Yes. And this is the point in time when I said to him, I need counsel.

Q. This is when you said I need counsel?

A. I need counsel. I -- I asked him about counsel when he called me on April 21st and he said --

Q. You mean when his chambers called you?

A. When his -- No. When he called me to ask me if I would accept the appointment --

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Q. Oh, sorry.

A. -- I asked him then, Do I need counsel. And he said, Of course you don't need counsel.

Q. Oh. That's not how I thought of it, but that's okay.

A. And I -- right. And he said of course --

Q. He's the Judge.

A. -- you don't need counsel. And the next time I talked to him, when I sent my first letter, I said do -- I think I need counsel. No, you don't need counsel.

Q. And then the third time you won?

A. Yes.

Q. So, was the driver on this call, you were calling him to basically say I need to understand what confidentiality means --

A. Yes.

Q. -- and I need a lawyer?

A. Well, I -- people that I wanted to talk with, other professionals in this matter, okay, were -- there's a lot of work that's been done in this case by other professional beyond the

- MARTI KOPACZ - VOLUME 1-

City. I wanted to have the benefit of that and while most people would have trusted my professionalism to take that information and do something appropriate with it, not inappropriate, the concern raised by counsel, appropriately, was, oh, my gosh, if we give it to the expert, that does that mean it's going to be discoverable to somebody else? And I'm sitting there going I have no clue.

Q. Yeah. And it does. Yeah.

A. I have no clue. And I said I can't -- you know.

Q. So then you said I'm going to call the Judge to get clarity on this?

A. Yes.

Q. Okay. Now, did you -- had Judge Rosen sort of set a precedent for you a little bit in terms of his admonition to you that it's okay to call the Judge if you have a question or did you think about --

A. I don't know. At that point in time, you know, it's hard. He's taken my calls gratis and I said, what do I do Because you've got to go to the Judge.

- MARTI KOPACZ - VOLUME 1-

Q. How many times have you talked the Judge?

A. Three maybe.

Q. So there's -- I mean post-appointment.

A. About I think three.

Q. So we just discussed the first one, right?

A. The first one -- the first one I'm not sure I ever talked to him.

Q. No, I'm talking about this -- this one --

A. I think this -- yes.

Q. -- with the confidentiality and the counsel?

A. Yes. Right. That was the first time.

Q. That's the first one.

A. That I actually talked to him and then I talked to him again --

Q. I'm not talking about his chambers. I know you talked talked to his chambers before.

A. Right. This is the first time I talked to him.

- MARTI KOPACZ - VOLUME 1-

Q. I'm talking about him. Okay. Then when's the next time you talked to him? It may be on here but --

MR. LERNER: It is?

THE WITNESS: It is. I -- when I asked for the extension --

BY MR. HACKNEY:

A. -- the extension.

Q. June 2nd. I think this is before the extension, ma'am.

June 2nd, or maybe you did. Are there more -- more than one extension?

A. Uh-huh. I've had two.

Q. Okay. So -- okay. So June 2nd you think this is bankruptcy discovery transmission issues is the topic.

Did you do a call with the Judge and Jones Day where you said, words to the effect of I'm not getting what I need or I'm having trouble or whatever you said? Mr. Lerner's saying no.

A. Uh-huh.

Q. Do you remember what this was about?

A. This was -- this may have been the call that Judge Rhodes scheduled for all of us to

- MARTI KOPACZ - VOLUME 1-

make sure that I had gotten the --

Q. Oh.

A. -- information -- yes.

Q. Okay.

A. This is the call that followed up from had I gotten the working models that I wanted.

Q. Do you remember Mr. Lerner sent a letter --

A. Yes.

Q. -- and Mr. Stewart sent a letter back?

A. Yes.

Q. Mr. Stewart sent a nasty letter, and then -- and then there was a hearing on this?

A. Yes.

Q. And then the Judge said we're going to follow up and have a call to see if we got it?

A. That's what the call was.

Q. And was this call basically like we've got what we need, we're okay? Anything else substantive on this call?

A. Not that I recall.

Q. Okay. Now, take a look down at

- MARTI KOPACZ - VOLUME 1-

June 9. There's two calls with Judge Rhodes. The first one is just you and Mr. Lerner. The second one is you and Mr. Lerner and a bunch of people from the City. Do you see those two things?

A. Yes.

Q. Are those calls -- did you call with Mr. Lerner and say we need a call?

A. This is when I believe that I said I don't think I can make the 24th deadline.

Q. Okay. And did the Judge effectively -- did you talk the Judge himself?

A. Yes.

Q. And then --

A. Nd then he said, We need to get everybody on the call.

Q. And then -- then everybody, though, was just the City?

A. Yes.

Q. Okay. Excuse me. There were never any of your calls with Judge Rhodes -- there were never any creditors on the call, correct? It was always just you or you plus your counsel and the City, right?

A. That's correct.

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Q. Now -- and do you remember, was the June 9 call just basically like when do you think you can get it done type of call?
A. I think this was -- again, it was all part of that follow-up from the hearing where he basically said we're going to have a call every week to make sure you're getting what you need.
Q. Okay.
A. There was -- there was never any substantive conversations.
Q. Right.
A. It was more like are you getting what you need.
Q. Okay. And in general, it was either yes or I need this thing, and then you would get it?
A. Yes.
Q. That's how -- is that a fair characterization, which was it was either things which are fine or there was an open issue and you would raise it and it would get addressed?
A. Yes.
Q. Other than the -- whatever didn't get addressed that you noted in your report?

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A. Right.
Q. Look at June 14th. You see that one?
A. Yes.
Q. Now, was this a call? This is Mr. Lerner and you again just with the Judge.
A. Uh-huh. Yes.
Q. And was it with the Judge himself?
A. I think so.
Q. And do you remember what you discussed? The topic is "status on report completion."
A. This is -- this is -- I -- my recollection is this is I'm ten days way from my original deadline and I'm pretty confident that I'm not making it.
Q. Okay. And so now you're -- are you sort of expressing to Judge Rhodes here more, you know, forcefully that you're not going to be able to make that deadline?
A. I'm not making this deadline.
Q. Okay. And what did he say to you?
A. I think he basically said, Okay, what -- you know, how much more time do you need, et cetera. I remember when we were in court,

- MARTI KOPACZ - VOLUME 1-

we -- I told him that I -- you know, I was -- I was a few weeks behind on getting the information that I needed and that I was in all likelihood going to be -- even if I got the information post haste, I was going to need more time than was originally allotted. And I think this was the call to him that said, yes, I need more time.
Q. And then on July 14th -- anything else you can recall?
A. Nothing.
Q. And on July 14th, do you see that there's another call with you and Mr. Lerner and Mr. Stewart with Judge Rhodes re: scheduling and report due date?
A. Yes.
Q. And was this the call where you said you might need an additional -- I think your report -- your --
A. Isn't that the one we just talked about?
Q. Well, no. Because the one we talked about was from much earlier. It was from June 14, so it was a month --
A. June 14th. Oh, and you're saying

- MARTI KOPACZ - VOLUME 1-

July.
Q. Yeah. Do you see it down there?
A. Yeah. Okay.
Q. Now you're pressing up against another deadline which is July 15.
A. Yes.
Q. And was this where you communicated the Judge that you might need the extra three days that I think you ended up taking?
A. Yes.
Q. Is that right, ma'am?
A. That's correct.
Q. And did you have any other conversation with him on this call?
A. No.
Q. Did you ever have a substantive conversation with Judge Rhodes about your report?
A. Nothing.
Q. No -- never gave him a sense of where your --
A. No.
Q. -- conclusions were leading you?
A. No. And this is where he instruct -- yeah, this is -- this is when he gave me the extra

- MARTI KOPACZ - VOLUME 1-

couple of days.

Q. The only thing that I -- I didn't see on here that I wanted to ask you about was I had a colloquy with him at one point where he said to us that he wanted to talk to you about, for lack of a better word, what your report was going to say.

A. Yes.

Q. And we had a colloquy in court where we said, yeah, okay. It's good to know you're going to do that, and -- and then he said, yeah, you can ask her about what she and I discussed. I wasn't -- that's about what he said. It was something like that.

Did you have a -- did you have a conversation with him closer to -- I mean did you have another conversation with him other than was listed here?

A. No. He -- the -- the -- the discussions that I had with Judge Rhodes about our discussions, okay -- and bear with me. I'm going to tell you.

On June 21st -- on April 21st when he called me to ask me if I was still interested in serving as his expert, right, we had a

- MARTI KOPACZ - VOLUME 1-

conversation and he said we're going to talk about what we need to talk about now. And he said, I don't intend to talk to you about anything until maybe ever or until much closer to when you're going to issue your report. Okay?

So he told me up front that we weren't going to have any -- any communications, substantive communications. He said I'm going to put a procedure in place where if you need help to get information, right, you will -- you will communicate with me you will send me a letter. We will put it on the docket and we will have a hearing and I will do that very, very quickly. Okay?

He never had another conversation with me until I believe this 14th where he said, I want you to send me your final report and once I see your final report, I will tell you how to distribute it.

Q. Before you filed it? Oh, I see. Before you filed -- before you served it?

A. Yes.

Q. And did you do that?

A. I did.

- MARTI KOPACZ - VOLUME 1-

Q. Okay. So -- so you sent him an e-mail that had your -- what you considered your final report. It was signed?

A. Yes. I sent --

Q. Or was it a draft ready to be signed or --

A. -- no. No. It was -- he did not want any drafts. He wanted the final report. I sent it to him at 3:30 on -- 3:31 on Friday and at 4:49 I got a call from him and his chambers saying, You're authorized to distribute it, but I have no idea how you do that. So, get ahold of your lawyer and get ahold of Jones Day and figure out who it needs to go to, and that was it. And he said I would -- he was going to send it to Mr. Ravitch.

MR. HACKNEY: Ma'am, thanks for your time today. I'm going to pass the mic to Mr. Levin, but I think -- it's Mr. Wagner I should say from Kramer Levin, but I think that it's his expectation that maybe he'll pick up with you tomorrow.

(Whereupon, a brief discussion was held off record.)

- MARTI KOPACZ - VOLUME 1-

MR. KANE: Why don't we pick up tomorrow?

MR. HACKNEY: Yeah. We'll call it a day. Thanks for your time.

THE WITNESS: Thank you.

THE VIDEOGRAPHER: Thank you all very much. The time now is approximately 6:21 p.m. We're going off the record and just finished for today to be continued tomorrow. There are five DVDs to today's deposition.

(Whereupon, the deposition adjourned at 6:21 p.m.)

- MARTI KOPACZ - VOLUME 1-
A C K N O W L E D G E M E N T

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

I, MARTI KOPACZ, hereby certify that I have read the transcript of my testimony taken under oath in my deposition of July 31, 2014; that the transcript is a true, complete and correct record of my testimony, and that the answers on the record as given by me are true and correct.

____
MARTI KOPACZ

Subscribed and sworn
to before me on this the
_______ day of ______________, 2014.

____
Notary Public, State of New York
My commission expires:__________

- MARTI KOPACZ - VOLUME 1-
C E R T I F I C A T E
STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

I, HOPE LYNN MENAKER, a Notary Public within and for the State of New York, do hereby certify:

That MARTI KOPACZ, the witness whose deposition is hereinbefore set forth, was duly sworn by me and that such deposition is a true record of the testimony given by the witness.

I further certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this August 1, 2014.

____
HOPE LYNN MENAKER

- MARTI KOPACZ - VOLUME II-

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

In Re) Chapter 9

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

Debtor.) Hon. Steven Rhodes

DATE: August 1, 2014
TIME: 9:12 a.m.

VOLUME II

VIDEOTAPED DEPOSITION OF MARTI KOPACZ, held at the offices of Squire Patton Boggs, 30 Rockefeller Plaza, New York, New York, pursuant to Order, before Hope Menaker, a Shorthand Reporter and Notary Public of the State of New York.

- MARTI KOPACZ - VOLUME II-

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- MARTI KOPACZ - VOLUME II-

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- MARTI KOPACZ - VOLUME II-

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- MARTI KOPACZ - VOLUME II-

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- MARTI KOPACZ - VOLUME II-

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- MARTI KOPACZ - VOLUME II-

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ALSO PRESENT:
Thomas Devine, Videographer
Brian Gleason

- MARTI KOPACZ - VOLUME II-

INDEX

WITNESS: MARTI KOPACZ

- MARTI KOPACZ - VOLUME II-

THE VIDEOGRAPHER: Good morning. We're now on the record. The date is August 1st, 2014, and the time is approximately 9:04 a.m.

We are located at the offices of Squire Patton Boggs, 30 Rockefeller Center, New York, New York.

We are taking the deposition of Marti Kopacz, Volume II, second day, In Re: City of Detroit Bankruptcy, U.S. Bankruptcy Court, Eastern District of Michigan, Southern Division, Chapter 9, Case Number 13-53846.

My name is Thomas Devine and I'm the video specialist with Elisa Dreier Reporting.

The court reporter is Hope Menaker also with Elisa Dreier Reporting.

At this time I would like to ask the attorneys to please introduce themselves for the video record.

Please state your name, the firm with which you are affiliated and who you represent, after which the Court reporter will swear in the witness and we may proceed.

MR. WAGNER: Jonathan Wagner from

- MARTI KOPACZ - VOLUME II-

Kramer Levin representing the Ad Hoc COPs Holders.

MS. SCHAPIRA: Lisa Schapira of Chadbourne & Parke, representing Assured Guaranty Municipal Corp.

MR. NEAL: Guy Neal, Sidley Austin, National Public Finance Guaranty.

MR. HACKNEY: Stephen Hackney, Kirkland & Ellis on behalf of Syncora.

MR. BRILLIANT: Allan Brilliant from Dechert LLP on behalf of Macomb County by and through the Public Works Commissioner Anthony Morrocco and the Macomb Interceptor Drainage District.

MR. BLANCHARD: Alex Blanchard, Jones Day on behalf of the City.

MS. GREEN: Jennifer Green, Clark Hill, on behalf of the retirement systems.

MS. DEEBY: Shannon Deeby, Clark Hill, also on behalf of the retirement systems.

MR. KANE: Scott Kane of Squire Patton Boggs on behalf of the witness.

MR. LERNER: Stephen Lerner of Squire

- MARTI KOPACZ - VOLUME II-

Patton Boggs on behalf of Ms. Kopacz.

MS. QUADROZZI: Jaye Quadrozzi, Young & Associates, on behalf of Oakland County.

MR. ALBERTS: Sam J. Alberts of Dentons on behalf of the Official Committee of Retirees.

THE VIDEOGRAPHER: Thank you. Hope, would you please swear -- oh, and the people on the phone, excuse me.

People on the phone.

MS. HUBBARD: Heather Hubbard at Waller Lansden on behalf of U.S. Bank.

MS. KOGAN: Olga Kogan at Davis Polk & Wardwell on behalf of Merrill Lynch.

MR. MILLER: Evan Miller, Jones Day, on behalf of the City of Detroit.

MS. NEVILLE: Carol Neville on behalf of the Retiree Committee.

THE VIDEOGRAPHER: Thank you. Hope, would you please swear in the witness.

MARTI KOPACZ, recalled as a witness, having been duly sworn on August 1st, 2014, by a Notary Public, was examined and testified as follows:

- MARTI KOPACZ - VOLUME II-

EXAMINATION BY MR. WAGNER:

Q. Good morning, Ms. Kopacz.
A. Good morning.
Q. I'm sorry to disturb everyone's repose this morning, but we have to talk about pensions for about the next 45 minutes.
Did you write the pension portions of your report?
A. Did I write them?
Q. Yes.
A. I drafted them and edited them --
Q. So that --
A. -- but I was assisted by members of my team.
Q. So you did write them?
A. I -- I'm taking responsibility for them, yes.
Q. But did you actually put pen to paper with respect to those sections?
A. From an editing and -- somewhere in the drafting -- I didn't write the first draft of that section, no.
Q. Who wrote the first draft?
A. Combination of Mike Gaul and Brian

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Gleason and Bob Childree.

Q. I apologize if I repeat some of Mr. Hackney's questions, but am I right you have no experience with actuarial issues?

A. That's correct.

Q. And you have no prior -- pension is not your area of expertise, is it?

A. I would not consider myself a pension expert.

Q. Are the pension portions of your report important to your conclusions?

A. Yes.

Q. And if the pension portions of your report are factually or inaccurate -- factually or analytically incorrect, would you agree with me that undermines the conclusions you reached in your report?

A. I don't think they're factually incorrect or analytically incorrect.

Q. Right. But if they are, would you agree with me that that undermines the conclusions in your report?

A. I don't know that it would. It depends which -- what would be inaccurate?

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Q. Well, we'll get to that.

Can you put -- take your report there. It's Exhibit 1.

A. Sure.

Q. Can you turn to Page 127.

MR. ALBERTS: I'm sorry, Jonathan, repeat the page.

MR. WAGNER: 127.

MR. ALBERTS: And if you wouldn't mind speaking up, only because this is making a lot of noise.

BY MR. WAGNER:

Q. Do you have it there?

A. I do.

Q. Ms. Kopacz, you see the middle paragraph one, two, three, four, five lines in, you state, "The retirement systems assumed aggressive annual rates of return on investment (PFRS 8.0 and GRS 7.9)."

Do you see that?

A. I do.

Q. What was the basis for your statement that the annual rates of return assumed by the retirement systems have been aggressive?

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A. They are aggressive relative to what is agreed to right now in terms of the 6.7 and in terms of some of the recent past in terms of rates of return from year to year.

Q. Did you look at the rates of return over the last 25 years for those two systems?

A. I'm not sure I looked at 25 years. I looked at 10. I think, whatever -- a series of data on those.

Q. What did the 10-year data show?

A. I would have to look at it again.

Q. You don't remember?

A. I know that there were -- there were years in which there were losses in excess of 20 percent.

Q. Would you agree with me that it would be more appropriate to look at data over a longer period of time?

A. Not necessarily.

Q. Did you look at any data -- look -- extending over a 25-year period of time?

A. I don't know.

Q. Did you -- you go on to say in this statement, and I'll read the whole sentence --

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well, you say in the first paragraph, "Historically, a number of different practices have contributed to a significant funding shortfall in the two pension plans..." And you recite the aggressive rates of return.

Did you make any efforts to quantify what portion of the funding shortfall was attributable to the supposedly aggressive rates of return?

A. I did not.

MR. WAGNER: Let's mark this as Exhibit 4.

(Whereupon, Kopacz Exhibit 4 was marked at this time.)

MR. KANE: Do you have a copy for me?

BY MR. WAGNER:

Q. Ms. Kopacz, have you seen Exhibit 4 before?

A. I don't recall seeing Exhibit 4 before.

Q. Do you know whether you took the document into account in drawing the conclusions in your report?

A. I don't know.

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Q. Would you be surprised to learn that in most years the two pension funds exceeded the rates of return that they -- the target rates of return that they set?

A. What -- you're using the time series of data?

Q. Yes.

A. Okay. I've looked at this. Can you ask me the question again?

MR. WAGNER: Can you read back the question.

(The question requested was read back by the reporter.)

A. The -- first of all, I don't know who prepared this. I don't know what the basis is and I don't -- it says, "actuarial assumed rate of return" and "calendar year rate of return." Okay. And I don't know from whence this comes in terms of how this was calculated.

Q. Okay. I want you to assume that the document is accurate because others have testified that it is. Would it surprise you to learn that over the last 25 years, in most years the GRS and the PFRS have exceeded their targeted rates of

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return?

A. In most years?

Q. Yes.

A. Should we count them? All right. One, two, three, four, five, six, seven, eight, nine, ten -- in ten of the years on the general retirement system, they did not reach the targeted assumed rates and --

Q. So that means -- let me just ask -- so that means in 15 years they exceeded, correct?

A. If there are 15 years here. There are 25 years.

Q. So, in most years --

A. In 15 --

Q. -- the GRS exceeded the targeted rate, correct?

A. Yes.

Q. Okay. You can do the math for PFRS.

A. Okay. One, two -- three, four -- five. In five of the PFRS years, they did not reach the targeted return.

Q. That's five out of how many?

A. Fifteen.

Q. So in most years, am I correct, the

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PFRS and GRS exceeded their targeted rates of return?

A. Individually for those years, yes. I would want to look at the cumulative effects of this.

Q. And would it surprise you that the people who have done that calculation have concluded that over the 25-year period for GRS and over the 15-year period for the PFRS, those two pension plans have exceeded 7.9 and 8 percent returns?

A. If you want me to assume that is correct, I will.

Q. And would that surprise you?

A. Like I said, this -- this is not a -- this is just one data point, okay, so --

Q. My question is only whether it would surprise you, not whether it's one data point.

Would it surprise you?

A. No.

Q. Would it surprise you to learn that over the last 25 years out of the hundred-odd largest pension funds in the country, their average rates of return have exceeded 8 percent?

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A. I haven't looked at that, so I don't know.

Q. You haven't?

A. I have not.

MR. WAGNER: Let's mark this.

(Whereupon, Kopacz Exhibit 5 was marked at this time.)

Q. Have you seen this document before?

A. I have seen this document, I believe, before.

Q. As a matter of fact, you cited it in your report, correct?

A. I did. This is the one that gives the investment return assumptions for various plans.

Q. Can you look at the last sentence on Page 1 and read it out loud?

A. The last sentence?

Q. On Page 1.

A. "As shown in Figure 1 at 9 percent the median analyzed investment return for the 25-year period ended December 31st, 2013, it seeks the average assumption of 7.72 percent in Figure 5 while the 10-year return is below that."

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Q. And can we agree that 9 percent is more than 7.9 and 8 percent?
A. We can agree to that -- to that.
Q. Are you aware of the rates of return for the PFRS and the GRS in the last fiscal year?
A. In the last fiscal year defined as fiscal year-ended June --
Q. June 30th, 2014.
A. I am not.
Q. So would it surprise you to learn that the rates of return for both PFRS and GRS have been 11 percent and 18 percent respectively?
A. I have heard the 11 percent number. I had not heard the 14 (sic) percent number.
Q. And are you aware that 7.9 and 8 percent fall within the range of reasonableness for returns for PFRS and GRS calculated by the City's pension expert?
A. Am I aware of what?
MR. WAGNER: Could you read it back.
(The question requested was read back by the reporter.)
A. Could you show me the letters from Milliman on that? I mean, we've looked at a lot

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of Milliman documents.
Q. Well, you read the Perry report, right?
A. The Perry report?
Q. The Perry expert report?
A. I did not.
Q. It's listed on your list of documents that you reviewed.
A. I didn't review it, personally. Someone on my team must have.
Q. Did you review any of the underlying pension materials?
A. I did some of them, yes.
Q. Did you review the Rockefeller report?
A. I did.
Q. Are you aware that the Rockefeller report has been severely criticized?
A. I would assume all reports have been severely criticized.
Q. That's not my question.
Are you aware that the Rockefeller report has been severely criticized by the public pension community?

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A. Yes.
Q. Did you look at any of those criticisms?
A. Not specifically, no.
Q. What have those criticisms been?
A. The public pension community generally believes that the -- for example, the investment rate of return is also something that you use for discounting.
Q. And am I right that there is no public pension fund that uses the riskless or the risk-free rate of return to value its pension obligations?
A. No public pension? I don't know that no public pension is generally not -- I wouldn't say no, because I just don't know that there's no --
Q. Okay.
A. -- that uses a lower rate of return.
Q. We'll come back to that.
You mentioned Milliman. Did you have any discussions with Milliman about the pension issues?
A. I did participate in some calls with

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Milliman, I believe. My team had more than I did.
Q. Are you aware that Milliman set a rate of return for the pension funds based on the asset -- the current asset allocations; they set a rate of return of 7.2?
A. I believe that's correct, yes.
Q. Do you have any quarrel with that number?
A. Not really.
Q. Did you have any discussions with Gabriel Roder?
A. I did not personally.
Q. Did anyone from your team?
A. I believe they did.
Q. If it's not listed on you -- on the log, would you agree that there had been no such discussion?
A. Not specifically. I would -- would go and check the -- our time records as well. I would hope that the logs for everybody else are accurate, but...
Q. Did you have any discussions with Cynthia Thomas?
A. No.

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Q. Do you know who she is?
A. I don't.
Q. Did anyone ever tell you she was the executive director of the two pension systems?
A. No.
Q. Do you think that's someone you should have spoken to?
A. Not necessarily.
Q. Why not?
A. I spoke with counsel to the pension systems. I spoke with some of the people that are on the board of the pension systems.
Q. But you didn't speak to the executive director?
A. I did not.
Q. You testified yesterday in response to Mr. Hackney's questions that there is no need to change the plan on account of potential -- the potential pension risks that you cite in your report.
Do you recall that testimony?
A. Can we read it back?
Q. Well --
A. I don't remember specifically.

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Q. Okay. Would you accept my representation that that's what you said?
MR. KANE: Objection.
A. Not really.
Q. Okay. Well, is there any need to change the pension plan -- strike that.
Is there any need to change the plan of -- the plan of adjustment on account of the potential pension risks that you cite?
A. I have no perspective or point of view or opinion on changes to the plan of adjustment. That is not in my scope. It is not my task.
Q. Do any of the pension risks that you cite in your report give you any pause with respect to the plan?
A. The long-term risks associated with the City's pension obligations do not negatively impact my assessment for feasibility.
Q. Did you look at the asset distribution for the pension funds?
A. I have seen a -- I have seen a schedule that looks at the distribution of assets in the pension fund.

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Q. Do you have any quarrel with that distribution?
A. I am not an investment manager.
Q. Is that another way of saying that you don't have any quarrel?
A. No. It just says that I didn't -- I accepted it as it was.
Q. Well, I'm asking you today: Do you have any questions --
A. I have not made that evaluation.
Q. So the answer is no, you are not able to cite any disagreement you have with the distribution of assets, are you?
A. I -- like I said, I have not looked at that specifically to arrive at any conclusion.
MR. WAGNER: Can you read back the question.
(The question requested was read back by the reporter.)
Q. Can you answer the question?
Do you have any quarrel --
A. I don't know.
Q. Would you agree with me that it's unreasonable to calculate the -- strike that.

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There's nothing in your report that addresses -- that purports to calculate the size of the pension claim, correct?
A. Correct.
Q. Am I right that with respect to the risk-free rate, that you advocate -- that you cite, all you're asking for is that the -- is that a calculation be made and be disclosed, correct?
A. Yes. And it's not -- it is a rate -- whether it's the risk-free rate of return or some lower risk adjusted rate is not particularly critical to me in terms of my recommendation.
It is that I believe that it is -- that the -- using the same rate of return -- using the discount rate that is the same as the rate of return for the investment asset assumption just -- does not intuitively make sense to me as a finance person.
Q. Let me just understand.
For you this is a disclosure issue, correct?
A. It is -- it is a recommendation that I have made that it would be helpful to the City long-term to measure its long-term pension

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liability at a rate other than an assumed rate of return on asset investments.

MR. WAGNER: Can you read back the answer.

(The answer requested was read back by the reporter.)

THE WITNESS: It should be invested.

BY MR. WAGNER:

Q. Am I right for you, this is a disclosure issue. And I turn you to Page 156 of your report.

A. When you say "disclosure issue," all right --

Q. What I mean is that what you want is for that rate to be calculated and disclosed?

A. I want the -- yes. I want the risk levels to be -- to have the benefit of sunshine.

Q. Okay. Are you aware of any public pension fund that makes that disclosure?

A. As I sit here today, no.

Q. Have you ever opined or given any conclusions on the proper rate of return for a public pension fund?

A. No.

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Q. Have you ever served as an actuary for a public pension fund?

A. No.

Q. Have you had any experience in actuarial science?

A. In terms of? Experience in actuarial science?

Q. Yes.

A. No.

Q. Do you have any qualification to offer an opinion on the proper rate of return to use for a public pension fund?

A. I don't think I have offered an opinion.

Q. My question --

MR. WAGNER: Can you read back the question.

(The question requested was read back by the reporter.)

A. I don't think I ever have.

MR. WAGNER: Can you read it back one more time, I'm sorry.

(The question requested was read back by the reporter.)

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Q. Yes or no?

A. I don't think I ever have.

Q. Does that mean you don't have a qualification to do so?

A. I don't know.

Q. By the way, you're not opining whether this plan discriminates unfairly or not, are you?

A. Absolutely not.

Q. Okay. You would not be in favor of a plan that unfairly discriminates against any class?

A. It is -- it is not something I looked at. It is not part of my scope.

Q. Now, explain to me why you believe that the risk-free rate -- that calculation of pension liabilities using the risk-free rate should be disclosed?

A. I'm not sure that I -- the risk-free rate or a rate that is nearer a risk-free rate is what I suggested. Okay.

This is a plan some day in the future that needs to be a hundred percent funded. It is frozen. There will be people, 30, 40, potentially

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50 years from now that will need to be paid from this plan. There is no mechanism right now that assures that this plan will ever be a hundred percent funded.

Q. In your view, is the -- is there any downside to disclosing pension liabilities based on the risk-free rate?

A. Any downside?

Q. Yes.

A. No.

Q. Have you ever read anything citing downsides to disclosing the risk-free rate?

A. Have I read anything? Not that I recall.

Q. Has anyone ever discussed with you what the downsides are of disclosing calculation of pension liabilities based on the risk-free rate?

A. Not recently, no.

Q. What about not recently?

A. Again, the last time I dealt with pension was a number of years ago with a frozen terminated plan with a client, so...

Q. But one thing we can agree on is that

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nobody does it today, do they, as far as you know?
A. I don't know.
Q. 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 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.
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.
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.

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Q. Okay. And that's about a hundred basis -- 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 -- strike 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 lower than 6.75, yes.
MR. WAGNER: Mark this as the next exhibit.
(Whereupon, Kopacz Exhibit 6 was marked at this time.)
Q. Ms. Kopacz, this is the Blinken report.
Do you see that?
A. Yes, it is.
Q. Okay. And did you read it?
A. I have read -- I have read a lot of it.
Q. Have you read it cover to cover?
A. I don't know I've read it cover to

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cover.
Q. Do you know that -- that Richard Ravitch is very active in the Rockefeller Institute?
A. I do know that.
Q. Was he the one who directed you to this report?
A. I don't know.
Q. Am I right with respect to this issue of the risk-free rate that the Rockefeller -- the Blinken report is an outlier?
A. I don't know that it's an outlier.
Q. Did you make any effort to determine whether it was or not?
A. I did not.
Q. Can you 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

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rate that reflects the riskiness of expected benefit payments."
Do you see that?
A. I do.
Q. So all the Rockefeller report is advocating, Ms. Kopacz, is disclosure of a calculation based on a risk-free rate, correct?
A. I don't think that says risk-free rate. It says the riskiness of the 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 it is risk necessary of expected benefit payments. Funds should also disclose projected cash flows used to calculate liabilities so that they can be discounted at alternative rates."
Q. So I don't want to get into quibble over wording because there are of lots of people who want to ask questions. But am I right that this issue for the Blinken report is an issue of

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disclosure?

A. Similar to what I've said, yes.

Q. Okay. And you're not aware of any public pension funds that -- public pension fund that actually calculates the level of contributions that should be made based on a risk-free rate, are you?

A. I'm sorry.

MR. WAGNER: Can you read it back?

A. Please.

Q. I told you it would be difficult to do pensions.

A. No, it's okay. I can do pensions. Let's go.

(Requested question was read back by the reporter.)

A. I'm not aware of any as I sit here today.

Q. And would it surprise you if I told you that there are none that calculate the level of contributions that should be made based on a risk-free rate?

A. I -- like I said, I don't know one way or another.

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MR. WAGNER: Mark this as the next exhibit.

(Whereupon, Kopacz Exhibit 7 was marked at this time.)

MR. ALBERTS: Just as a courtesy, when you introduce an exhibit like this that we don't have a copy, just advise what it is.

MR. WAGNER: That's fine. If you want, I'll get you copies after.

BY MR. WAGNER:

Q. Ms. Kopacz, I put before you Exhibit 8 -- 7, which is a release by the National Conference on Public Employee Retirement Systems concerning the Rockefeller report that you cite, I believe, your report.

First of all, have you ever heard of this organization?

A. The National Conference on Public Employee Retirement -- not specifically, no.

Q. And if you turn to the last page, it states, "The National Conference is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada."

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Do you see that?

A. I'm reading. Just a moment. Okay.

Q. Are you aware of any other trade associations for public pension funds?

A. I don't know.

Q. Okay. I take it you didn't look at this release before you issued your report?

A. Not that I recall, no.

Q. Okay. And do you see in the first paragraph that the trade association representing the 500 -- over 550 public pension funds called the recommendations off the mark and impractical.

Do you see that?

A. The title says, "impractical and off the mark."

Q. You see in the second paragraph the trade association representing 550 public pension funds states that, "It makes no real world sense to use a discount rate that is artificially low and unrelated to real investment expectations."

Do you see that?

A. Do you want me to read the paragraph?

Q. My question is whether you see that

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statement.

A. I see the statement.

Q. Okay. And did you make any effort in preparing your report to investigate these types of criticisms of the Rockefeller report?

A. I did not.

Q. And I think you testified yesterday that Mr. Ravitch was a significant influence on your thinking with respect to the pension issue?

A. I said Mr. Ravitch and I and my team discussed this topic with him. I also discussed it extensively with Mr. Childree.

Q. And did anyone present to you the opposing point of view with respect to disclosure of the risk-free rate?

A. Yes.

Q. And who was that?

A. Mr. Childree.

Q. And what did he tell you?

A. Mr. Childree, as the former comptroller of the State of Alabama, having lived through these issues, adopts what most public pension government workers have lived with for years and years and years; and that is, that you

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discount at the same level of rate of return as the assets.
Q. And Mr. Ravitch presented the opposing point of view?
A. He did.
Q. Now, you referred yesterday to GASB?
A. Yes.
Q. What is GASB?
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.
Q. Did anyone ever tell that you GASB considered and rejected the disclosure of a risk-free rate?
A. I know that, yes, I do.
Q. Did you cite that in your report?
A. I referenced the GASB -- the new GASB reporting standards. Yes, I did.
Q. But you left this particular piece

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out of 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 didn't recite the -- I gave the standards. I referenced the standards. I didn't repeat 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, was it not, as to when it is effective?
A. It -- you know what, it may be an error between fiscal and calendar.
Q. Well, we're not in fiscal 2015, are we?
A. Yes.
Q. We're in fiscal 2015?

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A. For the City of Detroit, yes.
Q. Okay.
A. We're in 2014 today right now, it's 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:
Q. Have you seen this release before?
A. Not for a long time.
Q. So you've seen it before?
A. I have. I -- I probably saw it about the time that it was released.
Q. Okay. At the bottom, the government -- this is a Government Accounting Standards Board news release, June 25, 2012, states at the bottom, "The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects, A, 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

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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 that?
A. I think the B is important.
Q. Okay. My only question is whether you see this provision.
A. I see -- I 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 talk sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to -- to achieve that return.
Q. Okay.
A. And B, a yield or index rate on tax exempt 20-year AA or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met."
Q. So assuming those conditions are met, GASB recommends using a single rate, correct?

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A. Correct.

Q. And that is --

A. I don't believe those provisions are met in the forecast of the Detroit pension plan.

Q. Well, we'll leave that to the pension experts, because you are not a pension expert.

A. I am not a pension expert.

Q. Okay. So we'll leave that to the experts.

But the standard is under those conditions use of a single rate, correct?

A. Or, B, a yield or index rate on tax exempt 20-year AA or higher municipal rated bonds to the extent that the conditions for use of the long-term expected rate of return are not met."

Q. Am I right that if those conditions are met, GASB recommends using a single rate?

A. Or a yield on the index of municipal AA or higher bonds.

MR. WAGNER: Let's mark this as the next exhibit. This is Exhibit 9.

(Whereupon, Kopacz Exhibit 9 was marked at this time.)

BY MR. WAGNER:

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Q. Have you -- seen Exhibit 9 is the GASB Statement Number 67.

Do you see that?

A. It is.

Q. Have you seen it before?

A. I have not seen the full standard, no.

Q. Okay. Can you turn to Page 19.

And can you read 40, and can you agree with me that sets out the same standard we saw in the release?

A. Yes. What this basically says is that under the assumption that you have a funded pension plan, then the rate of return on the pension plan investments is the rate to use or the yield on the 20-year tax exempt muni bonds.

Q. Okay. We can put that aside for now.

A. Well, I mean it's really important.

Q. Well, I'm not -- there's no question pending.

A. Between whether it's a funded or unfunded plan.

Q. Okay. We will leave that to the pension experts.

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Did anyone ever tell you that one of the downsides to disclosing the risk-free rate is it could lead to liability-driven investing?

A. I don't understand that phrase.

Q. So that was not something you came across in your work on this case?

A. No.

Q. Did anyone ever tell you that disclosing the risk-free rate could lead to improperly -- could lead to over burdening current taxpayers?

A. I don't -- no.

Q. Did anyone ever tell you that using or disclosing the risk-free rate could lead to cutbacks with respect to pension benefits?

A. No.

Q. Now, you state in your report that the 6.75 rate was heavily negotiated.

Do you recall that?

A. Yes.

Q. What's the basis for that statement?

A. Conversations with various stakeholders in this case.

Q. What did they tell you?

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A. That the 6.75 was a heavily negotiated rate.

Q. You agree that it's lower than historical rates that the PFRS and GRS have used, right?

A. Yes.

Q. And it's lower than recent investment runs?

A. That's correct.

Q. Would you have -- and you agree it's lower relative to peers?

A. Yes.

Q. I think you cite in your report that peers are setting rates at 7.72, right?

A. That's what the NASRA report says.

Q. Okay. And the NASRA report also reports that rates over the -- returns over the last 25 years have exceeded 9 percent, right?

A. I don't know. I'd have to go back and look at it again.

Q. That was the point I -- the note I pointed out this morning.

A. Do you want to look at it again?

Q. It's up to you. You can look at it

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again. The left side of the page, first page.
A. Yes. I think 10 years it's been 7; 20 years it's been 8.2; and 25 years it's been 9.
Q. And there are few -- there are few major government-sponsored pension plans that use a rate lower than 6.75, correct?
A. There are some, yes.
Q. Well, there are few?
A. Yes, on this list.
Q. Well, you also note in your report that there are few.
A. Yes.
Q. When you -- when you recommended disclosure of the risk-free rate, did you believe that there were any downsides to disclosing that rate?
A. No.
Q. When you say the 6.75 was heavily negotiated, would you have -- would you -- do you have a view as to whether the rate should have been set based on an actuarial calculation as opposed to being heavily negotiated?
A. I have no view on that.
Q. You just accepted what was presented

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to you?
A. Yes.
Q. Now, you stated in your report that you want the City to provide stewardship on this issue.
Do you recall that?
A. I said it is an opportunity for the City to provide stewardship.
Q. What did you mean by that?
A. Just because everybody does it a certain way doesn't make it right, doesn't make it prudent. And I don't believe information is good or bad, it simply is. And I think this data point, given what the City has been through with its -- its underfunding of its pensions, its borrowing money to fund pensions, I think disclosure and sunshine would be a very good thing for the City going forward so that it doesn't get in these kinds of difficulties again.
Q. Again, this is, for you, it's a disclosure issue, right?
A. It is a disclosure issue. And the reality is plans are going to be less funded over the next ten years. Now while that relates very

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favorably to feasibility, okay, in my assessment, it also presents a long-term risk to the City.
Q. Did you -- strike that.
You're not saying that any of the pension funds' investments are risky, are you?
A. I -- in order to achieve the rates of return that are projected, that either 6.7 or the 11, you have to have volatility which means you have to have some level of risk in return.
Q. Have you looked at the -- well, are there specific investments that you believe the pension funds have made that are risky?
A. I -- at this point, I -- I don't have that information in front of me.
Q. Do you have anything -- do you have any information reflecting negatively on the pension advisors to the City?
A. The current pension advisors?
Q. Yes.
A. That I'm not aware of. They're different than the past advisors.
Q. Just a few more questions.
Are you aware of any information indicating that the trustees of the pension funds

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have breached their fiduciary duties?
A. The new trustees?
Q. Any trustees?
A. My recollection is that there are some pending legal actions against former trustees.
Q. What about the current trustees?
A. That I'm not aware of, no.
Q. You also note on Page 128 that the value of UAAL is 3.5 billion.
A. What page?
Q. Page 128.
A. Yes.
Q. Okay. Are you aware that the plan sets the amount at 3.1 billion?
A. I am referencing a specific point in time and a specific calculation by Milliman in 2013.
Q. I'm right -- just a few more questions.
I'm right that most participants in the pension plan have already retired. Page 126.
A. Yes.
Q. Do you know what percentage of

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retirees live in the City of Detroit?
A. I do not.
Q. Is that relevant to you?
A. It is not.
Q. On Page 128 and 129 you cite ASF, the ASF issue.
Do you see that?
A. I do.
Q. What's your understanding of that issue?
A. In what sense?
Q. Well, you reference 387 million of excess investment earnings credited to the annual savings funds.
Do you see that?
A. This is -- this is a -- this is taken from Mr. Moore's declaration.
Q. Okay. Do you understand what the ASF issue is?
A. I do.
Q. Okay. And you understand that this 387 million was -- shouldn't have been paid out?
MS. GREEN: Object to form.
MR. ALBERTS: Objection.

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BY MR. WAGNER:
Q. You can answer.
A. I understand there's a dispute --
Q. Okay.
A. -- over the ASF.
Q. Right. And you understand that that 387 million shouldn't be part of the pension claim?
MR. ALBERTS: Objection.
MS. GREEN: Objection.
A. I don't know.
MR. WAGNER: All right. Why don't we take a couple-minute break. I may be done.
THE VIDEOGRAPHER: Time now is approximately 10:00 a.m. We're going off the record.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time is 10:11 a.m. We're back on the record.
BY MR. WAGNER:
Q. Ms. Kopacz, just you couple of more questions.
I'm right that you're not -- you're

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not offering any conclusion as to whether the City has properly calculated the size of the pension claim, correct?
A. Correct.
Q. And am I also right that you haven't done any due diligence with respect to the pension funds asset allocations?
A. Correct.
MR. WAGNER: Nothing further.

EXAMINATION BY MR. NEAL:
Q. Good morning, Ms. Kopacz.
A. Good morning, Mr. Neal.
Q. I prefer to question you in a witness box, like we did in April. But this will -- this will do for now.
At the outset, just a brief apology. I was defending a deposition of my client yesterday. I had the opportunity to read the draft of the transcript from yesterday and I intend not to repeat anything, number one.
Number two, my questions are going to relate almost entirely to DWSD, okay?
A. Okay.

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Q. And I have a couple of preliminaries that you may have covered, but these preliminaries will last about five minutes' time, so if you could indulge me.
A. Sure.
Q. So I want to confirm that the documents and the sources that are listed in Exhibit 2 of your report and meetings and the communications that are listed in Exhibit 3, reflect all the materials or interviews on which you relied upon in preparing your report?
A. That is the intent of Exhibit 2. I believe that is correct.
Q. Is that also the intent of Exhibit 3 which relates to the communications?
A. No. The communications log -- and again, there was some question amongst my team as to whether the judge's requirement only related to my communications or to my entire team's communications. In an abundance of caution, we did everybody's communications.
So -- and I would -- I would say we strived to get it as current and accurate and timely as we could.

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Q. And in looking at Exhibit 2, am I correct that you did not rely upon any of the objections to the plan of adjustment that were filed by the objectors in the case?
A. That's correct.
Q. And in looking at Exhibit 2, am I correct in saying that you didn't rely upon any of the fact or expert witness depositions, the transcripts that have been taken in the past several weeks?
A. I've read nothing.
Q. And the only depositions that are reflected in Exhibit 2 were the ones that were taken in -- in different disputes such as eligibility or swaps; is that right?
A. Correct.
Q. In terms of the DWSD management and consultants, so you did not read the deposition transcripts of Sue McCormack, the CEO or director of DWSD; Cheryl Porter, the COO or Nicolette --
The first name is Sue McCormack, the CEO or director of DWSD; Cheryl Porter, the COO of DWSD; Nicolette Bateson, CFO of DWSD; or Bart Foster or any consultants of DWSD?

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A. That's correct.
Q. Now, have you ever -- have you or your team members ever have any communications with those individuals?
A. No, not to my knowledge.
Q. Is there a reason why neither you nor anyone from your team spoke to DWSD management?
A. Yes. The -- originally DWSD was on my to-do list, okay. I spoke with counsel to the bondholders, some of the bondholders on DWSD, okay, and I got an understanding of the issues. Obviously I'd read the plan of adjustment and the proposed treatment of the DWSD bonds.
I then had and my team had discussions with finance people at the City on DWSD in terms of the enterprise nature of the fund. I read various early on pleadings as it related to DWSD. And at the point in time where I realized that the interplay between my feasibility assessment and DWSD was related to the $428 million of pension funding, the transfer, that -- again, because the -- that's what I had to focus on relative to DWSD. And that is simply a -- a source of funding for execution of the plan

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of adjustment.
Q. Now, when you say in your prior answer you spoke to finance people at the City.
A. Yes.
Q. Who would those individuals include? I'm not looking for an exhaustive list.
A. It would be the CFO. It would be the -- Pam Scales, the budget director in terms of how DSD and the City relate to one another. Speaking also with -- with people on the -- the mayor's staff.
Q. Okay. So not just the emergency manager and his professional advisors?
A. Oh, no. Oh, no.
Q. Okay.
A. Right.
Q. And going back to Exhibit 2 to your expert report, am I correct in observing that the only expert reports upon which you relied were those of the City experts?
And I can point you to them. Exhibit 2, lines 46 through 49, 51 through 55.
A. Yes. These are in terms of -- of -- the reason that they're here is there are various

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assumptions, for example, in Mr. Buckfire's report in terms of exit financing, I'm relying on his representation of obtaining exit financing.
For people like Beth Niblock and John Hill, those are included because we have cited either factual comments that they've made about the state of the IT systems or in the case of John Hill, what he is intending to do to fix the accounting and the IT systems.
So... but, yes, those are -- whatever is here is what's included somewhere in the report.
Q. Your expert report was served on July 18, correct?
A. I believe that's correct, yeah.
Q. I want to talk about relatively current events. So between July 18th and today, August 1st, the objectors had their respective deadline or deadlines as it relates to serving their expert reports.
Have you had an opportunity to review any of those?
A. Not yet.
Q. Do you intend to review them?

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A. Yes.

Q. If any of those reports inform or alter your opinion, do you intend to supplement your expert report?

A. Yes.

Q. To the extent you don't supplement your expert report, would that be, in essence, an acknowledgment that the expert reports of the objectors have not altered or informed your opinion?

A. I don't know because I'm still -- remember, I'm still waiting on information from the City.

Q. Yes.

A. Right? So...

Q. And that's reflected in Exhibit 4 of your report, correct?

A. Correct.

Q. Now, is this -- does Exhibit 4 reflect information that you believe may be material? Let me phrase the question differently.

Is it reflective of all of your outstanding requests or did you just intend to provide a list of what is important to you?

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A. This is -- in terms of the -- the formal process we had with the City, okay, this was the open request list as of the date of my report. Okay. There are -- there is information that I received shortly before I completed my report that I have not yet reviewed; the collective bargaining agreements we talked about yesterday.

So there are -- again, I did not have the time to do an adequate review job on that so I didn't do it. And so there's -- there's information here that I would still like to receive and there is information that I have received that I have not yet reviewed.

Q. So at one time you had a much larger, I would imagine, request list for the City and you've been checking off boxes; is that right?

A. Yes.

Q. More or less?

A. It was -- it was a dynamic list in that things got added, things got taken off as they got supplied.

Q. And by the time it came to serve your report on the 18th, you had a few open request

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lists and these --

A. Yes.

Q. -- as reflected on Exhibit 4, are those open requests?

A. Yes.

Q. They're not prioritized in any way?

A. No.

Q. Okay.

A. No.

Q. Do you anticipate looking at any additional materials?

Let's just go back to July 18th, starting with that point. Do you anticipate looking at additional materials as they relate to the DWSD, its operations, its capital expenditures, its debt, its future cash flows?

A. I don't know.

Q. Sitting here today, have you done that in the past week and a half?

A. I have not.

Q. Do you intend to do it in the next week and a half?

A. I don't know.

Q. Now, in preparing your report, there

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are several instances in which you cite to either information provided by or discussions you've had with Miller Buckfire, in specific Ken Buckfire and his investment bankers; is that right?

A. Yes.

Q. I don't want this to be a memory test, I can give you the page numbers if it will help you. But I know in one instance and perhaps more than one, I shouldn't say one, that you spoke with Mr. Buckfire and his team about exit financing; is that right?

A. That's correct.

Q. You also spoke to Mr. Buckfire and his team about the City's access to capital markets post -- post emergence?

A. Yes.

Q. And you spoke to Mr. Buckfire and his team about the monetization of certain assets including DWSD, right?

A. Yes.

Q. There was one other instance that involves Wayne County property tax matters and I'm not going to go into that, I promise you.

Let's just go and focus on exit

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financing, if we could.

First, did you have any communications with Mr. Buckfire, any members of his team regarding the DWSD's need or anticipated need to access the capital market in the future?

A. I don't recall a specific conversation related to DWSD's capital market access.

Q. Did you speak with anybody, at any time during your engagement, about DWSD's need or anticipated need to access the capital markets?

A. Again, I think it may have been part of the general conversation, but I don't recall -- I don't recall a specific response.

Q. Sorry. What do you mean by "response"?

A. Well, the conversation that I had with Mr. Buckfire and his team, with Mr. Doak and a variety of associates. We talked about a lot of things in terms of exit financing and access to capital markets. We also talked about DWSD and the monetization of DWSD.

Q. Okay.

A. And I'm not sure that those two

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topics intersect because I don't remember a specific conversation about it.

Q. Fair enough. Let me give you an example.

Others have testified in this case about DWSD's plan to access the capital markets for about $150 million worth of new sewer financing for capital improvements.

A. Okay.

Q. Have you been involved in that process?

A. I have not.

Q. Have you had any conversations with anyone affiliated with the City, including DWSD, about that process?

A. No.

Q. Okay. Going back to accessing capital markets and the exit financing, can you just describe generally to me your conversations with the Miller Buckfire team about -- about their interaction with the capital markets and their effort to obtain exit financing?

A. My conversation with Mr. Buckfire, we talked about -- he supplied me with the

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information packages that they were sending out to various potential funding sources. And that -- you know, he would -- he did not give me any specific lenders that he was talking to. I didn't necessarily ask him for those, either. But he said there was interest, they had been working on it and he was highly confident that they were going to be able to place the exit finance.

Q. When did you have these conversations?

A. It should be in my log. It was -- probably sometime in July.

Q. Ms. Kopacz, I'm not looking for the exact date --

A. It was -- it was -- it was within the -- I don't think it was the week before. I think it may have been like the second week -- it was after the 4th.

Q. Okay. Very good.

(Technical interruption.)

THE VIDEOGRAPHER: The time now is approximately 10:34 a.m. We're back on the record. This is the beginning of Disk Number 2.

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BY MR. NEAL:

Q. Ms. Kopacz, there was a small technical glitch. I'm going to repeat one question or come close to repeating it.

And that is, I'm not looking for an exact date when you had these discussions about exit financing with Miller Buckfire, I'm looking for the general time period.

A. I had a few -- I mean, really a few, two or three conversations with Ken or Jim Doak, over the course of my assessment and I know there was -- and like I said, I believe there was either a call or e-mail exchange because it was on my white board to check on exit financing and I did that within a week or so of issuing my report.

Q. Were any individuals involved in those discussions other than you and your team, and the individuals you identified at Miller Buckfire?

A. Not involved -- at about that time, I also had -- Mr. Ravitch had met with Mr. Buckfire and shared with me that he had had the same conversation, in essence, that I had had; that Mr. Buckfire was confident he was going to raise

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the 300 million at 6 percent. And the question was really whether or not that would be raised as a -- as a secured type of borrowing or unsecured.

Q. Now, is this a meeting that -- that included Mr. Ravitch?

A. Mr. Ravitch had his own meetings and he just reported to me at about that same time.

Q. And what did he report to you about the exit financing?

A. That Mr. Buckfire had represented that he was going to get the exit financing and that, you know, he thought -- he still thought it was going to be around the 6 rate.

I had been watching high-yield muni rates and thought it might be a little higher than that and there was still an open question as to whether or not you'd have to pledge whether it would have to be secured with tax revenue or not.

Q. Did Mr. Ravitch express any views or opinions to you on this issue, the City's efforts to obtain exit financing?

A. No.

Q. Did he express any views or opinions to you as to what the anticipated or assumed

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interest rate would be?

A. No.

Q. What exactly did you talk about with Mr. Ravitch on the exit financing issue?

A. We were -- we were sitting in our office a couple of days before the report was issued. I had asked Mr. Ravitch to please review the pension section and the post-confirmation issue section -- the post-confirmation oversight issues. And we were sitting in my office in New York which has a white board and there were the open issues list of things that I needed to check on and exit financing was there.

And he said, oh, by the way, I talked to -- I had breakfast or lunch or whatever, and had a conversation with Buckfire.

Q. How many conversations have you had with Mr. Ravitch about the exit financing?

A. I think that may have been the only one.

Q. Did you discuss with -- let me make sure I've closed the loop.

Did you have any conversations with anyone from the State of Michigan about the City's

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effort to obtain exit financing?

A. No.

Q. Did you discuss with anyone at the Michigan Finance Authority?

A. I did not.

Q. There is a consultant -- I'll represent to you there's a consultant engaged by both the DWSD and the City -- excuse me, both the DWSD and the state, his name is Lee Donner of the First Southwest Company.

Did you speak with Mr. Donner?

A. I did not.

Q. Did you have any discussions with Mr. Buckfire about his views of the -- of the credit ratings that the City would receive post-emergence from Chapter 9?

A. No.

Q. Any conversation as to whether the City's debt or series of debt would be above investment grade or below investment grade upon emergence?

A. No.

Q. You do state, and I think you repeated it accurately a few minutes ago, on Page

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90, that, "As of the date of this report it appears that the assumed interest rate of 6 percent could be low for a high-yield instrument like the proposed exit financing."

Do you see that?

A. I do.

Q. And what is that based on?

A. We have been monitoring just high-yield muni bonds to see at what pricing they're selling at. And recently, you know, again, the -- the biggest issue that's come off during pendency of this case are the Puerto Rico bonds and they've been more in the 8 to 9 range.

There have been -- there have been a lot of issuances in around the high 5s.

So again, the -- what's important to my assessment of feasibility is whether or not the City gets the exit financing. It's less important to the feasibility assessment what the interest rate is. I mean, unless it's 15.

Q. Sure.

A. Right. So...

Q. So let's play that out little a little bit.

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A. Okay.

Q. So whether it's 6.5 percent or 7 percent is not necessarily material to your opinion in your report?

A. Correct.

Q. Did you speak to any underwriters, anyone on the buy side, any capital market participants about the City's efforts to obtain exit financing?

A. I did not.

Q. Did you do anything other than what you've already testified today to test the assumptions that the City can obtain exit financing at about the 6 percent interest rate?

A. I did not.

Q. I want to switch gears a little bit and talk to you about your conversations with Miller Buckfire about the City's efforts to monetize the DWSD assets.

Can you describe those conversations to me?

A. Very brief. The meeting that I had with Ken and his team in June, we talked about DWSD. He was of the viewpoint then that there was

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not going to be a transaction associated with DWSD and that was kind of the sum total of the conversation.

Q. So a couple of short conversations would be accurate?

A. You know what, I'm sure when I initially met with Ken at the beginning of the case, and he gave me his background in terms of how he got involved and what he was focused on, and -- and I remember at that point in time he said he did not envision something happening with the DWSD assets.

And then, obviously, during the pendency of my assignment, the judge ordered the parties back to mediation on that. And I met with him, I think shortly after that happened or about the same time, and he said he still didn't envision anything happening.

And once again, you know, for me, DWSD became only an issue of the pension funding.

Q. I want to broaden the question to include any representatives from Conway Mackenzie on this issue of monetization.

A. No, no conversations.

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Q. Did Mr. Buckfire give you are a download, so to speak, of his negotiations with the counties about the formation of a regional authority?

A. No.

Q. Did you have any understanding of the to'ing and fro'ing, so to speak, between the City and the counties in 2013 and 2014?

A. Tiny. Tiny understanding -- tiny.

Q. The issue of whether or not an authority is created, I take it that's not material to your opinion that the plan is feasible under your definition?

A. It isn't because my task was to assess the plan as it stands. So, again, as people have raised the issue of DWSD, while I think it is -- would be a fascinating issue to look at, in the spirit of what my task is and how long I had to do it, it was just not something that I could -- I could consciously justify spending time on.

Q. Going back, I'll just briefly on the issue of exit financing.

In your report, I think it's

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Section O, Page 192, you identify that as a risk.

Is that fair to say?

A. 192. Risks -- these are other risks and opportunities section. Right.

Q. Yes.

A. Yes.

Q. You have a subsection called, "Access to Capital Markets." I believe that's Page 195.

A. Uh-huh.

Q. So that is an identified risk of yours in your report, correct?

A. It is.

Q. Other than what you told me about your conversation with Mr. Ravitch, is that -- well, let me rephrase the question.

Did you have any other conversations with Mr. Ravitch about what you've identified as a risk in obtaining exit financing and access to capital markets?

A. Not that I recall.

Q. Ms. Ravitch (sic), I'm going to show you what's previously been marked in a prior deposition, Exhibit M.

A. I'm not Mr. Ravitch.

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Q. I'm so sorry. Did I say that?
Ravitch, Kopacz.
A. Well --
Q. There you go. I apologize.
A. He's Russian, Polish, whatever, right?
Q. I apologize, Ms. Kopacz.
A. This is?
Q. I will identify it. Just take a -- for the record, while you take a moment to look over this document, this has previously been marked as Porter Exhibit Number 12, Exhibit M to the May 5th, 2014 disclosure statement. It is DWSD financial projections.
On the second page of the exhibit, it's City of Detroit water and sewage disposal fund 10-year projections.
Have you -- have you seen this document before?
A. I have only seen this document in -- in the context of having printed out the May 5th plan of adjustment disclosure statement. I have not spent any time with this document.
Q. Did any members of your team spend

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any time with respect to this document being 10-year projections for the water and sewage disposal fund?
A. I don't recall specifically, but I do know at some point we did have one of our team members initially slotted to look at DWSD, so there may have been somebody who did look at it.
Q. Who was that team member?
A. That would have been Mike Gaul or Al Mink.
(Cell phone interruption.)
THE VIDEOGRAPHER: I'm sorry. That shouldn't have happened. I'm sorry.
BY MR. NEAL:
Q. Mike Gaul or --
A. Al Mink.
Q. Did either of those gentlemen actually look at these projections?
A. Like I said -- I don't -- I don't know the answer to that. And the reason is because I believe -- I mean, while it was initially on the task list, I know that we took it off the list at some point. So...
Q. Why did you take it off the last at

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some point?
A. Again, because I said -- DWSD relates only to -- in terms of my feasibility assessment, the transfer of money from DWSD relative to the pension funding, okay. So given that assumption, right, I did not delve into DWSD issues.
Done. Finit.
Q. I take it you and your team spent time reviewing the City's 10-year projections and 40-year projections, correct?
A. Correct.
Q. Now, you may have answered this in your prior answer, but let me just make sure.
Does any part -- is there any line item that you can recall in those 10-year projections or 40-year projections that relate to DWSD's financial performance?
A. The enterprise fund that is DWSD?
Q. Yes.
A. No.
Q. So there's nothing in the 10-year projections or 40-year projections that are impacted by the amount of outstanding debt service that DWSD has with respect to its bondholders,

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correct?
A. Correct.
Q. There are no assumptions baked into the 10-year or 40-year projections as it relates to the refinancing of the DWSD bonds, correct?
A. No. There is plan treatment of the DWSD bonds. Right? But not --
Q. No doubt.
A. Not the -- the only general fund linkage between DWSD, okay, and the City is DWSD's payment over that first ten years of the pension obligations.
Q. Let's put the pension obligation aside, I'm going to come to that.
Are you aware of the so-called interest rate reset that is being proposed under the plan with respect to the DWSD bonds?
A. I am aware that the interest rate -- I believe the interest rate in the call provisions were proposed to be changed under the fourth plan. I don't know what the fifth plan does.
Q. Did you or your team ever analyze whether the rates that are being proposed under the plan are market or not?

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A. No.

Q. Do you have any view or opinion with respect to the impairment of the bonds as it relates to interest rate and call protection?

A. No.

Q. So, is it accurate to say there's nothing in your expert report that goes to whether or not the plan would be feasible or not if the DWSD bonds interest rates are reset and the call protection stripped?

A. I believe that's correct in that the -- the treatment of the DWSD bonds in the plan of arrangement does not impact my feasibility assessment of the plan. Does that --

Q. Yes. So it makes no difference with respect to your opinion whether or not those bonds are impaired --

A. That's correct.

Q. -- correct?

Do you know how much or the amount of the purported savings that the DWSD would achieve if the bonds are impaired as contemplated under the plan of adjustment?

A. I don't.

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Q. That number is not material to you?

A. I don't know what the number is.

Q. Whether that number is 300 million or 600 million, it has no impact on the opinion that you are rendering in this case, correct?

A. That's correct.

Q. Let's turn to that, to use your terminology, Ms. Kopacz, the linkage. And that linkage is the 428.5 million pension contribution that is to go from DWSD to the City, correct?

A. Correct.

Q. And what did you do to analyze the amount and the proposed payments under the plan with respect to that amount?

A. There's a chart in my report that identifies how that money comes into the City. I had conversations with Ernst & Young as it relates to those monies.

I had -- and I had other conversations with -- it was a topic that I -- when I met with the retirement systems and their counsels, we talked about -- I can find it -- it comes in over ten years.

Q. Yes. Please take a moment to find

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it.

A. I'll find it.

Q. If I had a page number, I would give it to you.

A. Yes. It is -- it's on 136 and it's on 137.

Q. With respect to the UAAL amount, did you or your team do anything to verify that the 428.5 million is an accurate calculation of DWSD's share of the UAAL?

A. No. My assumption is that that number was a given.

Q. A given in what sense?

A. In that it -- I have assumed that the $428 million is correct for purposes of funding the pension treatment that is provided for in the plan.

Q. Did anyone affiliated with the City tell you why they were structuring the transaction -- "the transaction" being the DWSD pension contribution -- the way that they structured it in the plan?

A. Again, because it -- it is a source of funds that the City believed it could use to

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fund the pension obligation going forward.

Q. Would it change your opinion at all in terms of feasibility whether that amount was paid out over nine years or ten years or a longer period of time?

A. It could.

Q. Did you run any -- perform any analysis over the impact that paying that money out over a longer period of time would have on the plan's feasibility?

A. I did not.

Q. So whether it's paid out over 30 years or nine years, you don't have a view as to whether or not that would impact the feasibility of the plan?

A. It's not paid in -- it's paid more in the first year than and then equally over the subsequent years. So depending on if that was spread over a 30 years, right, that could be -- that could be meaningful. I don't know.

Q. Do you know historically, let's just say going back five years, how much was paid in terms of DWSD's share of the UAAL?

A. I don't.

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Q. Do you know why the first year number for the payment is larger than the subsequent year's?
A. I don't.
Q. I want to go back to Porter Exhibit 12 just for a few moments. And remember that document is Exhibit M to the May 5th, 2014 disclosure statement.
A. Uh-huh.
Q. Do you have any knowledge as to whether any DWSD employees and consultants were consulted with regard to the creation of the water and sewage disposal fund 10-year projections?
A. I'm sorry.
Q. Yes. Do you know if any DWSD employees or consultants were consulted with respect to the creation of these 10-year projections?
A. I have no knowledge one way or another.
Q. Would it surprise you that several members of the DWSD management have testified that they had no input into the creation of this Exhibit M, Porter Number 12?

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A. Would it surprise me?
Q. Would it surprise you?
A. No.
Q. You touch upon this in your report, correct, and that is, the -- I'm going to use this word and you can correct me if you don't like it -- the disconnect between the City employees and the City professionals?
A. Yes.
Q. Would you agree that in some instances there's a disconnect between the projections prepared by the City's professional advisors and the views, opinions and projections prepared by the City's employees, correct?
A. Yes.
Q. Where have you seen that?
A. I've seen that in the operating departments within the general fund.
Q. Can you give one example?
A. Fire department.
Q. And where would the disconnect lie between the fire department and the City?
A. In the -- most of it lies in the RRIs, in the development of the RRIs. And that's

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where it became evident to me in trying to do -- again, trying to understand the plan, the baseline, the RRIs, the long-term projections, vis-a-vis the budget and the reasonableness of the totality of projections for how the City's going to operate.

And during -- and I participated in a lot of what the mayor referred to as his budget review meetings, but where the purpose was to meet with the department heads to understand if they believed they could meet the projections and the plan in the POA.
Q. Did you meet with department heads?
A. I did.
Q. And the meetings with department heads that you referred to in your answer before the last one, those were meetings that you were -- you and your team members were involved in?
A. Most of them I did. Occasionally, depending on the department, others of my team participated in.
Q. And one of the purposes of those meetings, I would imagine, is that you wanted the make sure department heads and the City and its

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professional advisors were on the same page, so to speak?
A. Well, the beginning of those meetings, it was only the department heads and the mayor's staff. And then as those meetings progressed and it became obvious that department heads didn't understand how they fit into the plan, that then representatives from E & Y and Conway started attending.
Q. Do you know if the department heads at DWSD know how they fit in with the plan?
A. I have no idea.
Q. Are you aware that DWSD itself generates its own internal projections?
A. I have no knowledge one way or another.
Q. So you did not -- neither you nor anyone on your team evaluate any DWSD internal projections?
A. That's correct.
Q. You've not done a comparison of DWSD internal projections with the 10-year projections reflected in Porter 12?
A. No.

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Q. Now, there's a section on DWSD in your report, under Section O, other risks and operations --
A. Opportunities.
Q. Excuse me, you're right.
Opportunities. So if you could turn to Page 196.
A. Uh-huh.
Q. So DWSD, in your view, has very little impact on the general fund; is that correct?
A. That's correct.
Q. Then you state, "DWSD does play a significant role in funding the City's pension obligations during the forecast period."
Do you see that statement?
A. Yes.
Q. You have a footnote and that is the 428 we were talking about earlier, correct?
A. That's correct.
Q. My questions concern the next simply one sentence: "In the event of a significant disruption to the DWSD operations, significant loss of customers impairing its financial

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prospects, or in the event that the DWSD contributions are not made according to the POA, this could negative impact on the outcome of the POA."
Do you see that?
A. Yes.
Q. And what significant disruption to the DWSD operations are you referring to there?
A. If something happened at DWSD such that they can't not make the contributions to the pension funding, that will have a negative impact on the results of the City's ability to meet the obligations in the POA.
I don't know what they could be. You could have all the water mains blow, for all I know. I have no idea what they could be.
This is simply a -- this is an unknown and unknowable in my perspective. But if something happens where DWSD can't contribute as its envisioned, that would have -- I would have to reevaluate, you know, my thoughts on whether or not the POA obligations would be met.
Q. But again, you've not done a sensitivity analysis in that regard?

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A. I have not.
Q. So whether they could only pay 20 million a year versus 60 million a year for their UAAL contribution, how that impacts feasibility is not something you've analyzed?
A. Not specifically.
Q. There's a reference also baked into this sentence. I want to see if it's something different than what you've already disclosed.
"...to a significant loss of customers impairing its financial prospects."
Is that also unknown and unknowable?
A. Yes.
Q. You're not aware, sitting here today, of any event on the near horizon that could result in a significant loss of customers?
A. That's correct.
Q. It could happen or it couldn't, correct?
A. I don't know.
Q. Have you had any communications with Mr. Ravitch about the DWSD pension contribution?
A. No.
Q. Can you tell me all of your

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conversations with Mr. Ravitch as they concerned the DWSD?
A. I don't believe we ever talked about DWSD at any level.
Q. Okay. I'll represent it's more valuable than the art, but I'm not asking you to respond to that. Others have different opinions in this very room, but I'll move on.
Did you have any conversations with Mr. Ravitch about any of the expert reports that were submitted by the DWSD bond insurers or the U.S. Trustee as Indenture Trustee?
A. My prior answer was the sum total of my answer. I don't believe Mr. Ravitch and I have ever talked about DWSD. I'm not sure he knows what DWSD stands for.
Q. Do you have any views or opinions with respect to what the projected rate increases are under the plan with respect to water and sewer rates?
A. I don't. I know the cost that the City's paying is going up.
Q. Do you know whether there is, to adopt a term in your report, a tipping point with

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respect to those -- those costs?

A. I don't.

Q. Last exhibit I want to show you, previously marked as Orr Exhibit Number 18.

While you're looking through it, I'm going to represent to you, Ms. Kopacz, that Orr Exhibit 18 has the title "Feasibility Report" and we'll get to what that means in a second.

I'll represent to you that this is a document prepared by the rate consultant for DWSD. It's fairly current. It's a July 17, 2014 document.

Now, it would surprise me if you said yes, but let me ask you: Have you seen this document before?

A. No.

Q. Do you know what a feasibility study or report is as that term terminology is used in the public finance context?

A. I -- I have -- I have been exposed to that term before relative to public financing projects. So, generally, yes. Specifically as it relates to this, obviously not.

Q. What's your general understanding of

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why a feasibility report is prepared?

A. To assess whether or not a project, for example, you know, an industrial revenue bond issue or, you know, something like that would make sense whether or not it would be rate feasibility around public utilities, those sorts of things.

Q. If you could turn to the very last page and my question for you is -- I'm very close to wrapping up -- if you could just take a moment and read the facts and opinions that are set forth 1 through 6 on this last page.

A. This is A-25?

Q. Yes. My question is going to be do you have any basis to disagree with any of the facts and opinions set forth in 1 through 6 on this page?

A. Okay. Can you tell me what the CIP is?

Q. That's an acronym for capital improvement plan.

A. Okay. Okay, I've read it.

Q. Okay. Do you have any reason to disagree with any of the facts or opinions set forth here?

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A. I don't mean to be flip, but couple of things. One, it says preliminary to be updated. So I don't know if there has been any changes to that. And quite frankly, this is more information than I think I can deal with in a 90-second review.

So I guess I would say I just don't think it would be very professional if I said one thing or another about this.

Q. All right. Well, very good. I'm going to just walk you through it. It shouldn't take very long.

A. Okay.

Q. The first two paragraphs deal with sewage disposal rates. Is that something that you have studied as part of this engagement?

A. No. But the only thing I know about sewage disposal rates is the -- the sewage rates the City is paying itself, have -- are expected to go up and have gone up. Because, again, the way that the City is being charged for sewer has changed this year versus previously.

Q. But whether or not the sewage disposal rates are above or below average of those

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and comparably sized cities --

A. I would have no knowledge.

Q. Same question as it relates to the water rates.

A. I have no knowledge.

Q. And bullet point 3 or paragraph numbered 3 as it relates to the CIP, the capital improvement plan, fair to say you have not reviewed DWSD's capital improvement plan?

A. I have not.

Q. Point number 4, the department's current fiscal policies, have you reviewed the department's current fiscal policies?

A. I have not.

Q. And in the last two points, point number 5, whether or not the revenues pledged as security for the DWSD bonds are projected to be sufficient to comply with rate covenants, et cetera, is that something you've looked at?

A. I have not.

Q. And the coverage requirements that are referenced in Paragraph 6 with respect to the bonds, is that something you've looked at?

A. No.

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Q. In reviewing the transcript from yesterday, I believe Mr. Stewart asked you at the start if you had any misgivings or any conclusions that you weren't confident about in your report.
Given the past day and a half of questioning, do you have anything?
A. I'm still -- no, I'm still really comfortable with what we did, given the scope of our assignment, given the best information available. And I really haven't changed any of my thoughts in the last day and a half.
MR. WAGNER: Very good. I have no further questions. I yield to others.
MR. BRILLIANT: I'm not going to have very much time. Do you want to take a few-minute break and we'll switch seats.
THE VIDEOGRAPHER: The time is 11:16 a.m. We're going off the record.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time is 11:26 a.m. We're back on the record.

EXAMINATION BY MR. BRILLIANT:

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Q. Ms. Kopacz --
THE VIDEOGRAPHER: Your microphone, sir.
Q. I'm going to try to just fill in some gaps and try not to repeat things and I hope we can do this pretty quickly.
So the first thing I wanted to ask you about is with respect to the DWSD, in answering some questions from Mr. Neal you said that the only thing that you looked at in connection with DWSD was in connection with the -- the pension payments; is that right?
A. That's correct.
Q. And what did you do in connection with that? You just assumed that DWSD would make the payments?
A. I had conversations with the City and the City's professionals and conversations with -- I know counsel to the retirement systems and to some of the people that were involved in that.
Q. And basically you just made the assumption that DWSD would be able to make those payments?
A. I did.

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Q. And you didn't do anything to analyze whether DWSD would have the financial capability to make the payments; you just relied on the assumption they could make the payments?
A. Yes.
Q. And you -- and because you didn't review any DWSD financial projections, you have no opinion as to whether any financial projections are reasonable; isn't that right?
A. That's correct.
Q. And you have no opinion as to whether or not DWSD is viable after confirmation of the plan, do you?
A. Like I said, I don't have any perspective or point of view on DWSD.
Q. Okay. So when you say in your report that the plan is feasible, you mean this the plan as relates to the general fund is feasible based on the assumptions contained in your report, but you have no opinion as to whether the DWSD portion of the plan is feasibility; is that correct?
A. That's correct.
Q. Mr. Neal had asked you about conversations that you had with respect to

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monetization of DWSD.
A. Yes.
Q. And he'd asked you about conversations with Miller Buckfire.
A. Yes.
Q. And he asked you about conversations with Conway and Mackenzie.
A. Yes.
Q. Were there conversations that you had about the monetizations of DWSD with anybody else?
A. Not to my recollection.
Q. When was it that you decided that the feasibility analysis would only be limited to the general fund and -- and not to the enterprise funds?
A. Because the plan of adjustment projections only relate to the general fund.
Q. Okay. But when -- so when was the decision that you would only -- 'cause in the disclosure statement, right, there's -- there's the 10- and 40-year projections for the general fund, correct?
A. Right. Yes.
Q. And then -- and then there are also

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projections for DWSD; is that right?

A. I'd have to look at it again, but, yes, I believe there were.

Q. Okay. So when was the decision made to only review the reasonableness of the projections as they related to the general fund? When did you make that decision?

A. I don't recall specifically.

Q. Was it early on in your process?

A. It was multiple times in my process. I think originally, again, when I -- when I got involved in April, I didn't understand enough about the case, the projections. I didn't understand the projections. And as I got more involved in it, I realized that the plan really only included the general fund, not so much the enterprise fund.

And it probably was the original -- it was probably the first conversation with John Hill when I really got a much better understanding of the projections in the plan of adjustment.

Q. So when you say the plan only included the general fund. When you're talking about plan, are you talking about --

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A. I'm talking about the 10-year, the RRIs and the 10-year, 40-year.

So we can identify the exhibits to the disclosure statement as probably the best way to do it.

Q. Okay. I was, at this point, just asking you a different question.

You used the word "plan." Are you talking about the plan of adjustment?

A. Yes.

Q. So when you say the plan of adjustment only includes the general fund, but DWSD is part of the City, it's a department of the City, correct?

A. It is.

Q. And its debt is being adjusted pursuant to the plan of adjustment; isn't that right?

A. It is.

Q. And its services that it provides to both Detroit residents and to residents outside of the City, are important, aren't they? Water and sewage?

A. Yes.

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Q. Okay. But -- but you made no analysis as to whether or not DWSD, after the confirmation, will be feasible or viable; isn't that right?

A. That is correct.

Q. And so, again, I just want to understand, you know, why you decided not to include an analysis of DWSD.

Did the City ask you not to do that or you just concluded you didn't have enough time? Or what was -- what was the rationale for that?

A. The rationale was the -- the risks, if you will, in the plan of adjustment are in the projections that relate to the general fund, okay.

DWSD had been a standalone self-sufficient enterprise system for a long time, okay. Yes, it is adjusting its debt as part of the plan, but it doesn't -- because it doesn't require a subsidy from the City like DDOT does and it doesn't impact the general fund, in terms of my scope and in terms of what I believe the judge wanted me to do was to look at the plan, the 10-year, the 10/40 years and the RRIs relative to the general fund.

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Q. Okay. And when you say that's what you believe the judge wanted you to do, did Judge Rhodes tell you that or is that --

A. No.

Q. -- just an assumption that you made?

A. That's an assumption that I made.

Q. Did you discuss with, you know, the City or any of its counsel or advisors whether DWSD should be included in your feasibility analysis?

A. I have talked to the City a couple of times about DWSD. I've talked to the -- some of the bondholder lawyers relative to DWSD, to -- to, you know, confirm my belief that DWSD's linkage to the City, right, is really only through this contribution of pension monies over the -- over the next ten years.

Q. Did you have a conversation in early July with Ms. Lenox about DWSD?

A. I did.

Q. And do you remember who initiated that conversation?

A. I called -- I called Ms. Lenox and she called me back. And again, there was -- there was something that happened that prompted the call, I don't remember what it was, but I wanted -- you know, once again, to talk with her about anything that was going on in the DWSD mediation that could impact what I was doing.

Q. And so was that call on July 10th or roughly?

A. That sounds about right.

Q. Okay. And how long did the call last?

A. Very short. Probably five minute or so less.

Q. Okay. And do you remember what you asked her and what she told you?

A. I remember I was sitting at the Marine Air Terminal waiting on a plane when she called and I said, Are there any updates on the DWSD mediations, negotiations or whatever, that, you know, I should be thinking about, considering, that could have an impact on the plan? She told me no, and that was the end of the conversation.

Q. When -- I think you testified earlier that your team had done the first draft of the plan as it related to pensions and then you edited

it. What about the rest of your -- of your report, did you do the initial --

A. Well, some sections, some -- we divided the writing amongst the team based on the areas that people had -- had worked on primarily. And then whoever wrote, gave their drafts to other people to edit and that's how we developed the report.

Q. Okay. Did you do the initial drafting on any portion of the reports?

A. I did the initial drafting on context, summary -- I mean, the -- the -- I think we changed the title. I think it was called statement of opinion. It started -- it originally started life as the executive summary and I believe we -- I think we called -- yeah, statement of expert's opinion. I did that.

Q. When did -- when did you start putting -- you and your team start putting I guess pen to paper, but I guess the reality is nobody uses a pen and paper anymore, but when did you start drafting the report?

A. A couple of weeks before it was due.

Q. So it was due on the -- you filed it

on the 18th. So sometime around July 4th?

A. Right after July 4th.

Q. That's when people started to --

A. We started -- we started writing.

THE REPORTER: Just let him complete the question before you respond.

THE WITNESS: Thank you. I'm sorry.

BY MR. BRILLIANT:

Q. Then after you started writing, did you share any of your preliminary opinions or drafts of the report with anybody outside of your team?

A. We shared the original feasibility definition with Jones Day. And as I testified before, I shared original drafts of the pension and the post-confirmation oversight sections with Mr. Ravitch.

Q. And did -- after you shared the original feasibility opinion with Jones Day, did you make any changes to that section?

A. Yes.

MR. LERNER: I'm going to object, you mischaracterized her statement. She did not say she shared her feasibility opinion with

Jones Day.

MR. KANE: Section.

MR. LERNER: The standard, the definitions is what we shared.

THE WITNESS: The standard.

BY MR. BRILLIANT:

Q. That's what I meant to say.

After you shared the original standard section with Jones Day, did you make any changes to that section?

A. I'm sure we did.

Q. Did you make any changes that were requested by Jones Day?

A. I never heard back from Jones Day.

Q. So you gave it them and they never commented on it?

A. They did not.

Q. Is it possible they commented to any of the members of your team?

A. They did not.

Q. And then after you shared with Mr. Ravitch the -- the pensions section, did you discuss it with him?

A. We did.

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Q. And did you make any changes after you shared it with him?

A. Yes.

Q. Were any of the changes things that he had suggested?

A. No.

Q. Did you share that section with Mr. Kiernan?

A. No.

Q. Do you know if Mr. Ravitch shared it with March Kiernan?

A. I don't know.

Q. When you met with Mr. Kiernan, had you already shared the draft of the pension section with Mr. Ravitch?

A. No.

Q. Did you have any discussions with Mr. Kiernan about the pension section?

A. No.

Q. Prior to sharing your report with the judge after you finalized it, signed it, sent it to the judge in the e-mail that we -- that you testified about yesterday, did you give any kind of overview or indication to the City or any of

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its advisors as to where you were coming out with your report?

A. No.

MR. BRILLIANT: I don't have anything further.

THE VIDEOGRAPHER: We're going to go off the record for a moment. The time is 11:39. We're going off the record. This is the end of Disk Number 2.

(Whereupon, there was a brief recess in the proceedings.)

THE VIDEOGRAPHER: This is still Disk Number 2, the time is 11:40 and we're back on the record.

EXAMINATION BY MS. QUADROZZI:

Q. Good morning.

A. Good morning.

Q. We've spoken a couple of times over the course of the two days that we have been here, but just to be clear, I represent Oakland County in connection with the case and I'm just going to ask you a couple questions. And as the other lawyers have said, I'm going to try not to duplicate.

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In testimony that you gave really just this morning with Mr. Neal, you were talking a little bit about the -- a feasibility report that he showed you and he asked you a couple of questions about the last page of that and some of the assumptions that are on it. And during the course of that interchange, you relayed some information that you had about sewage rates.

So my question to you is, from whom did you gather or learn that information about the sewer rates?

A. It is in the projections. So, while my team was looking at the various projections and the models, okay, we saw changes in utility costs and as we did diligence on those, found some of that was in sewer, some of it was in water, some of it was electric, okay.

The other point of reference that I have is from my meeting with the department heads for recreation. And in their budget, they have an increased cost associated with utilities that, in part, was the result of being charged differently for sewer than they had been charged before.

Q. I believe, based on all of your

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testimony, that I know the answers to this. But just to sort of tie the loop around this information, despite having learned of this information during the course of your report, it did not form the basis for nor did it influence any of the opinions in the report, correct?

A. That's correct.

Q. And having gained this information, you did not reach out to speak to anyone in DWSD to confirm it or get further information relating to the rates that you've outlined?

A. No. I was simply doing diligence on the City's operating cost for utilities, and those prospective rates changed from the historicals. And so as part of that inquiry, I learned of a change in billing practices in terms of sewer and I learned of changes in electric cost as it relates to moving over to DTE as an energy provider as opposed to the City billing itself.

Q. I want to ask you just a couple of questions based on the portion of your report that does relate to DWSD and you went over that this morning again with Mr. Neal.

So that's Page 196 and 197.

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A. Uh-huh.

Q. In particular, the sentence, the final sentence of that paragraph, the sort of carryover sentence, you discuss with Mr. Neal the phrase of that sentence talking about that a significant loss of customers impairing DWSD's financial projects could negatively impact the outcome of the plan of adjustment.

And during your testimony with Mr. Neal, you testified that this section, particularly the one that I just pointed you to, was an unknown and, in fact, was unknowable.

Do you remember that testimony?

A. I do.

Q. My question is this: Did you -- and I'm focusing on the last part of your answer; not so much the unknown, but the unknowable.

Did you, during the course of your work here, do anything to try to determine if, in fact, any of those things that you categorized as unknowns were, in fact, unknowable?

A. At this point, no.

Q. And why not?

A. Again, the -- the tasks that I had to

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accomplish, the time frame that I had to do it in, okay. The importance that DWSD has to the plan of adjustment projections related to the general fund. Okay. The -- again, it goes back to the linkage and it's the pension issue. Okay.

Would I -- had I had more time, I probably would have done more work on DWSD. Okay. But it is simply a -- the most important thing for me to do was to look at the plan projections, to understand what those were, to assess the feasibility.

The linkage in to -- with DWSD is a single line item of pension funding. Okay. So it just -- it is -- I don't mean to be disrespectful of DWSD, I know it's something that's very, very important, I know lots of people in this case care very deeply about it. But at this juncture, I had to use my best efforts to deliver my opinion and my report and where DWSD fits into it, according to my assumption, is in that line item relative to pension funding.

Q. Let me ask you one other question and I'm going to apologize because it relates to an area of your testimony yesterday where I was

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stepping in and out to try to get hold of the judge.

A. Okay.

Q. So I apologize if these questions were asked.

But what I want to ask you about is there was testimony yesterday about a couple of dinner parties and the one I want to focus on, because I believe that your testimony was that at one of them you were sitting at a table with Tom Lewand; is that correct?

A. Yes.

Q. And can you tell me what -- two questions. One, how did Mr. Lewand come to be a party or an invitee to the dinner party; and two, what did you and Mr. Lewand discuss?

A. I don't know how Mr. Lewand became an invitee. I don't. I had nothing to do -- I was simply an invited guess. So I have no idea who made the guest list other than we were at the Blusteins' home.

The conversation that I had with Tom was part of the large table discussion and we talked about Mr. Lewand's recent previous career

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as an artist and that the mayor had convinced him to join the administration in an economic development and planning role.

Q. Did you talk at all with Mr. Lewand about his career before his art sojourn as a special master to Judge Feikens in connection with the Clean Water Act case that DWSD was a party in for 30 years?

A. No, never heard that.

MS. QUADROZZI: Okay. I have no further questions.

MR. KANE: Does anyone else have any questions?

MS. GREEN: Am I the only one? Am I last?

(Discussion held off the record.)

MS. GREEN: Do you have any questions? Do you want me to go or do you want to go?

MR. ALBERTS: You can go.

THE VIDEOGRAPHER: If I could ask you to put your mike on. Thank you.

EXAMINATION BY MS. GREEN:

Q. My name is Jennifer Green and I

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represent the two retirement systems for the City of Detroit. We met very briefly at your interview months ago and I don't believe we've spoken since, but I'll be brief.

A lot of my questions actually were asked this morning by Jonathan Wagner. So I apologize, I may have to jump around a little bit because I'm going to try not to repeat the same 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.

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."

Do you see that?

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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?

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

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in 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 investments that were made, and I believe it was during the during the Kwame administration into alternative -- what you would call alternative investment vehicles; the -- the smoothing that had occurred and the stretching out of the unfunded obligations over a relatively 30-year period. But 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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but is also general counsel now for the funds.

Q. Michael VanOverbeke?

A. He's one of them --

Q. 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 reality of the underfunding of the plans. As well as the 13 checks and those sorts of things. We talked about all of that.

Q. Do you have any understanding of what would be a typical smoothing period utilized by other public pension plans?

A. I don't.

Q. So if someone from the retirement systems told you that a seven-year smoothing period was used, you would have no basis to compare that with other plans to know if that was typical?

A. I would -- I would have to undertake to research that. I wouldn't have my own independent knowledge of what that was.

Q. Same with amortization period utilized by public pension systems. Would you have any basis to know whether a 20-year amortization period versus a 30-year amortization period.

A. Or a ten or a five. No, I would not.

Q. Okay. So just to narrow it down, we told you certain facts -- when I say "we," the retirement systems gave you certain facts about

the 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?

A. 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.

Q. Who else from your team attended this meeting?

A. At that meeting, just myself.

Q. In the second meeting?

A. Then there were -- there were -- 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.

Q. 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

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.

Q. Do you know -- I'm sorry -- do you know if either one has any actuarial experience?

A. I don't believe either has actuarial experience.

Q. Do you know if either has sat on a board for a public pension system?

A. I believe Mr. Childree has.

Q. Do you know how long the meeting between Mr. Gaul, Mr. Childree and the retirement systems lasted?

A. I don't.

Q. 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?

A. I don't know.

Q. Do you or your team -- do you know if you or your team looked at the historical asset allocation mix for the system?

A. I believe someone did, yes.

Q. Okay. Do you know where those are listed on the chart of documents that you looked at?

A. I don't.

Q. 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?

A. I'm sure it was discussed at all of the meetings.

Q. Did you or your team consult with any of the systems investment consultants in reaching this conclusion?

A. 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?

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A. I don't.
Q. Do you know who Wilshire Investments is?
A. Only just -- I don't know them specifically.
Q. Do you know their role within the system --
A. I know --
MR. KANE: Wait for her to finish. We're getting close to the goal line, if you want to get out. We're still going to get their steadily.
THE WITNESS: We're still going to get there.
BY MS. GREEN:
Q. Do you know if those are the investment consultants that your team would have met with?
A. I don't know.
Q. Do you know if anyone from your team met with the chief investment officer for the retirement systems?
A. I don't know.
Q. Does the name Ryan Bigelow ring a

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bell?
A. It does not.
Q. Would it be fair to say if I didn't see his name on any of the meeting lists or communications logs, that you did not consult with Mr. Bigelow prior to reaching a conclusions about the investment practices of the system?
A. That's probably correct.
Q. You testified earlier under questioning from Mr. Wagner that you had no particular quarrel with the asset mix and that you did not actually analyze the asset mix?
A. That's correct.
Q. Okay. So if you didn't look at the asset mix, what else did you base your opinion on that the systems investment strategy is questionable?
A. The representations that were made in the meeting that I personally had in your offices with the pension system representatives.
MR. KANE: Can I interject something similar to what I did yesterday. I don't quarrel with the term "opinion" as long as it's little O, recognizing her opinions are

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specific ones that are set forth at the beginning of the report.
THE WITNESS: Right.
BY MS. GREEN:
Q. I guess what I'm trying to ask is, they told you certain facts about amortization periods, smoothing, things of that nature. You just stated you have no basis to compare those to anything. So my question --
A. I relied --
Q. -- is, how do you know they're questionable practices?
A. I relied on what the general counsel of the two systems told me.
Q. Your testimony is that he used the word "questionable practices" about his own client?
A. They are talking about the systems prior to when those people got involved.
Q. You're saying before they had any personal knowledge they were speaking of prior history?
A. My question was, how did the system get to this point? Okay? But I believe Mr.

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Turner and Mr. Overbeke are new to the systems in their role as both lawyers and general counsel. Okay?
I am not talking about the systems today moving forward. I am talking about how did the systems get in this underfunded predicament.
Q. Do you understand generally that retirement systems were fully funded as of 2007?
A. I don't know when they were last fully funded.
Q. Did you know that according to, for instance, the general retirement system's annual actuarial report from June 30th, 2008, that it was 101 percent funded?
A. I don't know that.
Q. In 2008?
A. I don't care about that.
Q. Okay. Why wouldn't you care about when the time of underfunding occurred?
A. I care about the impact the underfunded systems have on the plan of adjustment and the City's obligations to fund pensions going forward.
Q. If you flip to the next page of your

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report, Page 128.

A. Uh-huh.

Q. There is a statement, "In addition to issues involving the aggressiveness of the rave 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 system."

Do you see that part?

A. I do.

Q. At the -- there's several bullet points.

A. Uh-huh.

Q. At the bottom, there's a footnote.

A. Yes.

Q. And it appears to be referring to the Charles Moore declaration that was filed as docket number 13 on the docket in the bankruptcy case.

Do you see that?

A. Yes.

Q. Did everything in this paragraph, the breakdown of bullet points, come from the Chuck Moore declaration?

A. I believe it did.

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Q. So you wouldn't have any personal knowledge or you didn't do any investigation into the facts that are listed in bullet point fashion from Pages 128 to 129?

A. No, that's not correct.

Q. You do have personal knowledge?

A. I -- I talked with -- at my initial meeting with the systems, the pension systems, we talked about all of these issues. I've talked about them on a conference call with Mr. Miller from Jones Day. Okay? I've talked to Mr. Moore about these issues. I attended the employee new pension plan meeting in which these topics got raised in terms of the 13 check program and the ASF.

So, these -- these are -- we chose to use the verbiage that Mr. Moore had used in his declaration. But separate and apart, I and members of my team have had discussions about these facts and issues, if you will, with several other people involved.

Q. Let's go through them one by one.

A. Sure.

Q. The first bullet point, do you know

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where you got that information? Is that from the Moore declaration or is that from conversations?

A. Okay. Let me clarify this. The information that is in the first bullet is information that I got from my initial meeting with the systems -- with the pension systems. Okay? It is the same information that my team generally got from their meetings, conversations and diligence. Okay?

What we chose to do in the report is to use the precise verbiage that Mr. Moore used. Okay?

Q. Okay. And the next sub bullet point, that begins with "using actual market returns..."

A. Yes.

Q. Is that also from the Chuck Moore --

A. This is all from the Chuck Moore.

Q. Okay. And the next paragraph that begins "GRS trustees..."

A. Yes.

Q. That's also from Moore?

A. Yes.

Q. And the next bullet point which begins, "The City periodically deferred..."

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that's from Chuck Moore as well?

A. Yes.

Q. And the last paragraph that says, "Retirement system officials have been accused or indicted of material fiduciary misconducts allegedly during the pension of necessary liquidity and contributing to the underfunding of the retirement systems."

Was that also from the Chuck Moore Affidavit?

A. Yes.

Q. Okay. Let's take a look at the --

MS. GREEN: I think it will be Exhibit 10, I could be way off. Exhibit 10.

(Whereupon, Kopacz Exhibit 10 was marked at this time.)

Q. Okay. Footnote 47 states that the --

MR. BLANCHARD: What document is that?

MS. GREEN: The Chuck Moore declaration.

MR. BLANCHARD: Thanks.

BY MS. GREEN:

Q. Footnote 47 states that the Chuck

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Moore declaration, Page 10, is what is being relied upon for all of those statements that we just went through.

A. Okay.

Q. If you flip to Page 10 of his declaration, take time to review it, do you see anything where Chuck Moore states that retirement system officials have been accused or indicted of any type of fiduciary misconduct?

A. I don't see anything on Page 10 of this document that is in this verbiage. This looks like this is an error at some point.

Q. Okay. Do you see anything in the affidavit -- in his declaration that discusses alleged --

A. This is -- I'll be honest with you, this is not the declaration that I thought we were citing. It is a much, much thicker document from Chuck Moore.

Q. Do you agree that it says docket number 13 at the bottom?

A. I absolutely agree that's what this says and that's what this looks like in terms of what you've handed to me. But I don't believe

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this verbiage came from this declaration.

Q. Okay.

A. I think there -- again, there is a very -- there is a much more -- there's a thick, like -- hundred page Chuck Moore document that I believe should be cited down here, must be because this isn't it.

Q. So you think this is an error?

A. This is an error. This is not -- this is -- yeah, there's something --

Q. Aside from the Chuck Moore declaration, assuming you find the proper document, do you have any other basis or personal knowledge to make the statement that is the last bullet point?

A. I was told that, again, during the meeting with the pension systems in your office.

Q. You were told --

A. That --

Q. -- that -- let me finish the question -- that these activities actually caused the underfunding to the systems?

A. I'm not -- I was told that there were people involved in the pension systems who were

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accused of wrongdoing. And my recollection is that some of them were or were going to jail or something along that way -- line.

Q. Who do you contend from the systems told you that these accusations or indictments actually led to what you state in here was draining the pension of necessary liquidity?

A. Like I said, I don't -- I am struggling because I believe there is a citation error in this report.

THE VIDEOGRAPHER: Excuse me. You're rubbing your mike, it's --

MS. GREEN: Sorry, I think it's my hair touching it.

THE VIDEOGRAPHER: Sorry about the interruption.

A. Right, I apologize. I don't believe that what you showed me as docket number 13, okay, does not comport with what we have cited as the source of this verbiage. Okay?

I have -- all of these points were communicated, okay, to me by people, all right, not the -- definitely not this document. Okay.

So, there's a -- there is an error.

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There is a -- there's some mistake here and I don't know what it is, I will obviously get to the bottom of it. But the -- the verbiage that's here, by and large comports with my understanding of at least some of the reasons why the pension systems and funds became underfunded.

Q. Do you know when these indictments or these breaches of fiduciary duty occurred?

A. Sometime prior to the bankruptcy.

Q. Do you know who or which individuals are being referenced in this bullet point?

A. I would -- I wouldn't have any knowledge of who they were.

Q. The portion of that sentence that states that that activity contributed to the underfunding of the retirement systems, is it your testimony that someone from the retirement systems actually told you that their underfunding was due to the activities listed in this paragraph?

A. I don't have a specific recollection of the -- of this statement. Like I said, I am generally aware of all of the points that are made in these bullets. Okay. Rather than write our own language, we chose to use someone else's

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declaration which has been incorrectly cited.

Q. So what I'm trying to get at are you really relying on the Chuck Moore declaration or are you relying on statements from people within the system?

A. I'm relying on statements from within the system, right. And I believe my intent was to have -- to use verbiage that was already part of the proceedings.

Q. Okay. Did you take notes, handwritten notes at this meeting?

A. I don't recall.

Q. If the attendees from the retirement systems disagreed with your characterization that they ever told you that these activities led to draining of pension fund liquidity or contributing to the underfunding, would you have specific recollection to be able to refute that?

A. I -- like I said, I don't know. I have -- I don't know what I -- I haven't looked at this for a long time. I'm sorry.

Q. Okay. Did you attempt to quantify the actual economic impact that you attribute to this misconduct?

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A. I did not.

Q. Did you ever speak to Chuck Moore about this portion of his declaration, the larger one, I suppose?

A. I have talked to Chuck Moore and members of my team have talked to Chuck Moore extensively about pensions and all of these issues.

Q. Did you independently verify the four or five bullet points that are here?

A. Okay. I've just explained to you that my instructions to my team were to cite information that already existed on the record. Okay. This is an error. I don't know how many times I have to say this. Okay?

Q. So it's a no?

A. The answer is, I -- when I read this I said, I want this cited. Right? Because I would -- I'm sure I would have written it differently. I probably wouldn't have put it in a bullet format. Okay?

Q. 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

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recollection, is it something you feel comfortable leaving in your report as part of your conclusion?

A. I don't know until I can figure out why a document is cited in error. I can't answer that question.

Q. You stated earlier that you didn't think it was important to know the timing of the underfunding.

A. I don't.

Q. And why is that? Can you explain that a little more?

A. I am only tasked with looking at the feasibility of the plan going forward.

Q. So if your testimony was that any sort of alleged misconduct with regard to questionable investment strategies occurred during the Kwame Kilpatrick administration, do you understand what time period that would be from?

A. It would be -- yes, it would be back before the Bing administration.

Q. So after the Kwame Kilpatrick administration, you do understand the systems were then fully funded, correct?

A. I don't know that.

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Q. Okay. In your report you seem to opine on the cause of the underfunding as you seem to be attributing it to certain questionable investment strategies. That's why I'm asking about the timing of when we became underfunded.

So I just want to clarify, you have no idea when the systems became underfunded, correct?

A. As I sit here today, I do not know the specific date when the funds -- the pension systems became underfunded.

Q. And I believe there was some testimony yesterday in your deposition regarding the Great Recession and it's impact on the City of Detroit. And if I used the phrase the Great Recession, do you understand I generally mean the economic downturn from 2008 to 2009?

A. Yes.

Q. Do you know who Tom Terry is?

A. I don't.

Q. I believe that Mr. Neal asked you 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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A. I may.

Q. Okay. Are you aware that Mr. Terry has been named as an expert related to pension issues in this case?

A. I don't.

Q. Would you have a basis to disagree with Mr. Terry's conclusion that upon examination it is clear that the GRS UAAL is largely attributable to adverse investment experience since 2007, and not due to any sort of systemic or deliberate underfunding of the plan caused by the actuarial funding policy?

A. I have no idea.

Q. Would you have a basis to disagree with his statement that due in large part to the actuarial losses experienced in the severe economic downtown from 2008 to 2009, the GRS's UAAL has since grown substantially and that this increase is largely due to the unforeseen investment performance in fiscal years 2008 and 2009?

A. I have no idea.

Q. Would you have a basis to disagree with his conclusion that the current underfunding

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liability is not the result of, as the City claims, alleged systematic underfunding over the last several decades, but instead, is largely due to the Great Recession?

A. I have no idea.

Q. Would you have a basis to disagree with his conclusion that GRS's experience is hardly unique, pension plans and other institutions across the country had similar experiences?

A. I don't know.

Q. Are you familiar with the expert report issued by Joseph Ecochinco on behalf of Oakland County?

A. No.

Q. Would that be one of the expert reports that you would perhaps review?

A. Maybe.

Q. Do you understand that Mr. Ecochinco has been retained as a pension issues related person?

A. I have no knowledge of that.

MR. LERNER: Excuse me. There's someone on the telephone at the deposition

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that's speaking. Can you mute your phone, please.

Q. If Mr. Ecochinco opines that the fact is that the unpredictable severe turn down in investment market returns brought about by the 2008, 2009 decline in global equity values is the key reason for the increase in the UAAL, would you have a basis to disagree with that?

A. I have no idea.

Q. Would you have a reason to disagree with Mr. Bigelow, who we spoke about earlier, the chief investment officer for the systems, if he were to testify that the predominant cause of the systems in underfunding was also was the Great Recession? Would you have a basis to disagree with that?

A. I don't know.

Q. You were presented earlier with a chart showing return rates. I think it's Exhibit 4. Prior to seeing this document, were you aware of the year-to-year funding -- or, I'm sorry, assumed rate of return -- returns achieved by the systems?

A. I am -- I was aware of the assumed

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rate of return.

Q. I'm sorry, like the year to year, what was actually achieved, the actual investment experience on behalf of the systems?

A. I have seen information like that before.

Q. Okay. Can I draw your attention to the 2008 line?

A. Yes, I see that.

Q. For GRS it shows investment loss of negative 25.65.

Do you see that?

A. I do.

Q. For PRFS, it's 24.63 loss?

A. That's correct.

Q. Do you have an understanding of what typical losses were to other public pension systems in the year 2008 due to the Great Recession?

A. I have not looked at that right now.

Q. Did you consult any publications or studies to compare how the Detroit retirement systems faired compared to other public pension systems?

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A. I did not.

Q. Do you think that that would be relevant to your conclusion that questionable investment strategies were utilized by the systems, would that cause their underfunding?

A. I am -- as I said, before I am reciting information that I received from pension system people. Okay. And what is important to me is the level of underfunding in the pension systems as of the filings and today and how that is going to be dealt with in the future.

Q. And you understand that the underfunding as of the filing, if we look at this document --

A. Which document?

Q. Exhibit 4.

A. This doesn't give anything on underfunding.

Q. I understand that. You already stated you didn't know that it was fully funded in 2000 -- the end of 2007, correct?

A. I don't know one way or another. Okay?

Q. Okay. Did you review any data from

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the United States Census Bureau related to public pensions?

A. I did not personally, no.

Q. You testified earlier that you were not familiar with NCPERS -- it was used earlier, it's N-C-P-E-R-S. Mr. Wagner showed you a document I believe from NCPERS.

A. He did.

Q. Are you familiar with the organization NASRA?

A. I am -- yes, I am familiar with that trade association because we used some of their information.

Q. Did you happen to consult the public funding survey for fiscal year 2008 published by NASRA?

A. I would have no need to do that.

MS. GREEN: Okay. I'm going to mark this as Exhibit 11.

(Whereupon, Kopacz Exhibit 11 was marked at this time.)

BY MS. GREEN:

Q. So you stated you may have looked at some NASRA publications. But this one -- is this

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one that you recall looking at?

A. I -- I have not looked at this.

Q. Okay. The title of the document is Public Funds Survey Summary of Findings for Fiscal Year 2008. It was released in 2009.

If you go to Page 2 on the left-hand column, in the second paragraph it states: "The market decline in 2008 resulted in a median investment return for public pension funds of negative 25.3 percent for the year."

Do you see that portion?

A. I do, it's highlighted.

Q. And in comparison to the investment losses that were incurred by the Detroit retirement systems in 2008, if you compare those to Exhibit 4, does it appear that our investment losses were actually in line with the median investment losses for other public pensions?

A. The numbers appear to be similar, yes.

Q. If the systems fared in line with what other public pension -- how other public pension systems performed, does that change your opinion at all as to whether questionable

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investment strategies are what caused their underfunding?

A. Ms. Green, with all due respect, okay, I really don't, at the end of the day, care about how they got underfunded. Okay? They are underfunded. There is treatment in the Plan of Reorganization -- Plan of Adjustment that I have to assess relative to feasibility.

I understand you and your client really don't like the verbiage that's in my report. Okay? I get that. But I simply don't care about how they got there. I only care about where they are today and what's going -- what their treatment is in the Plan of Adjustment.

So I am not going to have any opinion, any point of view, any perspective on anything that happened in 2008, 2007, 1997 or whatever.

Q. So would you agree with me that the portion of your report on pages 127 and 128 is largely irrelevant?

MR. KANE: Objection. You can answer.

A. It is a recitation of what I believed

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at the time to be, arguably, facts.
Q. If we looked at the facts today that appear to not support what's in your report, and as Mr. Neal asked you previously, will you be reissuing a report or supplementing your report or changing any parts of your analysis based on new facts that you've learned either from --
MR. BLANCHARD: Objection.
A. I don't think so -- I don't believe that any of the items that are cited on Page 128 and 129 are significantly materially incorrect. Okay? And they are simply words to help the reader appreciate some of the reasons that the pension funds today are underfunded.
Q. Did you do an analysis of how much the City owes in unpaid annual employer contributions to each of the systems and how that impacted the underfunding?
A. I'm sorry. Could you repeat that?
(The requested question was read back by the reporter.)
A. I don't know the answer to that.
THE VIDEOGRAPHER: We have to change tape.

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MS. GREEN: I think it's time to change tape.
THE VIDEOGRAPHER: Thank you. The time now is approximately 12:30 p.m. We're going off the record. This is the end of Disk Number 2.
(Whereupon, there was a brief recess in the proceedings.)
THE VIDEOGRAPHER: The time now is approximately 12:37 p.m. We're back on the record. This is the beginning of Disk Number 3.

EXAMINATION BY MR. ALBERTS:
Q. Good afternoon, Ms. Kopacz.
A. Good morning. Good afternoon.
Q. I think we just passed the noon hour.
My name is Sam Alberts, I'm from Dentons and I represent the official committee of retirees. I just have a few questions and I think I may be the last one here so hopefully we can get you out of here.
A. Okay.
Q. Ms. Kopacz, you -- when you conducted

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interviews, was it your practice to take notes?
A. Yes.
Q. Okay. And did you retain your notes for the meetings you had?
A. For the most part, yes.
Q. Do you know if that was true of the others in your group?
A. I don't know.
Q. Okay. Very good.
Now, with respect to your report, there is a mention -- and I will tell you I don't know where it is -- of OPEB?
Do you understand what OPEB is?
A. I do.
Q. It's basically healthcare that is being provided to employees and retirees; is that --
A. Other healthcare and other insurances.
Q. Okay. Other post-employment --
A. Employment benefits, right.
Q. Okay. Do you understand how the fourth amended and now the fifth amended Plan of Adjustment treats OPEB obligations?

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A. I haven't read the fifth. The fourth, yes.
Q. Okay.
A. Yes.
Q. Okay. And what is your understanding of the treatment of OPEB for retirees?
A. For people who are retirees, generally eliminated.
Q. Do you understand that there will be money placed into VEBAs for those people?
V-E-B-A, all caps, which I believe is stands for Voluntary Employment Benefits Association.
A. Yes.
Q. Did you consider the payment of towards those VEBAs in your analysis of feasibility?
A. I believe those payments are included in the City's projections.
Q. Okay. Did you find that the amount affect -- payment paying toward VEBAs affected feasibility in your view?
A. I don't recall that it did.
Q. Okay. All right. If it had been a

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concern, do you think you would have listed that in your report?

A. Yes.

Q. Okay. Did you speak with anybody from Siegel Consulting in -- in creating your report?

A. I did not.

Q. Okay. Do you know who Siegel Consulting is?

A. I do not.

MR. ALBERTS: Okay. I have no further questions.

MR. KANE: I want to ask you just a couple of questions for the record, just to clean up a couple of things.

EXAMINATION BY MR. KANE:

Q. So one is you were asked yesterday about prior expert testimony.

Do you remember that?

A. I was. I do.

Q. To your knowledge, is your prior expert testimony was that disclosed in your application that was filed with the Court?

A. It was.

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Q. Okay. You were asked yesterday about not preparing your own financial projections and not taking the data underlying the City's projections and applying other methodologies or approaches or pharmaceutical double blind issues to them.

Do you remember that?

A. I do.

Q. Take out Exhibit 2 to your deposition.

So, look at Paragraph 2B. And what is -- what is that -- Exhibit 2 is the order appointing you as the Court's independent expert, correct?

A. Yes.

Q. What does Paragraph 2B direct you to do with respect to the financial projections?

Can you just read it?

A. Yes. "The Court's expert witness shall investigate and reach a conclusion on, B, whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenue, expenses and plan payments are reasonable."

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Q. Is that what you did?

A. That is what I did.

Q. Paragraph 3, I'm going to paraphrase, says you're not supposed to do anything else unless the Court orders you to do it.

Do you agree with that characterization?

A. Yes. Paragraph 2 above, are the only matters that the Court's expert is authorized -- authorized to investigate, reach a conclusion on or testify about.

Q. Has the Court ever ordered you to prepare your own financial projections for the City or take the data underlying the City's financial projections and apply other valuation methodologies, approaches -- I should say projection or forecasting methodologies or approaches to it?

A. No.

MR. KANE: Thank you. That's it.

THE VIDEOGRAPHER: Anybody on the phone have any questions?

Okay. Thank you. This concludes the August 1st, 2014 videotaped deposition of

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Marti Kopacz, day 2 of this deposition.

The time is approximately 12:43 p.m. We're off the record and finished for the day. There are three DVDs to today's deposition.

(Whereupon, the deposition concluded at 12:43 p.m.)

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A C K N O W L E D G E M E N T

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

I, MARTI KOPACZ, hereby certify that I have read the transcript of my testimony taken under oath in my deposition of August 1, 2014; that the transcript is a true, complete and correct record of my testimony, and that the answers on the record as given by me are true and correct.

____
MARTI KOPACZ

Subscribed and sworn
to before me on this the
_______ day of _____________, 2014.
Notary Public, State of New York

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C E R T I F I C A T E

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

I, HOPE LYNN MENAKER, a Notary Public within and for the State of New York, do hereby certify:

That MARTI KOPACZ, the witness whose deposition is hereinbefore set forth, was duly sworn by me and that such deposition is a true record of the testimony given by the witness.

I further certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this August 4, 2014.

____
HOPE LYNN MENAKER

<u>EXHIBIT 9</u>

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 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:
    - establish a framework to evaluate the long term financial resources available to the City's general fund to perform core functions;
    - evaluate cash flows available to fund current and legacy liabilities under alternate scenarios; and
    - 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

  - Collaborate with the City's legal and capital markets in connection with the foregoing activities.

- **Preparation of 10-Year tax revenue estimates for the General Fund:**

  - Evaluate existing 10-year static revenue estimates;
    - 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;
    - 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;
  - 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 Gaurav Malhotra.

In witness whereof, the parties have executed this Amendment as of the date set forth above.

Ernst & Young LLP

By: ____________________

Name: GAURAV MALHOTRA

Title: PRINCIPAL

City of Detroit

By: ____________________

Name: KEVYN D. ORR

Title: EMERGENCY MANAGER

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: ____________________ 7/17/13

Kevyn D. Orr
Emergency Manager
City of Detroit

Annex A: Discounted Billing rates

Title	**Discounted Billing Rates**
Partner/Principal	\$693 - \$805
Senior Manager	\$555 - \$658
Manager	\$455 - \$550
Senior	\$350 - \$410
Staff	\$185 - \$225