



CITY OF DETROIT
OFFICE OF THE EMERGENCY MANAGER

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December 8, 2014

Honorable Richard D. Snyder
Governor of Michigan
111 South Capitol Avenue
Lansing, Michigan 48909

Mr. R. Kevin Clinton
Treasurer of Michigan
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, Michigan 48922

Re: City of Detroit Restructuring

Dear Governor Snyder and Treasurer Clinton:

Since my appointment as Emergency Manager for the City of Detroit in March 2013, the City has taken significant steps to restructure its finances, operations and infrastructure to address the issues that contributed to that emergency. I briefly summarize these steps below. In light of the City's achievements in its restructuring efforts – particularly the bankruptcy court's confirmation of the City's plan for the adjustments of its debts (the "Plan of Adjustment") – I believe that, upon the effective date of the Plan of Adjustment (the "Effective Date") the financial emergency within the City will have been rectified and I therefore can: (a) recommend that the receivership established pursuant to Public Act 436 (as defined below) be terminated and (b) relinquish my position as Emergency Manager.

As you are well aware, at the time of my appointment, the City faced staggering challenges, including, among others: (a) an inability to provide its residents with adequate public services; (b) decaying and obsolete infrastructure; (c) an unsustainable and unserviceable, yet still growing, debt burden of approximately \$18 billion (including approximately \$9 billion in unfunded legacy obligations); (d) exploding budget deficits; and (e) a succession of liquidity crises. The City had no workable financial and operating plans, and its past practices of deferring obligations and reinvestment and reducing already inadequate services created an untenable situation destined only to make the situation worse over time.

I previously wrote to Governor Snyder on July 18, 2013 (the "July 2013 Letter"), recommending that he authorize the City to file a petition for relief and proceed under chapter 9 of title 11 of the United States Code. In the July 2013 Letter, I identified a number of steps that

the City already had taken to address its financial emergency during the first four months of my tenure, including: (a) developing a comprehensive financial and operating plan for the City in accordance with Public Act 436 of 2012, M.C.L. §§ 141.1541-141.1575 ("Public Act 436"); (b) developing and presenting a detailed restructuring proposal for creditors; (c) engaging governmental officials and representatives of the City's stakeholder constituencies regarding the City's restructuring needs and priorities; (d) undertaking a critical review of the City's ability to deliver public services; (e) hiring a new chief of police and addressing fleet deficiencies within the police department (and others); and (f) developing plans to address the problems of blight and insufficient lighting plaguing the City. As detailed in the July 2013 Letter, these measures, however important and worthwhile, were insufficient to rectify the City's financial emergency. In the absence of a negotiated resolution with the City's creditors regarding its debt burden (or the prospect of such a resolution), I concluded that the City required a chapter 9 bankruptcy proceeding in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") to address its financial and service delivery insolvency.

Over the past 16 months, the chapter 9 process has allowed the City to take and implement critical steps towards restructuring its existing obligations and laying the foundation for substantial reinvestment in the City – that is, to correct in a sustainable fashion the financial conditions that prompted my appointment. This work required the assistance and cooperation of the State, the Mayor, the City Council and, ultimately, all of the City's major stakeholders, as well as the commitment of the bankruptcy judge and a skilled group of mediators. The key elements of this restructuring include the following:

- The elimination of approximately \$7 billion of debt obligations upon the occurrence of the Effective Date, including the significant reduction of the City's obligations relating to (a) approximately \$1.4 billion in claims arising in connection with certain certificates of participation, (b) approximately \$550 million in claims arising in connection with general obligation debt and (c) approximately \$7.4 billion in claims related to pension and retiree health obligations (discussed in further detail below);
- The establishment of a framework for the reinvestment of approximately \$1.7 billion in the City between the Effective Date and June 30, 2023 (the "Reinvestment Initiatives"). The Reinvestment Initiatives include, but are not limited to: (a) approximately \$450 million in funding earmarked for the remediation of blight throughout the City; (b) urgently needed resources for, and reforms of, the Detroit Police Department, the Detroit Fire Department and the City's emergency response services; (c) improvements to the City's transportation network; and (d) a comprehensive overhaul of the City's antiquated information technology systems. The Reinvestment Initiatives provide the City with the opportunity to: (a) arrest the long-entrenched and reinforcing trends of population loss, declining property values and declining revenues; (b) remedy the crippling service delivery insolvency characterized as "inhumane" by the Bankruptcy Court; and (c) provide a platform for residential and commercial growth within the City;
- The negotiation and implementation of the "Grand Bargain," which transferred certain artwork owned by the City (and managed by the Detroit Institute of Arts) to

an irrevocable charitable trust – thus maintaining an irreplaceable resource for the perpetual benefit of the City and its surrounding communities – as part of a larger transaction providing for the contribution of \$816 million over the next 20 years by the State and certain charitable foundations for the benefit of the City's pensioners;

- The restructuring of the City's pension and retiree health legacy obligations, which consumed substantial (and escalating) percentages of the City's revenues at the time of the chapter 9 filing. The proceeds to be directed to the City's General Retirement System and Police and Fire Retirement System (together, the "Retirement Systems") as a result of the Grand Bargain allowed the City to adequately fund the Retirement Systems going forward, while minimizing cuts to retirees' pension payments (thus maintaining a working relationship with the City's employees). The chapter 9 process further allowed the City to eliminate billions in unfunded retiree health obligations through the creation of two voluntary employee benefits associations (or VEBAs), which will be responsible for retiree health payments following the Effective Date;
- The entry into discrete development agreements with: (a) a wholly-owned subsidiary of Syncora Guarantee Inc. and Syncora Capital Assurance Inc.; and (b) Financial Guaranty Insurance Company (or its designee) that promise to provide for substantial reinvestment in, and rehabilitation of, City assets;
- The entry into a memorandum of understanding with the State of Michigan and Oakland, Wayne and Macomb Counties establishing a framework for the creation of a regional water and sewer/stormwater authority to be called the Great Lakes Water Authority (the "GLWA"). As part of the GLWA transaction, the City will lease its water supply and sewer disposal systems to the GLWA for an initial 40-year term in exchange for an annual \$50 million payment that will fund local infrastructure improvements, debt service on such improvements or the City's share of the cost of common-to-all improvements;
- The negotiation and implementation of new collective bargaining agreements with approximately 40 unions, including: (a) all six of the unions representing public safety personnel in the City's Police and Fire Departments; (b) the substantial majority of the local unions affiliated with American Federation of State, County, and Municipal Employees (AFSCME) Council 25, the City's largest union; and (c) seven unions representing employees of the Detroit Water and Sewerage Department. The City's collective bargaining agreements, which generally will remain effective for five years, will promote good labor relations and provide for increased management flexibility to streamline operations. Additionally, the collective bargaining agreements provide for wage increases and restructured health care and pension benefits that will promote recruiting and retention while also providing financial stability; and
- The restructuring of various City departments — including the Finance Department, the Human Resources Department, the Planning and Development Department, the Information Technology Department and the Law Department — through, among

other changes, the establishment of new divisions, modifications to reporting structures, reorganization of existing job titles and job functions and the creation of new job titles and new job functions. The comprehensive restructuring of these significant City departments should facilitate improvements in operating flexibility, productivity, efficiency and recruitment and retention.

Legislation adopted by the State during the pendency of the City's chapter 9 case further ensures that the City will be able to sustain its financial and operational recovery for years to come. For example, Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq.*, establishes the Michigan Financial Review Commission, which will have broad authority (as of the Effective Date) to obtain and review the City's financial records on an ongoing basis, approve budgets and contracts and conduct financial audits of the City. Public Act 182 of 2014, M.C.L. 117.4s-t, further imposes requirements that, among other things, the City adopt a sound, multi-year financial plan and appoint a chief financial officer (CFO). The City already has a CFO who has worked tirelessly to: (a) revamp the financial controls in the City to implement best practices; and (b) restructure the entire finance department. Further, in connection with the State Contribution Agreement, the City's Retirement Systems have adopted new governance and financial oversight mechanisms to help prevent the practices that contributed to the underfunding of the pension plans in the past. Perhaps most important, Mayor Duggan and the City Council have unequivocally confirmed their commitment to the implementation of the restructuring embodied in the Plan of Adjustment and the City's Restructuring Initiatives.

Section 22(1) of Public Act 436 provides that if an Emergency Manager determines that the financial emergency he or she was appointed to manage has been rectified, the Emergency Manager is to inform each of you of that determination. I believe the foregoing information supports my determination that, as of the Effective Date of the City's confirmed Plan of Adjustment, the financial emergency in the City of Detroit will have been rectified. In addition, as required by Section 21(1) of Public Act 436, I have adopted and implemented a two-year budget, inclusive of all contractual and employment agreements for the City, that reflects: (a) the elimination of debt discussed above; (b) the necessary expenditures to be made to implement the Reinvestment Initiatives; and (c) the City's receipt of up to \$325 million in exit financing.

Reaching the Effective Date of the Plan of Adjustment is a milestone, but it also is just one step in a journey. There remains much work for the City to complete and much yet to accomplish. I hope and firmly believe that the City's leadership can continue to build on the solid foundation the restructuring process has created for them. If the City takes advantage of this unique opportunity to shed the problems of the past and stays on the path that has been blazed in the restructuring, Detroit is poised to grow and thrive for the benefit of its residents and this State for many years to come.

I want to personally thank each of you for your strong support and exceptional leadership, and for all of the assistance of the State in this endeavor. I greatly appreciate the opportunity to serve the City of Detroit and the State of Michigan.

Sincerely,



Kevyn D. Orr
Emergency Manager
City of Detroit

cc: Mayor Michael Duggan
Members of Detroit City Council
John Hill, Chief Financial Officer