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

SECOND SUPPLEMENTAL 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."

On July 18, 2014, I served my initial Expert Report and on August 29, 2014 I submitted a Supplemental Report (the "Initial Reports") to parties in interest[2].

[1] Docket #4215 - Order Appointing Expert Witness

Except as noted below, I incorporate the Initial Reports by reference. This Second Supplemental Report is not intended to be a complete record of my finding, rather, the Report must be read in conjunction with the Initial Report.

[2] Docket #6156 - Certificate of Service regarding Expert Report of Martha E. M. Kopacz

I submit this additional supplemental Expert Report for two purposes:

- To reaffirm my expert opinions after a review of the Draft Eighth Amended Plan of Adjustment[3] filed after the submission of my initial Reports.
- To provide certain additional analyses based on information received from the City after the issuance of my Initial Reports, including the POA projections dated October 13, 2014 and updated on October 20, 2014.

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[3] Docket # 8030- Draft Eighth Amended Chapter 9 Plan for the Adjustment of Debts of the City of Detroit

Section I – Scope of this Second Supplemental Report

Subsequent to August 29, 2014, the City filed two amended Plans of Adjustment ("POA" or "Plan"). The Seventh Amended Plan was filed September 16, 2014 [4] and the Draft Eighth Amended Plan was filed October 21, 2014.[5] My team and I have reviewed the Amended Plans in order to determine what impact, if any, the changes might have on my Opinions. In addition, on October 13, 2014, my team and I were provided with updated POA projections by Ernst & Young which we have reviewed and analyzed in depth. Changes were made to these projections on October 20, 2014 and we have reviewed those changes. Because these latest projections include new sources of cash to meet the commitments contained in the recent creditor settlements, my due diligence has included additional document requests and several discussions with the City, its

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[4] Docket # 7502 – September 16, 2014 Seventh Amended Chapter 9 Plan for the Adjustment of Debts of the City of Detroit

[5] Docket # 8030 – October 21, 2014 Draft Eighth Amended Chapter 9 Plan for the Adjustment of Debts of the City of Detroit

professionals and outside advisors. Exhibit 1 provides a list of the additional information I received.

At present, I intend that this Second Supplemental Report will be my last written report and that once my testimony is concluded, I will have fulfilled my duties as outlined in the Court's Order appointing me. However, until the City has submitted its final Plan of Adjustment and projections, I reserve the right to supplement my reports and provide additional testimony if necessary.

Reaffirmation of Expert Opinion

There is no single data point that defines feasibility. As noted in my July Report: "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". The concept remains true with respect to the current projections. My opinion, based on the information provided to me and my team and certain testimony during the Confirmation Trial, is the current projections are within the range of reasonableness and the Plan of Adjustment remains feasible.

I want to emphasize, however, that there is little space remaining on the continuum of reasonableness. The recent settlements and corresponding amendments to the Plan of Adjustment have served the laudable goals of efficiently resolving disputes and garnering additional support for the Plan of Adjustment. Conversely, they have imposed additional financial obligations on the City. I have already expressed concerns regarding the level of contingency provided for in the Plan of Adjustment. The financial obligations associated with the recent settlements only intensify this concern. While my opinion is the Plan of Adjustment remains feasible and there is not yet a "significant probability of default" as described in the Standard, there is no denying the possibility of default has increased. It is not realistic or prudent to believe that the City could take on any additional Plan obligations and remain within the continuum of reasonableness necessary to establish feasibility.

Based on the foregoing, I reaffirm my opinions in the Initial Report 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.

Section II – Quantitative Issues

Part II of my July 18, 2014 Expert Report ("July Report"), comprising sections E through H, provided insight into the quantitative factors that impact my feasibility assessment. I, and my team, have not endeavored to perform analysis on every possible change in the POA, rather my analysis is limited to those areas I believe impact my opinions. The analysis below identifies the quantitative changes in the most recent POA and its corresponding impact over the analyzed time period.

Supplemental Analysis Regarding the New Financial Projections

The most recent financial projections dated October 20, 2014 include a new 10 Yr Plan and 40 Yr Plan. The changes in the most recent financial forecasts pertain mostly to non-operating expenditures, as a result of the settlement with Syncora Guarantee Inc. ("Syncora") and Financial Guaranty Insurance Company ("FGIC"). The following chart identifies the quantifiable variances between the most recent iterations of the City's financial forecasts over the first decade:

Variance Analysis 10.20.14 vs. 7.2.14 POA[6] [7]

	FY2014-2023		
	10.20.14	7.2.14	$ Var
General Fund Revenues			
Municipal Income Tax	$ 2,770	$ 2,770	$ (0)
State Revenue Sharing	$ 2,000	$ 2,000	$ -
Wagering Taxes	$ 1,733	$ 1,733	$ -
Sales and Charges for Services	$ 1,118	$ 1,118	$ -
Property Taxes	$ 1,074	$ 1,074	$ -
Other Revenue	$ 707	$ 713	$ (6)
General Fund Reimbursements	$ 265	$ 264	$ 1
Utility Users'	$ 257	$ 257	$ -
Department Revenue Initiatives	$ 483	$ 483	$ -
Transfers In	$ 774	$ 826	$ (51)
Total General Fund Revenues	**$ 11,181**	**$ 11,238**	**$ (56)**
General Fund Operating Expenditures			
Salaries/Overtime/Fringe	$ 3,768	$ 3,768	$ -
Health Benefits	$ 753	$ 753	$ -
Active Pension	$ 348	$ 348	$ -
OPEB Future Retirees	$ 32	$ 32	$ -
Other Operating Expenses	$ 3,073	$ 3,073	$ -
RRI's (Excluding Blight and Deferrals)	$ 940	$ 940	$ -
Total General Fund Operating Expenditures	**$ 8,914**	**$ 8,914**	**$ -**
General Fund Operating Surplus	**$ 2,268**	**$ 2,324**	**$ (56)**
Other Non Operating Expenses			
Less:			
Blight	$ 420	$ 420	$ -
Escrow Proceeds	$ (65)	$ (20)	$ (45)
PLD Decommission	$ 75	$ 75	$ -
Contributions to Income Stabilization Fund	$ 18	$ 18	$ -
Professional Fees	$ 177	$ 130	$ 47
Working Capital	$ 1	$ 45	$ (44)
Secured Debt	$ 391	$ 391	$ -
Swap Interest	$ 104	$ 104	$ 0
QOL Exit Financing (P&I)	$ 293	$ 336	$ (43)
Contingency	$ 99	$ 101	$ (2)
Deferrals	$ (65)	$ (30)	$ (35)
Total Non Operating Expenses	**$ 1,447**	**$ 1,569**	**$ (122)**
Operating Surplus	**$ 821**	**$ 755**	**$ 65**

[6] Names of line items are consistent with the City's 10 Yr and 40 Yr projections.

[7] Unless otherwise stated, all $ amounts in charts in this report are in millions.

Sources for Bankruptcy Settlements	FY2014-2023 10.20.14	7.2.14	$ Var
A. Operating Surplus	**$ 821**	**$ 755**	**$ 65**
Revenue stream from DWSD			
Pension	$ 429	$ 429	$ -
OPEB (Based on 12.1% of OPEB - Current Retirees Payments)	$ 22	$ 20	$ 2
POC (Based on 11.5% of Total POC Payments)	$ 14	$ 6	$ 8
B. Revenue stream from DWSD	**$ 464**	**$ 455**	**$ 10**
Revenue stream from Other Sources			
Reimbursement from other funds[1]	$ 44	$ 28	$ 17
Foundation fundraising	$ 165	$ 165	$ -
DIA contributions	$ 45	$ 45	$ -
State settlement	$ 195	$ 195	$ -
C. Revenue from Other Sources	**$ 449**	**$ 432**	**$ 17**
Total Sources (A+B+C)	**$ 1,734**	**$ 1,642**	**$ 92**
Uses for Bankruptcy Settlements			
Retiree payments			
PFRS Pension Payments	$ 261	$ 261	$ -
GRS Pension Payments	$ 719	$ 719	$ (0)
PFRS OPEB payments - Current Retirees	$ 9	$ 9	$ -
GRS OPEB Payments - Current Retirees	$ 11	$ 11	$ -
D. Retiree Distributions	**$ 999**	**$ 999**	**$ (0)**
Note and cash payments			
Note A1 (UTGO)	$ 328	$ 328	$ 0
Note A2 (LTGO)	$ 55	$ 55	$ -
Note B (incl. B Reserves)	$ 215	$ 215	$ (0)
36DC Cash Payments	$ 2	$ -	$ 2
Note C	$ 90	$ -	$ 90
E. Note and Cash Payments	**$ 690**	**$ 597**	**$ 92**
Total Uses (D+E)	**$ 1,689**	**$ 1,597**	**$ 92**
Surplus / (Deficit)	**$ 45**	**$ 45**	**$ (0)**

(1) Includes $15.2 million related to contributions from the Parking department

Departmental Budgets

My July Report notes that the City did not provide consolidated departmental budgets which could be harmonized with the POA projections. The

City has addressed this issue by providing departmental projections that include the baseline forecast while also incorporating the departmental RRIs and reconciling the "old" and "new" pension and OPEB expenses. While my team and I have reviewed each departmental budget, for illustrative purposes, the budget for the Police department is shown below:

Bridge to Post Restructuring Police Departmental Budget

		10 Year Total
Department Surplus(Deficit) Prior to Restructuring	**$**	**(4,895)**
RRI's		
Revenue		
Pricing/Fees/Grants	$	33
Total Revenue	**$**	**33**
Operating Expenditures		
Labor	$	(40)
Active Benefits	$	(11)
Training	$	(7)
Materials and Supplies	$	(16)
Purchased services	$	(2)
All Other	$	(7)
Total Operating Expenditures	**$**	**(82)**
Reorganization/Investment		
Technology Infrastructure	$	(38)
Capital Expenditures	$	(34)
Other Infrastructure (Fleet)	$	(91)
Reorganization Costs	$	(1)
Total Reorganization/Investment	**$**	**(165)**
A. Total Deductions due to RRI's	**$**	**(215)**
Legacy Expenses		
Add Back Old Pension	$	1,371
Add Back Old OPEB	$	852
POC Principle and Interest	$	386
B. Total Legacy Add Backs	**$**	**2,609**
Pension & OPEB		
New Pension (Total Payroll * 12.25%)	$	(203)
New OPEB (Fire & Police ($1.0m))	$	(7)
C. Total Deductions for New Pension and OPEB	**$**	**(210)**
Total Add Backs (A+B+C)	**$**	**2,184**
Adjusted Operating Surplus(Deficit)	**$**	**(2,710)**

After adjusting for the changes above, the consolidated Police department 10 Yr projections are shown below:

Police Budget Post Restructuring

		10 Year Total
Revenues		
Utility Users' and Other Taxes	$	284
Licenses, Permits and Inspection Charges	$	6
Sales and Charges for Services	$	46
Parking/Court Fines and Other Revenue	$	39
Grant Revenue	$	65
Total Revenue	**$**	**441**
Expenditures		
Salaries and Wages	$	(1,693)
Overtime	$	(235)
Pension	$	(203)
Medical & Fringe Benefits	$	(424)
Professional and Contractual Services	$	(74)
Materials & Supplies	$	(52)
Utilities	$	(104)
Purchased Services	$	(156)
Risk Management and Insurance	$	(0)
Other Expenses	$	(211)
Total Expenditures	**$**	**(3,151)**
Net Surplus (Deficit)	**$**	**(2,710)**

General Fund Projections

The chart below shows the consolidated 10 Yr projections for the General Fund that incorporates the RRIs into their respective revenue and expense categories in addition to the updated pension and OPEB projections for active employees:

General Fund Budget Post Restructuring

		10 Year Total
Revenues		
Property Taxes	$	1,074
Municipal Income Tax	$	2,828
Wagering Taxes	$	1,733
Utility Users' and Other Taxes	$	353
Licenses, Permits and Inspection Charges	$	94
State Revenue Sharing	$	2,000
Sales and Charges for Services	$	1,185
Revenue From Use of Assets	$	42
Parking/court Fines and Other Revenue	$	457
DDOT Risk Mgmt Reimbursement	$	119
Reimb. From Other Funds	$	129
Street Fund Reimb.	$	47
QOL/Exit Proceeds	$	241
Grant Revenue	$	325
UTGO Property Tax Millage (Transfer in)	$	533
Total Revenue	**$**	**11,160**
Expenditures		
Salaries and Wages	$	(3,367)
Overtime	$	(326)
Pension	$	(363)
Medical & Fringe Benefits	$	(1,157)
Professional and Contractual Services	$	(751)
Materials & Supplies	$	(426)
Utilities	$	(298)
Purchased Services	$	(839)
Risk Management and Insurance	$	(394)
Other Expenses	$	(869)
Debt Service	$	(1,587)
Contributions to Non-Enterprise funds	$	(216)
POC - Principal and Interest	$	-
Transfers Out	$	(522)
Total Expenditures	**$**	**(11,115)**
Net Surplus (Deficit)	**$**	**45**

Providing consolidated departmental budgets will help the department leaders understand the projections and the impact of the POA to their respective operations. Now that the department heads have access to a consolidated model, they will have a better grasp of the impact the RRIs will play in their departments.

Revenue Assumptions

The most recent projections include minimal changes to baseline revenue as seen in the summary chart below:

Revenue Variance Analysis 10.20.14 vs. 7.2.14 POA

	FY2014-2023			FY2024-2033			FY2034-2053			Cumulative		
	10.20.14	**7.2.14**	**$ Var**	**10.20.14**	**7.2.14**	**$ Var**	**10.20.14**	**7.2.14**	**$ Var**	**10.20.14**	**7.2.14**	**$ Var**
General Fund Revenues												
Municipal income tax	$ 2,770	$ 2,770	$ (0)	$ 3,510	$ 3,510	$ -	$ 10,650	$ 10,650	$ -	**$ 16,930**	**$ 16,930**	**$ (0)**
State revenue sharing	$ 2,000	$ 2,000	$ -	$ 2,121	$ 2,121	$ -	$ 4,840	$ 4,840	$ -	**$ 8,962**	**$ 8,962**	**$ -**
Wagering taxes	$ 1,733	$ 1,733	$ -	$ 1,906	$ 1,906	$ -	$ 4,430	$ 4,430	$ -	**$ 8,068**	**$ 8,068**	**$ -**
Sales and charges for services	$ 1,118	$ 1,118	$ -	$ 1,161	$ 1,161	$ -	$ 3,141	$ 3,141	$ -	**$ 5,420**	**$ 5,420**	**$ -**
Property taxes	$ 1,074	$ 1,074	$ -	$ 1,370	$ 1,370	$ -	$ 3,543	$ 3,543	$ -	**$ 5,987**	**$ 5,987**	**$ -**
Other revenue	$ 707	$ 713	$ (6)	$ 747	$ 754	$ (6)	$ 2,038	$ 2,038	$ (0)	**$ 3,492**	**$ 3,504**	**$ (12)**
General Fund reimbursements	$ 265	$ 264	$ 1	$ 239	$ 239	$ -	$ 646	$ 646	$ -	**$ 1,150**	**$ 1,149**	**$ 1**
Utility users'	$ 257	$ 257	$ -	$ 304	$ 304	$ -	$ 763	$ 763	$ -	**$ 1,325**	**$ 1,325**	**$ -**
Department Revenue Initiatives	$ 483	$ 483	$ -	$ 586	$ 586	$ -	$ 1,586	$ 1,586	$ -	**$ 2,655**	**$ 2,655**	**$ -**
Transfers in	$ 774	$ 826	$ (51)	$ 175	$ 148	$ 28	$ 22	$ 22	$ -	**$ 971**	**$ 995**	**$ (24)**
Total General Fund Revenues	**$ 11,181**	**$ 11,238**	**$ (56)**	**$ 12,119**	**$ 12,098**	**$ 21**	**$ 31,659**	**$ 31,660**	**$ (0)**	**$ 54,960**	**$ 54,995**	**$ (35)**

Other revenue is projected to decrease by $6 million in the next ten years and an additional $6 million in the following decade. This is a result of the City no longer recognizing revenue from the lease of the Windsor Tunnel. The lease payments are part of the settlement with Syncora and the rental revenue is no longer recognized by the City in the projections.

Transfers decreased by approximately $24 million in the most recent version over the 40 year period. This is due to the City drawing down $25 million less from the Exit Facility in the most recent projections. The City is drawing down $275 million in the most recent projections versus $300 million in the July 2, 2014 version. Although the City is borrowing $275 million, it will only have access to approximately $241 million as the City is required to keep 10% of the borrowings in a reserve. The reserve is accounted for in the projections.

Operating Expenditures

The most recent projections include no changes to the baseline operating expenditures.

RRIs

The City made no changes to the RRIs in the cumulative ten year period in the projections. However, the City did assume all RRIs projected in FY2014 have been delayed until FY2015.

RRIs Variance Analysis 10.20.14 vs. 7.2.14 POA

	10.20.14 POA			7.2.14 POA		
Revenue	**2014**	**2015**	**2 Yr Total**	**2014**	**2015**	**2 Yr Total**
Pricing/Fees	$ -	$ 10	$ 10	$ 0	$ 10	$ 10
Faster Collections	$ -	$ 15	$ 15	$ 2	$ 13	$ 15
Grant Revenue	$ -	$ 44	$ 44	$ 3	$ 41	$ 44
Other	$ -	$ 20	$ 20	$ (0)	$ 20	$ 20
Past Due Collections	$ -	$ 6	$ 6	$ 2	$ 5	$ 6
Total Revenue	**$ -**	**$ 95**	**$ 95**	**$ 7**	**$ 88**	**$ 95**
	10.20.14 POA			**7.2.14 POA**		
Operating Expenditures	**$2,014**	**$2,015**	**2 Yr Total**	**$ 2,014**	**$ 2,015**	**2 Yr Total**
Permanent Labor	$ -	$ 27	$ 27	$ 3	$ 24	$ 27
Professional & Contract Services	$ -	$ (1)	$ (1)	$ 0	$ (1)	$ (1)
Active Benefits	$ -	$ 12	$ 12	$ 1	$ 10	$ 12
Training	$ -	$ 8	$ 8	$ 0	$ 7	$ 8
Materials and Supplies	$ -	$ 9	$ 9	$ 2	$ 7	$ 9
Utilities	$ -	$ 1	$ 1	$ 0	$ 0	$ 1
Purchased Services	$ -	$ 1	$ 1	$ 0	$ 1	$ 1
Risk Management/Insurance	$ -	$ (2)	$ (2)	$ (0)	$ (2)	$ (2)
Transfers In/(Out) (General Fund)	$ -	$ 4	$ 4	$ (0)	$ 4	$ 4
Grant Related Expenses	$ -	$ 17	$ 17	$ 1	$ 16	$ 17
All Other	$ -	$ (2)	$ (2)	$ (0)	$ (2)	$ (2)
Total Operating Expenditures	**$ -**	**$ 73**	**$ 73**	**$ 8**	**$ 65**	**$ 73**
	10.20.14 POA			**7.2.14 POA**		
Reorganization/Investment	**$2,014**	**$2,015**	**2 Yr Total**	**$ 2,014**	**$ 2,015**	**2 Yr Total**
Technology Infrastructure	$ -	$ 44	$ 44	$ 3	$ 41	$ 44
Capital Expenditures	$ -	$ 39	$ 39	$ 6	$ 34	$ 39
Other Infrastructure	$ -	$ 34	$ 34	$ 8	$ 26	$ 34
Reorganization Costs	$ -	$ 21	$ 21	$ 3	$ 18	$ 21
Total Reorganization/Investment	**$ -**	**$ 139**	**$ 139**	**$ 21**	**$ 119**	**$ 139**
Total RRIs (Excluding Blight)	**$ -**	**$ 307**	**$ 307**	**$ 36**	**$ 271**	**$ 307**

The total amount deferred from FY2014 to FY2015 includes $7.2 million of revenue, $8 million of operating expenditures and $20.6 million of RRIs. $3.1 million of the revenue is Grant related that has been received in FY2015 or is expected to be received in FY2015. Additional revenue anticipated due to faster collections and past due collections was partially dependent on additional hires. The majority of deferred operating expenditures are related to additional hiring and improvement projects. The anticipated $20 million in spending regarding improvements to the City's infrastructure and fleet has been delayed into FY2015 as the City did not begin drawing on the Quality of Life loan until June of 2014.

Non Operating Expenditures

The chart below highlights changes to non operating expenditures in the most recent 10 Yr Plan:

Non Operating Expenses Variance Analysis 10.20.14 vs. 7.2.14 POA

Other Non Operating Expenses	FY2014-2023			FY2024-2033			FY2034-2043			FY2044-2053			Cumulative		
Less:	10.20.14	7.2.14	$ Var	10.20.14	7.2.14	$ Var	10.20.14	7.2.14	$ Var	10.20.14	7.2.14	$ Var	10.20.14	7.2.14	$ Var
Blight	$ 420	$ 420	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 420**	**$ 420**	**$ -**
Escrow Proceeds	$ (65)	$ (20)	$ (45)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ (65)**	**$ (20)**	**$ (45)**
PLD Decommission	$ 75	$ 75	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 75**	**$ 75**	**$ -**
Contributions to Income Stabilization Fund	$ 18	$ 18	$ -	$ 2	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 20**	**$ 20**	**$ -**
Professional Fees	$ 177	$ 130	$ 47	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 177**	**$ 130**	**$ 47**
Working Capital	$ 1	$ 45	$ (44)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 1**	**$ 45**	**$ (44)**
Secured Debt	$ 391	$ 391	$ -	$ 391	$ 391	$ -	$ 67	$ 67	$ -	$ -	$ -	$ -	**$ 849**	**$ 849**	**$ -**
Swap Interest	$ 104	$ 104	$ 0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ 104**	**$ 104**	**$ 0**
QOL Exit Financing	$ 293	$ 336	$ (43)	$ 126	$ 110	$ 16	$ -	$ -	$ -	$ -	$ -	$ -	**$ 419**	**$ 446**	**$ (27)**
Contingency	$ 99	$ 101	$ (2)	$ 121	$ 121	$ (0)	$ 144	$ 144	$ 0	$ 173	$ 173	$ (0)	**$ 536**	**$ 539**	**$ (2)**
Deferrals	$ (65)	$ (30)	$ (35)	$ (200)	$ (223)	$ 22	$ 51	$ 11	$ 40	$ 214	$ 242	$ (28)	**$ (0)**	**$ 0**	**$ (1)**
Total Non Operating Expenses	**$ 1,447**	**$ 1,569**	**$(122)**	**$ 440**	**$ 402**	**$ 38**	**$ 262**	**$ 222**	**$ 40**	**$ 387**	**$ 415**	**$ (28)**	**$ 2,536**	**$ 2,607**	**$ (71)**

Working Capital

The projected draw down on the refunding bond proceeds has increased to $64.7 million in the most recent projections. This amount represents the total amount available to the City. The City spent $53 million less than anticipated on a cash basis in FY2014. This amount is expected to be spent in FY2015 as the City has identified cash settlements including administrative and convenience claims to be made at closing. There is a $5 million cash payment to Syncora to be made at the emergence of bankruptcy that was part of the settlement with Syncora.

Litigation Settlement

The City has identified $24 million of additional sources of cash via a litigation settlement. In 2010, the City initiated a lawsuit against a franchisee regarding breaches to a 1985 franchise agreement. On September 24, 2014, Kevyn Orr signed a settlement agreement with the franchisee's successor in the amount of $26.7 million. The City expects to receive $24 million, after payment of legal fees, and the City indicated the settlement funds are in an escrow account. Prior to the Draft Eighth Amended POA, no proceeds from this litigation were incorporated into the projections. Based upon recent inquiry, it is my understanding that there are no other unidentified pending settlements or funds in escrow that are available to the City at this time.

Monetization of Other Assets

The City of Detroit entered into a three-year professional services contract ("PSC") in August 2014 with Hilco Industrial, LLC to market and sell certain surplus assets held by the City via an auction planned for November 2014. Upon execution of the PSC, Hilco made a non-refundable $5 million up-front payment to the City. Once the proposed auction is completed, the first $5.4 million of gross proceeds will be paid to Hilco to cover the up-from payment and Hilco's "initial cap." The next $375,000 of gross auction proceeds will be paid to the City, and any auction proceeds above $5.75 million will be split pursuant to an agreed-upon contract between the City and Hilco.

Phoenix has been provided the initial list of City assets to be auctioned by Hilco. It is principally comprised of about 500 City vehicles and various non-vehicle assets. The City's projections assume the City retains the $5 million up-front payment, but receives no further distributions from the auction process. According to the City, DDOT buses, which account for 79 of the approximate 500 vehicles to be auctioned, were procured with grant funding. As estimated auction values are not prescribed to the City's assets at this time, I cannot gauge the likelihood of the City receiving more than the $5 million up-front payment for the auctioned City assets. I also cannot gauge the likelihood of the City being required to use a portion of the $5 million up-front payment to return the grant funding relating to the procurement of DDOT buses until a post-auction reconciliation is completed.

Monetization of PLD Decommissioned Assets

On October 1, 2014, the City's Finance Department – Purchasing Division advertised a request for proposal of the management and monetization of the City's Public Lighting Department's ("PLD") decommissioned assets. The assets in question pertain to the legacy PLD network of an estimated 6,400 miles of overhead wire, approximately 1,754 miles of underground cable, roughly 14,190 transformers, and a variety of other commodity-type assets. Per the City's RFP, the above estimates translate into approximately 13.4 million pounds of copper and 10-15 million pounds of lead.

The City's revised 40-year projections assume the City will receive $4 million per year of copper sale proceeds, totaling $20 million during FY 2016-2020 period. The $20 million aggregate assumption, when converted to a calculated $1.50 per pound sale price, appears reasonable when compared to the current $2.40-$2.60 per pound commodity price for recycled copper. Phoenix has not completed any cost analysis pertaining to the stripping and preparation of the designated copper for resale. Additionally, depending on the City's relative success in monetizing its copper assets, the City appears to have upside to its sales proceeds estimates to the degree it is able to monetize the 10-15 million pounds of recycled lead (with a recent commodity price of $0.50-$0.75 per pound) and other legacy PLD assets.

The total changes to the Working Capital line item in the projections are highlighted below:

	10.20.14				7.2.14				Variance			
Identified Risks and Opportunities to 10-year Plan	**2014**	**2015**	**2016-2023**	**Total**	**2014**	**2015**	**016-202**	**Total**	**2014**	**2015**	**2016-2023**	**Total**
Higher Transportation Dept (DDOT) operating subsidy in CF	$ 2.0	$ 5.0	$ -	$ 7.0	$ 2.0	$ 5.0	$ -	$ 7.0	$ -	$ -	$ -	$ -
Accounts payable vendor risk in CF	$ (23.2)	$ 53.2	$ -	$ 30.0	$ 30.0	$ -	$ -	$ 30.0	$ (53.2)	$ 53.2	$ -	$ -
Cash escrow reserve requirement for self-insurance	$ 7.8	$ -	$ -	$ 7.8	$ 7.8	$ -	$ -	$ 7.8	$ -	$ -	$ -	$ -
Cash payment to Syncora (part of settlement)	$ -	$ 5.0	$ -	$ 5.0	$ -	$ -	$ -	$ -	$ -	$ 5.0	$ -	$ 5.0
Litigation Settlement	$ -	$ (24.0)	$ -	$ (24.0)	$ -	$ -	$ -	$ -	$ -	$ (24.0)	$ -	$ (24.0)
Copper Wire and Other Asset Sales	$ -	$ (5.0)	$ (20.0)	$ (25.0)	$ -	$ -	$ -	$ -	$ -	$ (5.0)	$ (20.0)	$ (25.0)
Working Capital (Excluding Refunding)	**$(13.4)**	**$ 34.2**	**$ (20.0)**	**$ 0.8**	**$39.8**	**$ 5.0**	**$ -**	**$44.8**	**$(53.2)**	**$ 29.2**	**$ (20.0)**	**$ (44.0)**
Refunding bond proceeds drawn from escrow	$ -	$ (64.7)	$ -	$ (64.7)	$ -	$ (20.0)	$ -	$ (20.0)	$ -	$ (44.7)	$ -	$ (44.7)
Working Capital Including Refunding	**$(13.4)**	**$(30.5)**	**$ (20.0)**	**$ (63.9)**	**$39.8**	**$(15.0)**	**$ -**	**$24.8**	**$(53.2)**	**$(15.5)**	**$ (20.0)**	**$ (88.7)**

Professional Fees

The updated projections assume $32.8 million of professional fees will be paid in FY2015 that were initially projected in FY2014. In addition, the City expects to incur an additional $52 million of professional fees in FY2015 related to the bankruptcy that were not previously projected. The City anticipates that, of the

$52 million of additional professional fees, $5 million will be credited to the City through voluntary reductions. The professional firms providing the credit and amounts for each firm have not been identified.

QOL/Exit Financing

On September 17, 2014, the City, the Michigan Finance Authority and Barclays Capital Inc. executed an Amended and restated Commitment Letter which increased the *available* Exit Financing to $325 million. On September 15, 2014 the Detroit City Council approved the Exit Financing and on September 26, 2014 the Local Emergency Financial Assistance Loan Board approved the Exit Financing. 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.

The City is expected to draw down $275 million of the facility, but have the ability to draw down as much as $325 million up until closing. The $275 million in proceeds includes $160 million of a tax-exempt note and a $115 million taxable note. Both notes are assumed to bear interest at 5.75% while the tax-exempt note matures in FY2030 and the taxable note matures in FY2023. The notes are interest only until FY2020. The net draw down will total approximately $241 million due to a required reserve as part of the loan agreement with Barclay's Capital. The initial amount of the Exit Financing will be held by Barclays and subsequently sold via a typical security sale process sometime in early CY 2015. This process may allow the City to reduce its interest expense for this financing over the life of the loan. In addition, according to the City's investment banker, Miller Buckfire & Co., the secured nature of this borrowing improves its marketability and may reduce the interest cost the City pays once the loan is sold to the public and the interest is set. However, I remain concerned that the secured nature of the financing may limit the City's ability to borrow in the future.

Blight Proposals

The City's Draft Eighth Amended POA, as compared to earlier versions, maintains the $420 million level of proposed funding relating to the City's Blight Reinvestment Initiative, but reallocates the timing of the proposed spend. The Draft Eighth Amended POA projects $82 million of Blight funding in FY 2015, a decrease of $18 million as compared to the City's earlier projections. While the

FY 2016 forecast remains static at $46 million, the $18 million forecast variance from FY 2015 is spread across fiscal years 2017 and 2018.

The forecasted annual blight RRI is as follows:

($ millions) **City of Detroit's POA Proposed Blight Expenditures**

Fiscal Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	Total
Blight Expenditures	$ -	$ 82	$ 46	$ 50	$ 50	$ 51	$ 52	$ 45	$ 25	$ 19	**$ 420**

Deferrals

The City anticipates an additional $34.8 million in deferrals of RRI's over the next ten years in the most recent projections for a total of $64.8 million in deferrals. The City did not specifically identify the deferrals.

Parking Department

The City of Detroit's Parking department includes the following:

- 7 parking garages including 6,884 spaces.

- 3,196 on-street metered spaces.
- Parking violation enforcement and collection operations.
- Abandoned vehicle and boot and tow operations.

Currently parking violation enforcement and abandoned vehicle and boot and tow operations are reflected in the General Fund, while the parking facilities and metered spaces comprise the Parking Enterprise Fund. Prior to the October 13, 2014 projections, only the General Fund impact of the Parking department were included in the POA forecasts. The 10 Yr Plan Parking revenues and expenses related to violation enforcement are based on historical fines and collections from FY2013 and are adjusted for improvements in collections and increased ticket amounts. These adjustments are accounted for in the Parking department RRI's. Earlier projections assumed net cash flow reflected in the Enterprise Fund related to the parking lots and metered spaces would be cash neutral to slightly positive. Any cash generated via these operations remained in the Parking Enterprise Fund, and there was no subsidy provided by the General Fund or contribution from the Parking Fund to the General Fund.

Desman Associates ("Desman") was retained by the City to perform a financial review of the City's Parking System to assess the financial and physical condition of the assets, its competitive place in the market, and to formulate financial projections for the department. Desman published a report dated September 25, 2014 that identified a number of opportunities for the City to improve its parking operations. Desman modeled 4 scenarios:

1) A status quo scenario: Continued oversight by the City with little to no improvements.
2) Optimized scenario: Implementation of operational and technological improvements.
3) Private Scenario: Operations run by a qualified parking operator.
4) Private Optimized: Oversight and improvement by a qualified parking operator.

Some of Desman's key assumptions that lead to the projected increase in parking meter revenue and decrease in operating expenditures in the optimized scenario include:

- 114 new meters.
- Extended enforcement of parking meters by 1 hour.
- 5% reduction in operating expenses related to improvements in efficiency and operations.
- $2.6 million in capital expenditures related to parking meters.

Note, the incremental cash flow from Parking in the updated models, represents cash flows that were previously reflected in the Parking Enterprise Fund as the cash flow from parking violations are included in the General Fund and increased revenue and operational improvements have already been accounted for in the RRI's. Historically, cash flow generated from operations via the parking lots and meters remained in the Parking Enterprise Fund to service the parking revenue bonds. However, due to the recent redemption of these bonds, cash flow generated via the lots and meters is now available to service the C notes and will flow through the General Fund.

In the Draft Eighth Amended POA, the City assumes all cash flow via the Parking Department flows through the General Fund. The assumed realization of the cash flows in the optimized scenario provides an additional $15 million and $64 million in sources of cash over the 10 and 40 year periods respectively:

Parking Department Projections 10.20.14 POA[8]

APS Optimized	2015-2023	2024-2033	2034-2043	2044-2053	Cum APS Optimized
Garage & Lot Revenue	$ 43	$ 43	$ 47	$ 52	$ 185
Parking Meters	$ 42	$ 53	$ 61	$ 71	$ 226
Boot & Tow Revenue	$ 11	$ 13	$ 14	$ 16	$ 54
Revenue	**$ 96**	**$ 109**	**$ 122**	**$ 139**	**$ 466**
Garage & Lot Expenses	$ (20)	$ (23)	$ (28)	$ (36)	$ (107)
Parking Meter Repair and Collections Expenses	$ (8)	$ (10)	$ (13)	$ (16)	$ (47)
Credit Card Processing Fees	$ (2)	$ (3)	$ (3)	$ (4)	$ (11)
On-Going Parking Meter Fees	$ (2)	$ (3)	$ (4)	$ (5)	$ (15)
Parking & City Admin Overhead	$ (26)	$ (35)	$ (44)	$ (55)	$ (160)
Add back: DBA and Trustee Legacy Expenses	$ 2	$ 3	$ 4	$ 4	$ 13
Add back: Pension, POC and OPEB Legacy Expenses	$ 5	$ 7	$ 8	$ 10	$ 30
Operating Expenses	**$ (51)**	**$ (65)**	**$ (81)**	**$ (101)**	**$ (296)**
Net Cash Flow Before Capital Expenditures	**$ 45**	**$ 44**	**$ 42**	**$ 39**	**$ 170**
Parking Facility CapEx	$ (21)	$ (10)	$ (19)	$ (17)	$ (67)
Parking Equipment CapEx	$ (1)	$ (2)	$ (2)	$ (3)	$ (8)
Meter Capital Expense	$ (3)	$ (3)	$ (4)	$ (6)	$ (16)
Recommended Capital Expenditures	**$ (25)**	**$ (15)**	**$ (25)**	**$ (26)**	**$ (91)**
Net Cash Flow	**$ 20**	**$ 29**	**$ 17**	**$ 13**	**$ 79**
Less:					
Current Reimbursement for Pension and POC	$ (5)	$ (5)	$ (3)	$ (2)	$ (15)
Total Incremental Sources of Cash Available to Creditors	**$ 15**	**$ 24**	**$ 13**	**$ 11**	**$ 64**

It should be noted that boot and tow revenue flows through the General Fund, however, the initial projections put together by the City did not include projections for boot and tow services as it was only recently moved to the General Fund- thus the cash flow projected by Desman related to boot and tow is incremental to the prior versions of the POA and is included in the additional sources of cash.

[8] Excludes parking enforcement and violations cash flow which is included in the General Fund projections.

My team and I reviewed both the Desman report published on September 25, 2014 and the working model that incorporates all 4 scenarios. I believe that the model is mathematically correct and the revenue and cost savings assumptions are reasonable, however, execution of the plan and changing the Parking Department corporate culture and operating inefficiencies will be a challenge and is critical to generating the improved cash flow in the optimized scenario.

Section III – Qualitative Issues

Part III of the July report addresses several qualitative issues that impact my Feasibility Opinion. Following are some updated items that I have considered. Section I titled "System, Control and Reporting" identifies numerous concerns I have with the financial and information systems of the City. While I remain concerned about the functionality of the current systems and the operating process of the City, I am encouraged by the recent progress that has been made in these critical areas.

The City's CFO has aggressively moved forward with transforming the Finance Department and this initiative is farther ahead than I expected at this time. In addition, the CFO and the CIO are close to completing the selection process for the City's new financial management systems, payroll, and human resources systems. The implementation timeline is approximately 18 to 24 months which seems more achievable based on the solutions chosen. In addition, the Mayor has hired a Deputy Mayor for Economic Policy who is working in partnership with the CFO on such important matters as enhancing City revenues from multiple sources, the revenue collection practices of the City and developing strong financial systems for major projects including the transformation of the water and sewer systems.

Section K of my July Report addressed “Human Capital and Leadership”. Again, my overall concern with the City’s human capital needs remains but the Mayor has successfully completed the hiring of a new Human Resources Director who will begin in January 2015.

“Post Confirmation Oversight” issues were contained in Section M. Subsequent to July, the State of Michigan has agreed to provide for permanent staffing[9] to support the volunteer Financial Review Commission at a level that alleviates my concerns for consistent, cost effective execution of the Commission’s duties.

Section N of my July Report, “Unresolved Issues”, highlighted key issues that had not been settled at that time. As of this report, the following items have been resolved:

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[9] This staffing is to include a full time Executive Director and up to 6 full-time equivalent staff members. The search for an Executive Director and staff will commence once the Commission is formed and has input into the job descriptions for these employees.

- Bankruptcy Eligibility
- 2005-2006 Certificates of Participation
- Swap Litigation
- Exit Financing
- Professional Fees post-bankruptcy

Of particular note, the POA objections and related disputes have been resolved with bond insurers Syncora and FGIC. The City anticipates generating positive cash flow to satisfy these and other creditor claims, in large measure, via improved operating performance from the City's parking garages and lots, parking meters and towing services which was discussed in Section II above.

<u>Syncora Settlement</u>

On September 14, 2014, the City of Detroit reached a tentative settlement[10] with Syncora that, if consummated, would resolve the parties' outstanding issues.

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[10]Docket # 7711 – Syncora Guarantee, Inc. and Syncora Capital Assurance, Inc.'s Concurrence in the City of Detroit's Consolidated Reply to Supplemental

The terms of the proposed settlement are as follows:

1. The City shall pay Syncora $5 million in full satisfaction of all Syncora claims;
2. The City shall agree to a 20 year lease extension on the Detroit Windsor Tunnel, presently owned by Syncora. In exchange for Syncora funding the necessary capital improvements on the tunnel, the City will forgo approximately $12.5 million in rent payments in the next twenty years;
3. Syncora will receive $23.5 million of "B" notes at 4% interest;
4. Syncora will receive $21 million of "C" notes at 5% interest with a twelve-year amortization;
5. The City will grant Syncora an option for a long-term lease on Detroit's parking garage beneath Grand Circus Park, provided the insurer invests $13 million in near-term upgrades.
6. Lastly, Syncora will receive $6.2 million in credits toward purchasing city property and buildings.

FGIC Settlement

The City of Detroit and FGIC reached a mediated settlement[11] on October 16, 2014, that, upon receiving Court and certain other approvals, will resolve the outstanding issues between the parties.

Key features of the settlement are noted below:

1. FGIC shall receive $74.2 million of the City's "B" notes. These "B" notes are assumed to earn interest at 4% per annum and commence amortization in FY 2026. FGIC is projected to receive a nominal $141 million in principal and interest payments during the 40-year forecast period.
2. FGIC shall receive $67.2 million of the City's "C" notes. With an assumed interest at 5% per annum and immediate amortization, FGIC is estimated to receive a nominal $91 million in principal and interest payments during the 40-year forecast period.

[11] Docket # 7963 – Joint Motion of the City of Detroit, FGIC and COP Holders for a Limited Order Modifying the Mediation Order

The cumulative $232 million of nominal debt service payments, when discounted at 5%, equate to a net present value of $130 million. FGIC's discounted recovery, when compared to its $1.1 billion claim, translates into a 12% recovery – equivalent to Syncora's estimated recovery.

FGIC Settlement Payments

($ Millions)	Principal	Interest	Total
B Notes	$ 74	$ 67	$ 141
C Notes	$ 67	$ 24	$ 91
Nominal Total	$ 141	$ 91	$ 232
Net Present Value (discounted at 5%)			$ 130
FGIC Claim			$ 1,119
Estimated FGIC Recovery			12%

In addition to the anticipated debt service recoveries, the FGIC settlement also includes the Joe Louis Arena ("JLA") Development Agreement, in which FGIC retains the development rights to the JLA parcel and its attached parking garage for thirty-six months post the execution of the Development Agreement. In an effort to facilitate development on the JLA site and to the extent FGIC's proposal meets certain State of Michigan eligibility requirements, the State has agreed to reimburse FGIC as much as $4 million in State-funded Community Revitalization Program ("CRP") incentives and as much as $14 million in State-Funded Tax Increment Financing ("TIF") incentives (accruing interest at 3% per annum). Finally, within three months of the expiration of the current JLA lease, the City will commence with the demolition of the JLA and the transfer of the JLA parking garage title to FGIC. The State shall make available to the City certain CRP Incentives, of which up to $6,000,000 will be for the purpose of reimbursing the City for the costs and expenses incurred in connection with the demolition.

The foregoing represents my Second Supplemental Report. Except as expressly set forth herein, my Initial Reports remains valid without modification.

Respectfully submitted,

Dated: October 21, 2014

/s/ ***Martha E. M. Kopacz***

Martha E.M. Kopacz

Exhibit 1	
#	**Additional Documents Reviewed**
1	Seventh Amended Plan of Adjustment (September 16, 2014)
2	Plan of Adjustment 10 Yr Plan Working Model 9.25.14
3	Plan of Adjustment 40 Yr Plan Working Model 9.25.14
4	Plan of Adjustment 10 Yr Plan Working Model 9.25.14 (Post Restructuring by Department)
5	Exit Financing Commitment Letter (September 29, 2014)
6	Emergency Manager Report (July 15, 2014)
7	Comprehensive Annual Financial Report, City of Detroit FYE June 30, 2013
8	Testimony of Gaurav Malhotra, of Ernst & Young LLP (September 29, 2014)
9	Expert Report of James Doak, Miller Buckfire
10	Expert Report of Kenneth Buckfire, Miller Buckfire
11	Draft Eighth Amended Plan of Adjustment (October 21, 2014)
12	Plan of Adjustment 10 Yr Plan Working Model 10.13.14
13	Plan of Adjustment 40 Yr Plan Working Model 10.13.14
14	Plan of Adjustment 10 Yr Plan Working Model 10.13.14 (Post Restructuring by Department)
15	Settlement Agreement and Release
16	Hilco Industrial Auction Contract 8.25.14
17	Request for Proposal of management and monetization of PLD's decommissioned assets
18	Desman Report (Parking) 9.25.14
19	City of Detroit Headcount by department - August 2014
20	Cash Report FY2015 YTD
21	Audit of the Municipal Parking Department Violations Bureau July 2008-June 2013
22	Audit of the Municipal Parking Department Contracts Administration July 2011- April 2014
23	Cash Flow Forecast - 2 Yrs 10.18.14
24	Plan of Adjustment 40 Yr Plan Working Model 10.20.14