

CITY OF DETROIT

Financial Review Commission

November 21, 2014



Agenda

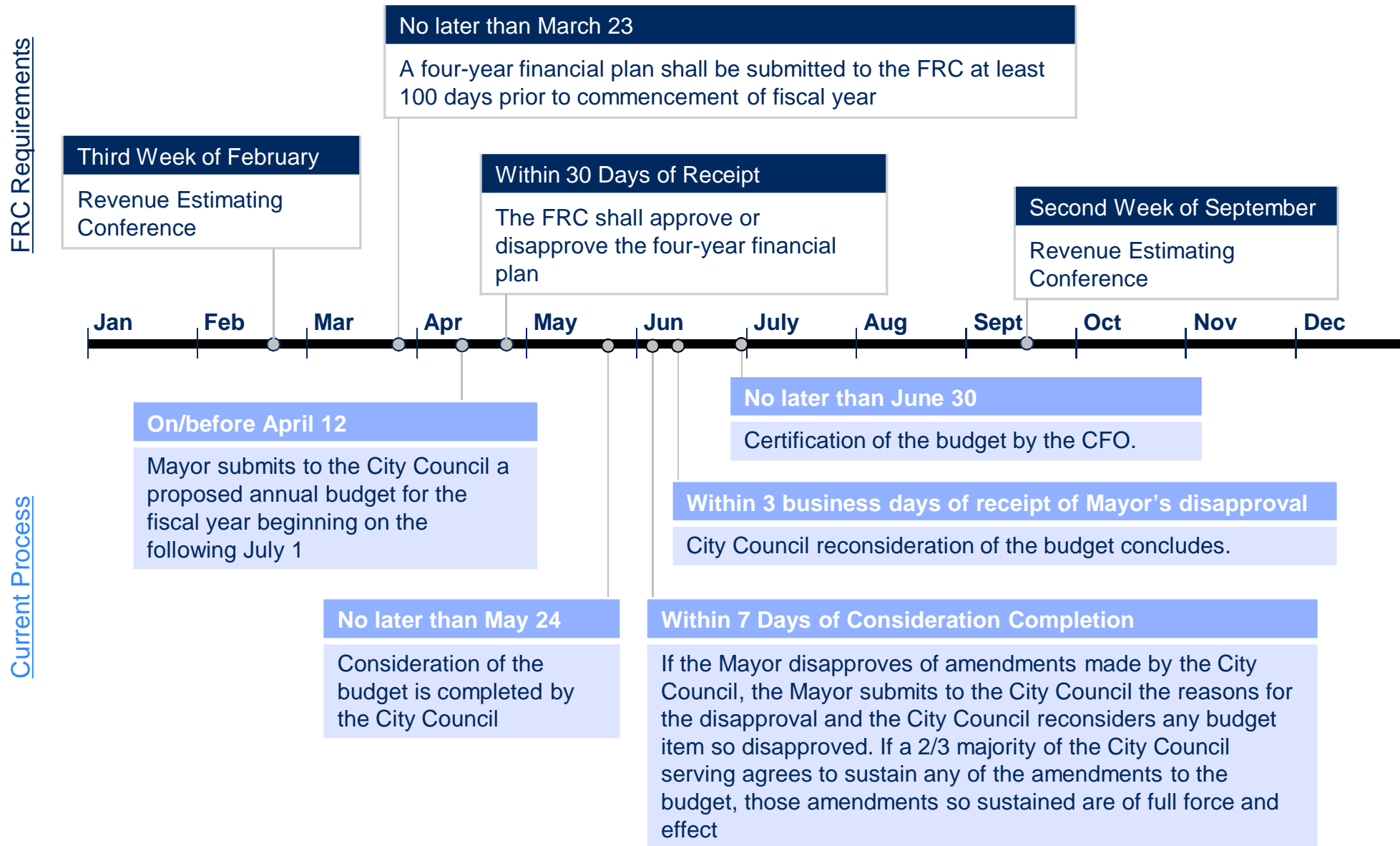
Content	Presenter
1. Budget Process Timeline	Pam Scales
2. Overview of Plan of Adjustment	John Hill and Gaurav Malhotra
3. KPMG Audit Activities	John Naglick



1. Budget Process Timeline



Budget Process Timeline



- The City will submit a triennial¹ budget in FY 2015, and move to a biennial² budget thereafter

1. Required by the Financial Stability Agreement, which is does not apply post-exit.
 2. Required by Act 279 along with a four-year financial plan.



2. Overview of Plan of Adjustment



Overview of Plan of Adjustment

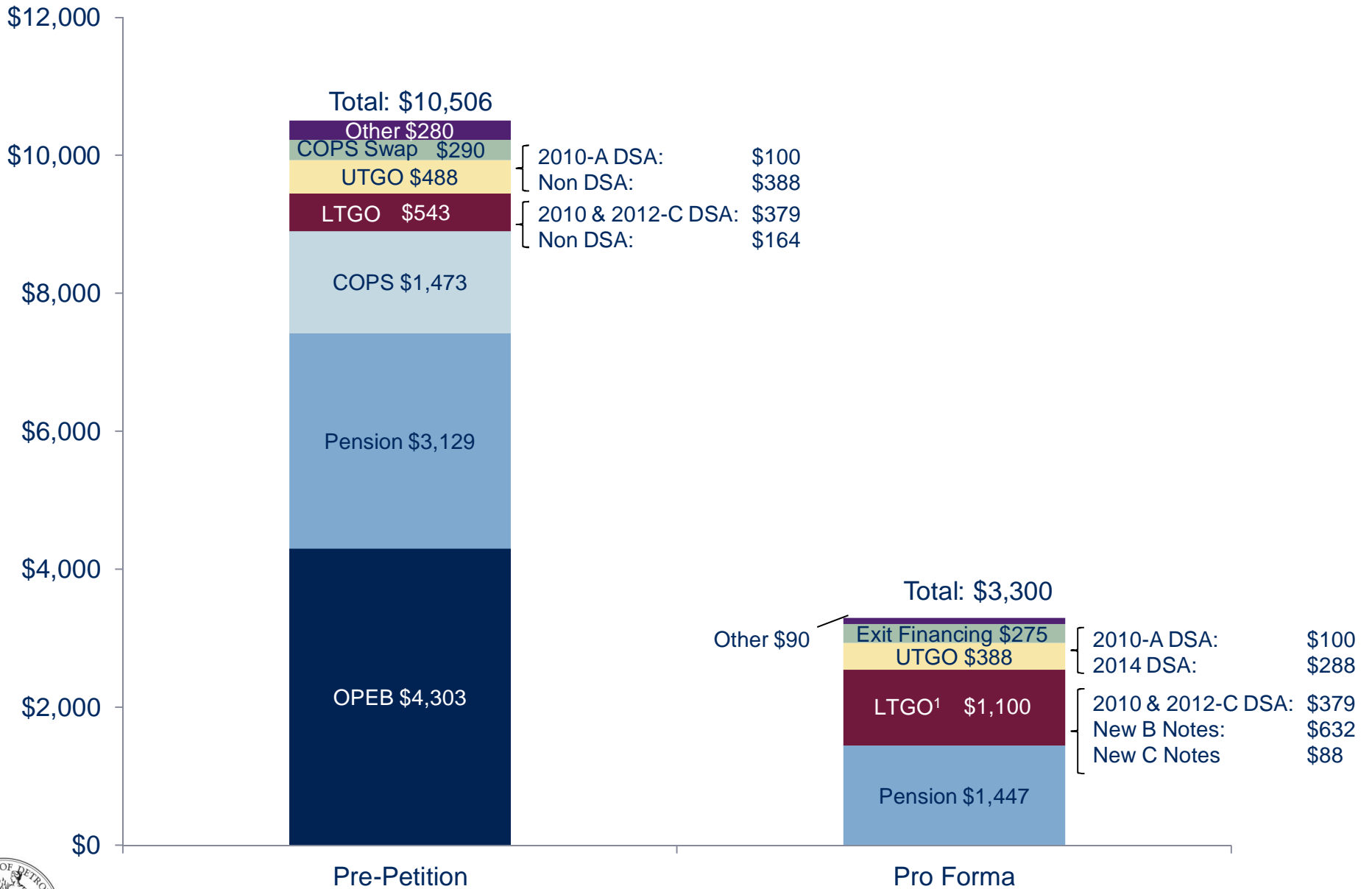
Eliminates billions of dollars of debt and unfunded liabilities and positions the City for growth through significant capital investment and increased oversight

- Extinguishes \$1.8 billion of funded debt, obligations and payables
 - Debt backed by distributable state aid (“DSA”), water and sewer revenues (“DWSD Debt”), and City income taxes unimpaired
 - Majority of new General Fund debt issued to creditors is LTGO
- Eliminates \$5.5 billion in unfunded pension and OPEB obligations
 - General Fund’s pension contribution obligations deferred until FY 2023 – trusts funded primarily by the “Grand Bargain” and DWSD in the interim
 - Pension actuarial rate of return assumptions reduced to 6.75%; mechanisms introduced to share investment performance
 - Establishes and capitalizes VEBAs to address retiree health care, removing \$3.8 billion of unfunded OPEB obligation
- Provides \$1.4 billion of net investment for infrastructure and other revitalization initiatives through FY 2023
 - Blight Removal: \$420 million
 - Public Safety: \$411 million
 - Services Infrastructure: \$403 million
 - Transportation & Other Resident Services: \$106 million



General Fund Pro Forma Capitalization

The Plan of Adjustment reduces the City's General Fund obligations by \$7.2 billion



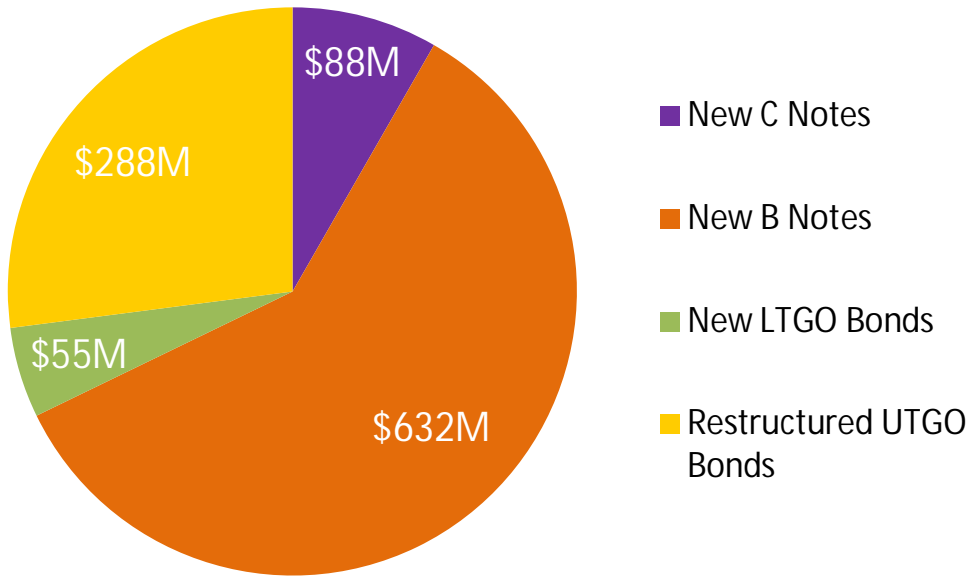
1. Assumes \$55 million of New LTGO Bonds representing recoveries for prepetition Unsecured LTGO Bonds is paid off at exit.



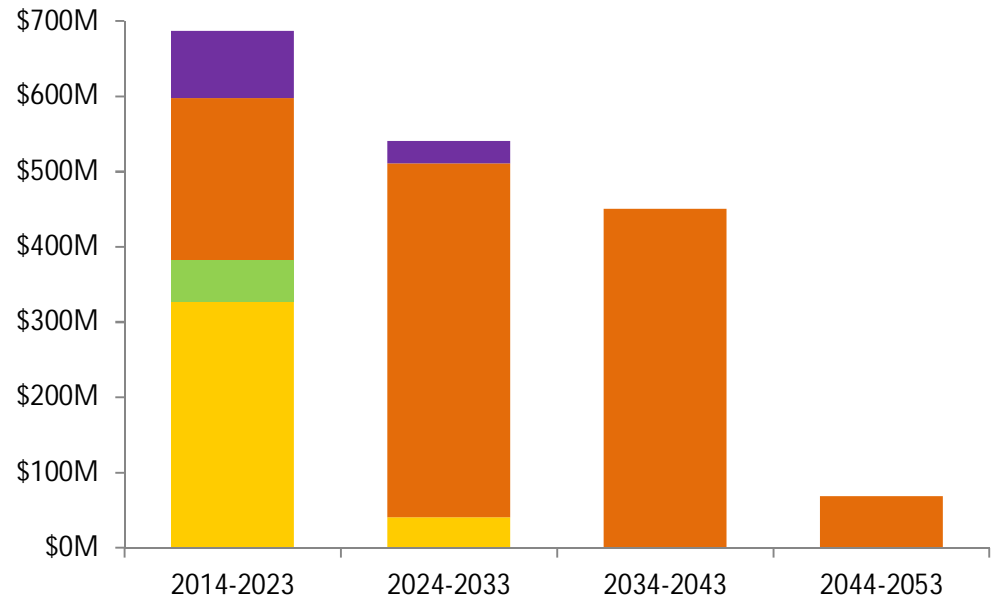
New Notes To Be Issued Under the 8th Amended Plan

	Face Value	Term	Interest	Holder
Restructured UTGO Notes	\$288M	14 years	Various (3.7% - 5.375%)	UTGO
New LTGO Bonds	\$55M	23 years	5.65%	LTGO
New B Notes	\$632M	30 years	4%, 4%, 6%	OPEB, LTGO, COPs, Notes & Other Unsec.
New C Notes	\$88M	12 years	5.0%	FGIC, Syncora
Total	\$1,063M			

Face Value



Debt Service

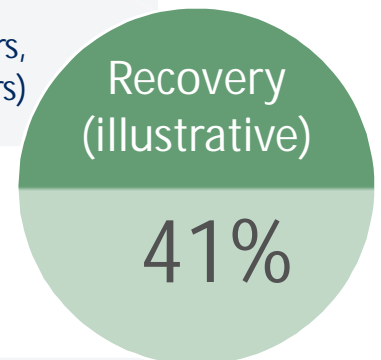


LTGO Bonds (Class 7)

Claim

Settlement

Description	LTGO Series: 2004; 2005-A(1); 2005-A(2); 2005-B; 2008-A(1); 2008-A(2)	“New LTGO Bonds”	“New B Notes” from COPs reserve
Amount	\$163.5M	\$55.0M	\$17.3M ¹
Interest	Various (3.5%-8.0%)	n/a (Due upon effective date)	4.0%-6.0% (4.0% in first 20 years, 6.0% in last 10 years)
Maturity	Various (all by 2025)	n/a (Due upon effective date)	30 years (by 2045)
Other		City to pay \$55M cash at effective date	



¹ Amount of “Excess New B Notes” based on proposed Syncora and FGIC settlements

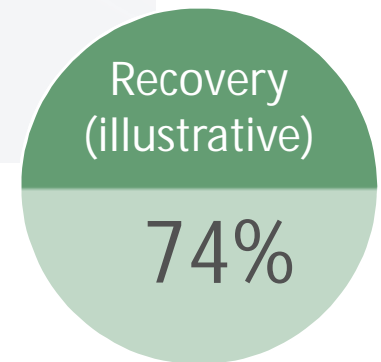


UTGO Bonds (Class 8)

Claim

Settlement

Description	UTGO Series: 1999A; 2001A(1); 2001B; 2002; 2003A; 2004A(1); 2004B(1); 2004B(2); 2005B; 2005C; 2008A; 2008B(1)	"Restructured UTGO Bonds"
Amount	\$388M	\$288M
Interest	Various (3.7%-5.375%)	Various (3.7%-5.375%) (unchanged)
Maturity	Various (all by 2028)	Various (all by 2028) (unchanged)
Other		Stub UTGO Bonds reinstated; holders retain ownership, assign proceeds to fund Income Stabilization Fund



Syncora Settlement – COPs (Class 9)

Claim

Settlement

Description	Certificates of Participation (“COPs”) Series 2005-A; Series 2006-B	“New B Notes”	“New C Notes”
Amount	\$354M (24.055% of total COPs principal and pre-petition interest)	\$23.5M	\$21.3M
Interest	Series 2005-A – 4.00% - 4.95% Series 2006-B – variable	4.0%-6.0% (4.0% in first 20 years, 6.0% in last 10 years)	5.0%
Maturity	Series 2005-A – 2025 Series 2006-B – 2035	30 years (by 2045)	12 years (by 2027)
Other		Syncora also to receive settlement credits in the nominal amount of \$6.3M ¹	



¹ Recovery includes value from settlement credits

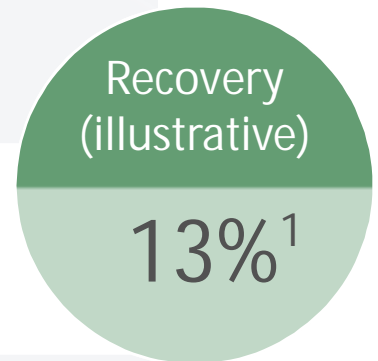


FGIC Settlement – COPs (Class 9)

Claim

Settlement

Description	Certificates of Participation (“COPs”) Series 2005-A; Series 2006-A; Series 2006-B	“New B Notes”	“New C Notes”
Amount	\$1,119M (75.945% of total COPs principal and pre-petition interest)	\$74.2M	\$67.2M
Interest	Series 2005-A – 4.00% - 4.95% Series 2006-B – variable	4.0%-6.0% (4.0% in first 20 years, 6.0% in last 10 years)	5.0%
Maturity	Series 2005-A – 2025 Series 2006-B – 2035	30 years (by 2045)	12 years (by 2027)
Other	FGIC also to receive settlement credits in the nominal amount of \$19.75M ¹		



¹ Recovery includes value from settlement credits

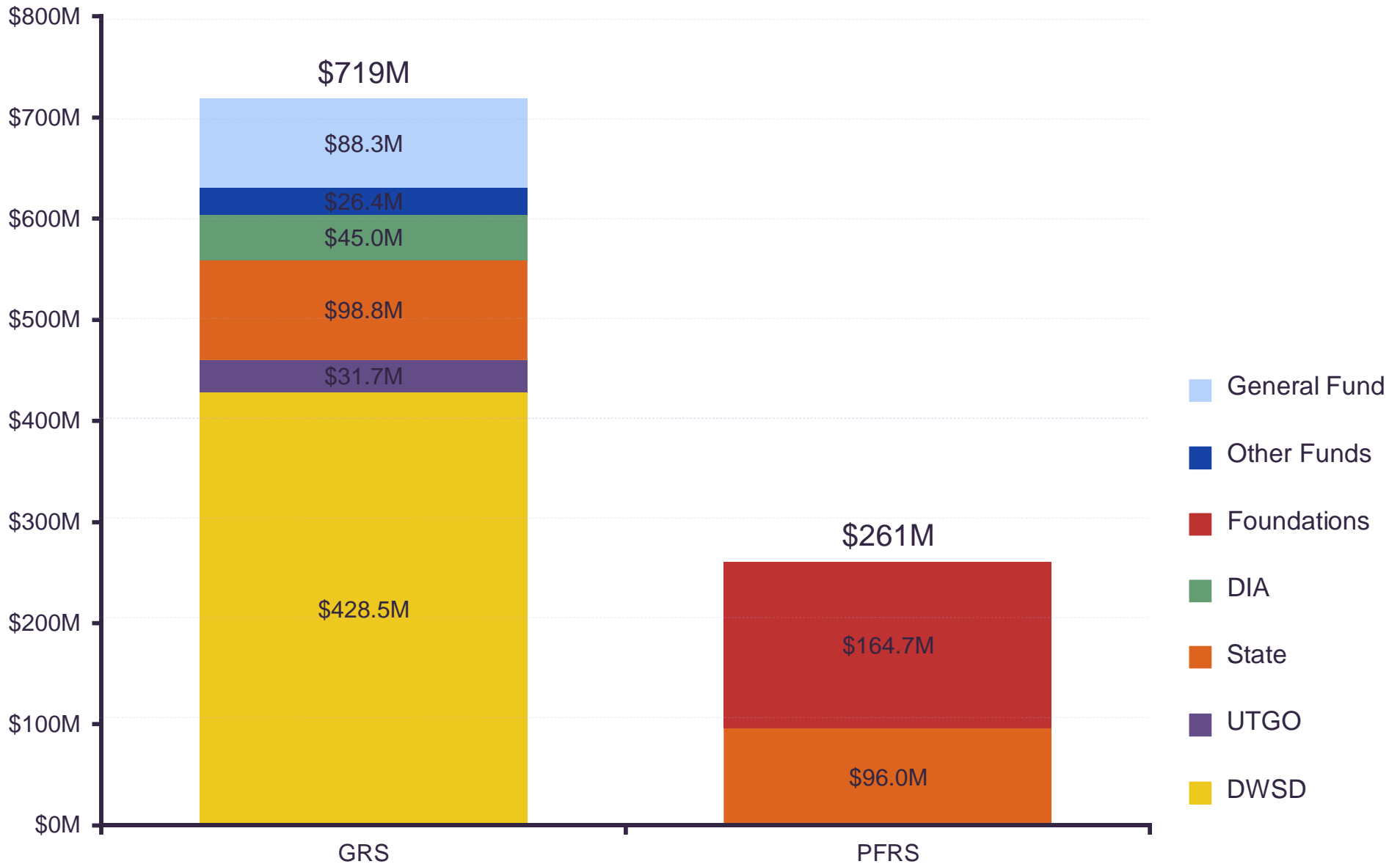


Changes in Pension Terms Under the Plan

	GRS	PFRS
<u>Assumed Rate of Return</u>		
Pre-petition (June 2013)	7.9%	8.0%
POA	6.75%	6.75%
<u>UAAL</u>		
Pre-petition (June 2013)	\$1,879M	\$1,250M
POA	\$894M	\$553M
Target 2023	\$695M	\$681M
<u>Funding Status</u>		
Pre-petition (June 2013)	53%	71%
Target 2023	70%	78%
Target 2053	100%	100%
<u>POA Liability Reduction</u>		
Plan Freeze	Yes	Yes
Monthly Pension Reduction	4.5%	None
COLA	Eliminated	Reduced by 55%
ASF Recoupment	Equivalent to 8.8% reduction in liability	N/A
<u>Future Contributions</u>		
Through 2023	\$719M	\$261M
2024-2053	<u>\$1,422M</u>	<u>\$1,393M</u>
Total	\$2,141M	\$1,654M



Pension Contributions (First 10 Years)



OPEB (Class 12)

Claim

Settlement

Description	Variety of healthcare plans offered to retirees sponsored by City of Detroit	"New B Notes" contributed to GRS & PFRS VEBAs	"New B Notes" from COPs reserve contributed to GRS & PFRS VEBAs
Amount	PFRS: \$2,208M GRS: <u>\$2,095M</u> Total: \$4,303M ¹	\$450M ((\$232M to PFRS; \$218M to GRS)	\$42.7M ²
Interest	n/a	4.0%-6.0% (4.0% in first 20 years, 6.0% in last 10 years)	4.0%-6.0% (4.0% in first 20 years, 6.0% in last 10 years)
Maturity	Open ended	30 years (by 2045)	30 years (by 2045)
Other		VEBA start-up costs funded by: (i) \$8M from Rate Stabilization Fund (ii) Approximately \$3.5M from charitable contributions (iii) Advance of October 2015 interest on Excess New B Notes from the Syncora Settlement	



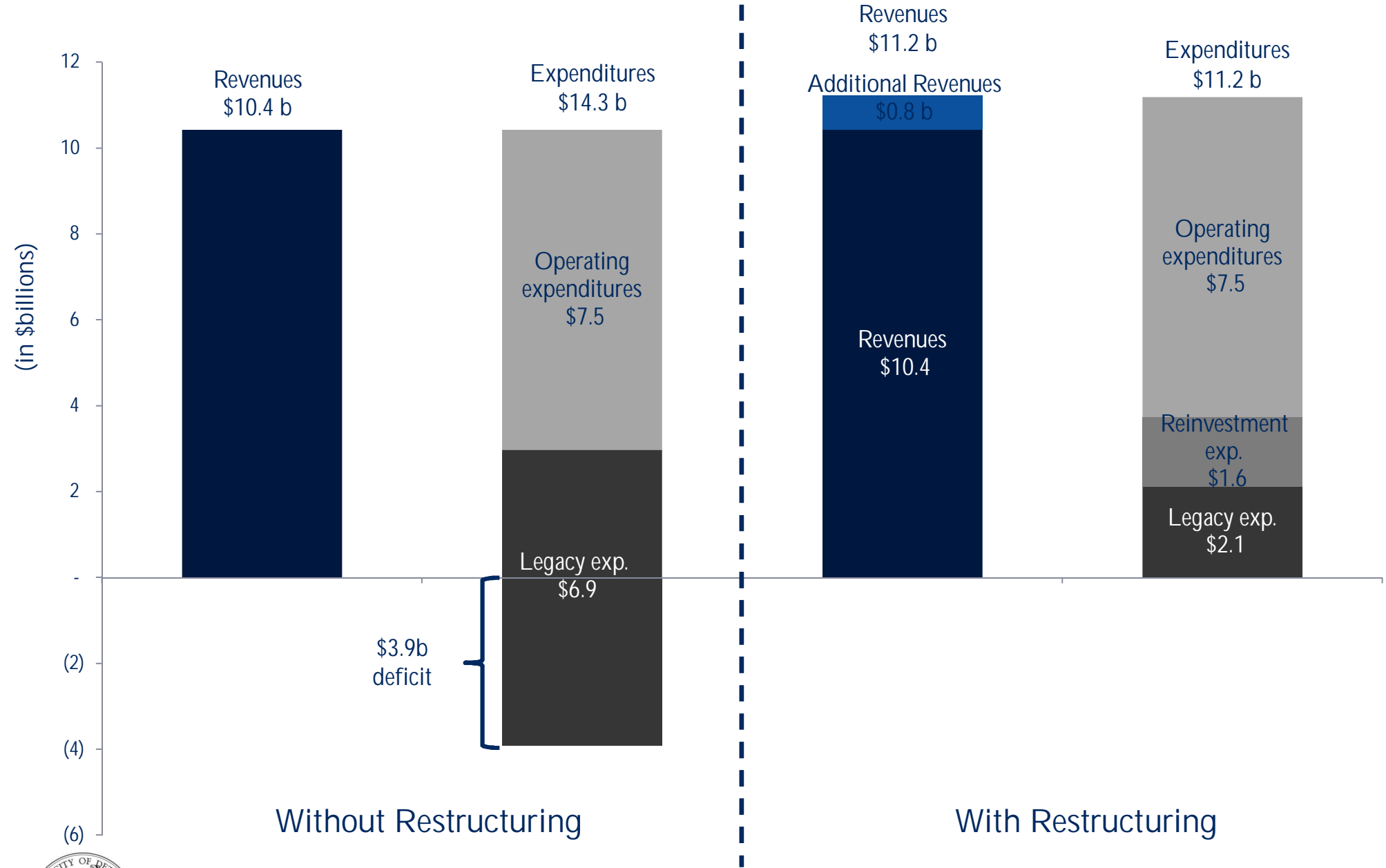
¹ Negotiated amount pursuant to the OPEB Settlement

² Amount of "Excess New B Notes" based on proposed Syncora and FGIC settlements

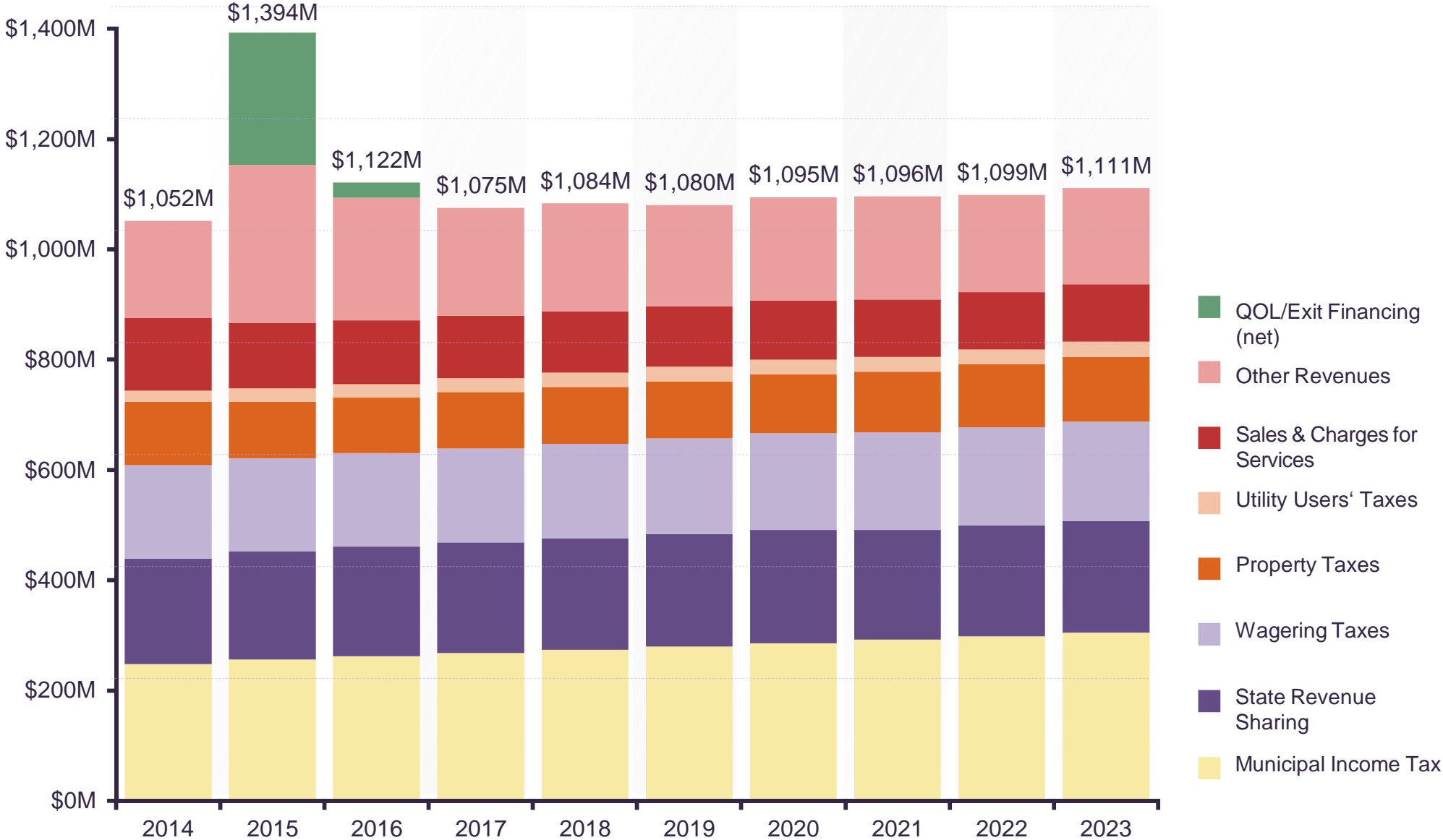


General Fund 10 Year Pro Forma Revenues and Expenditures

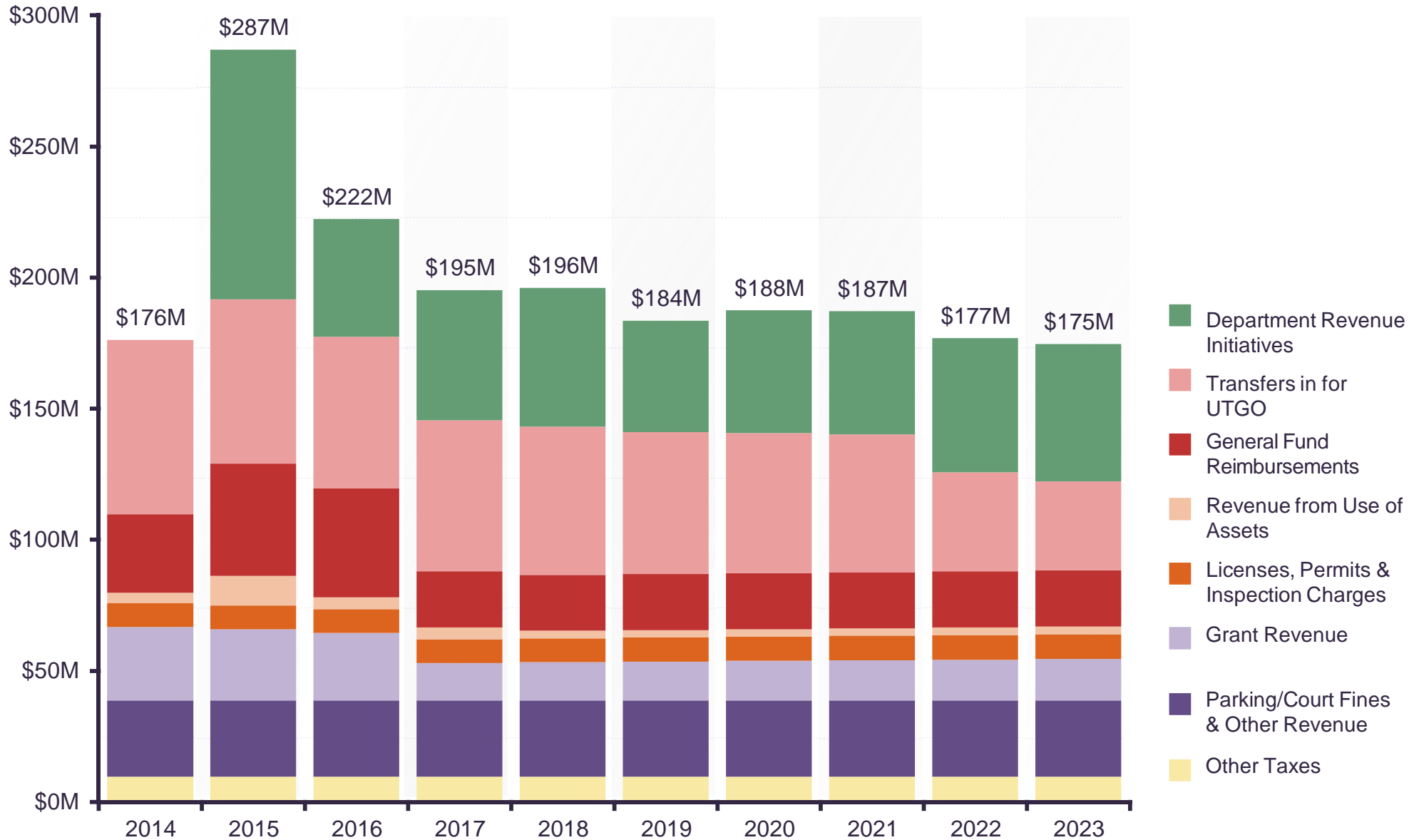
Projected ten year deficit of \$3.9b absent restructuring is avoided under proposed Plan



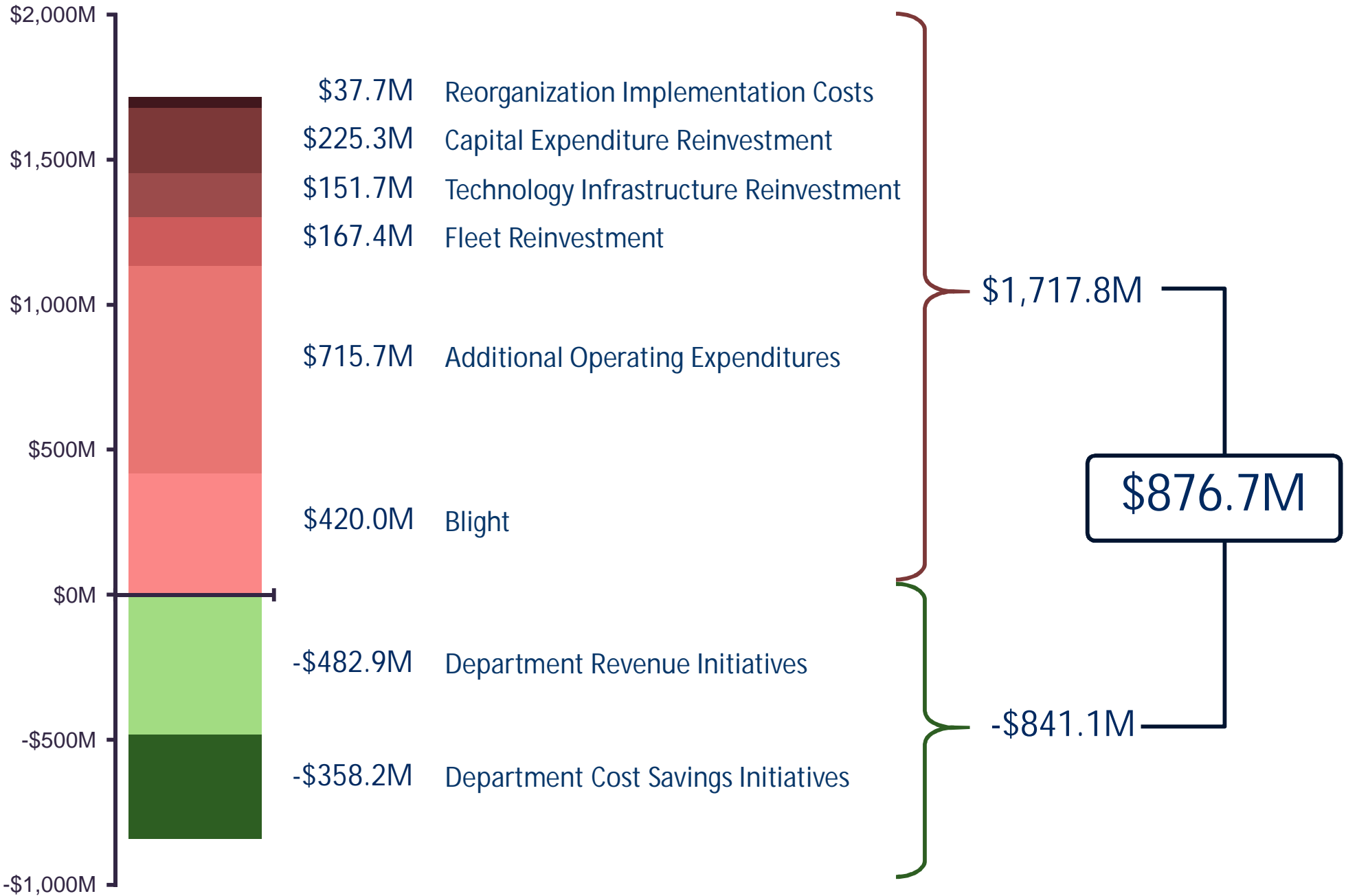
Revenues – Major Categories, 2014 – 2023



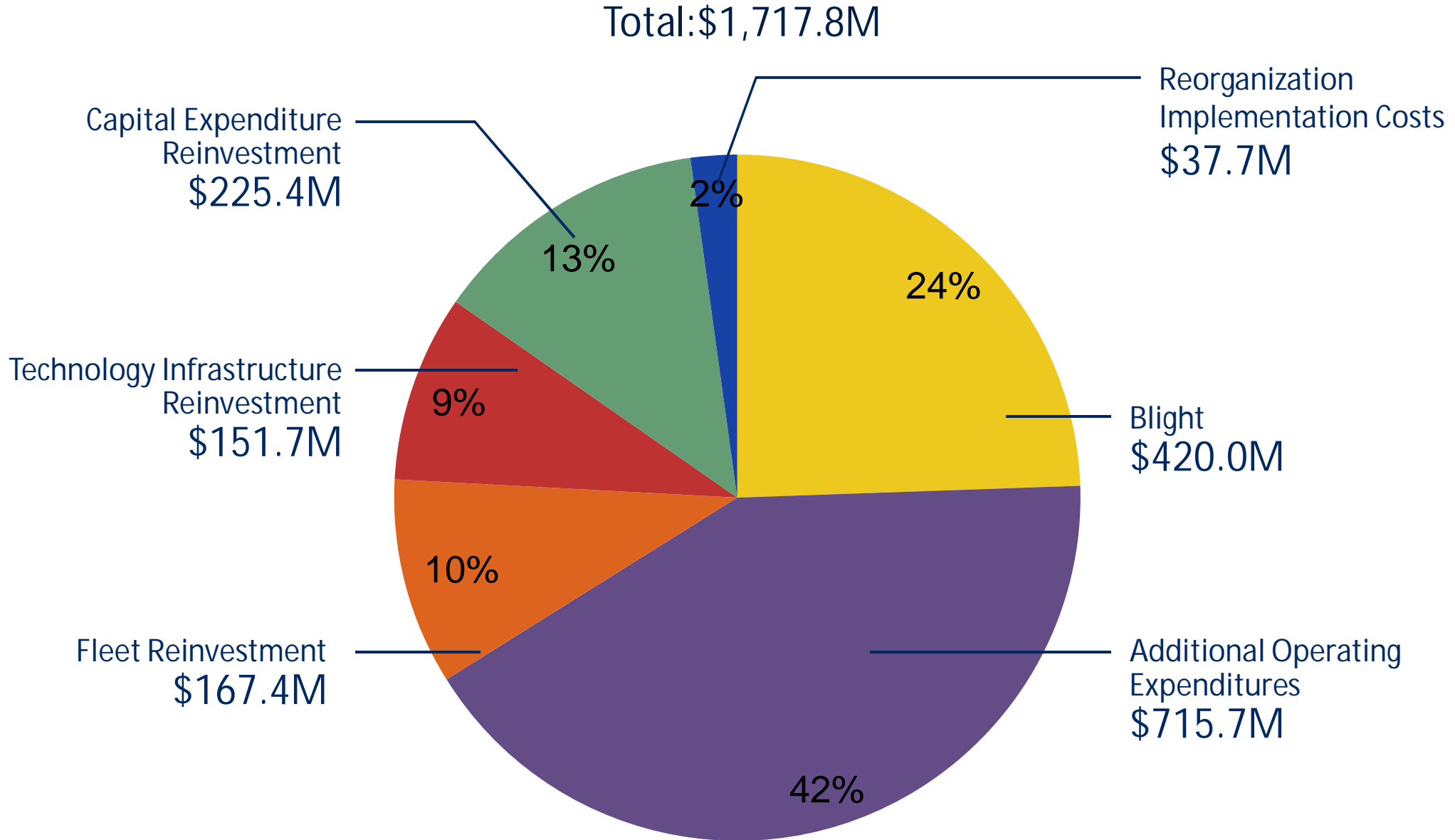
Other Revenues (Sub-Schedule), 2014 – 2023



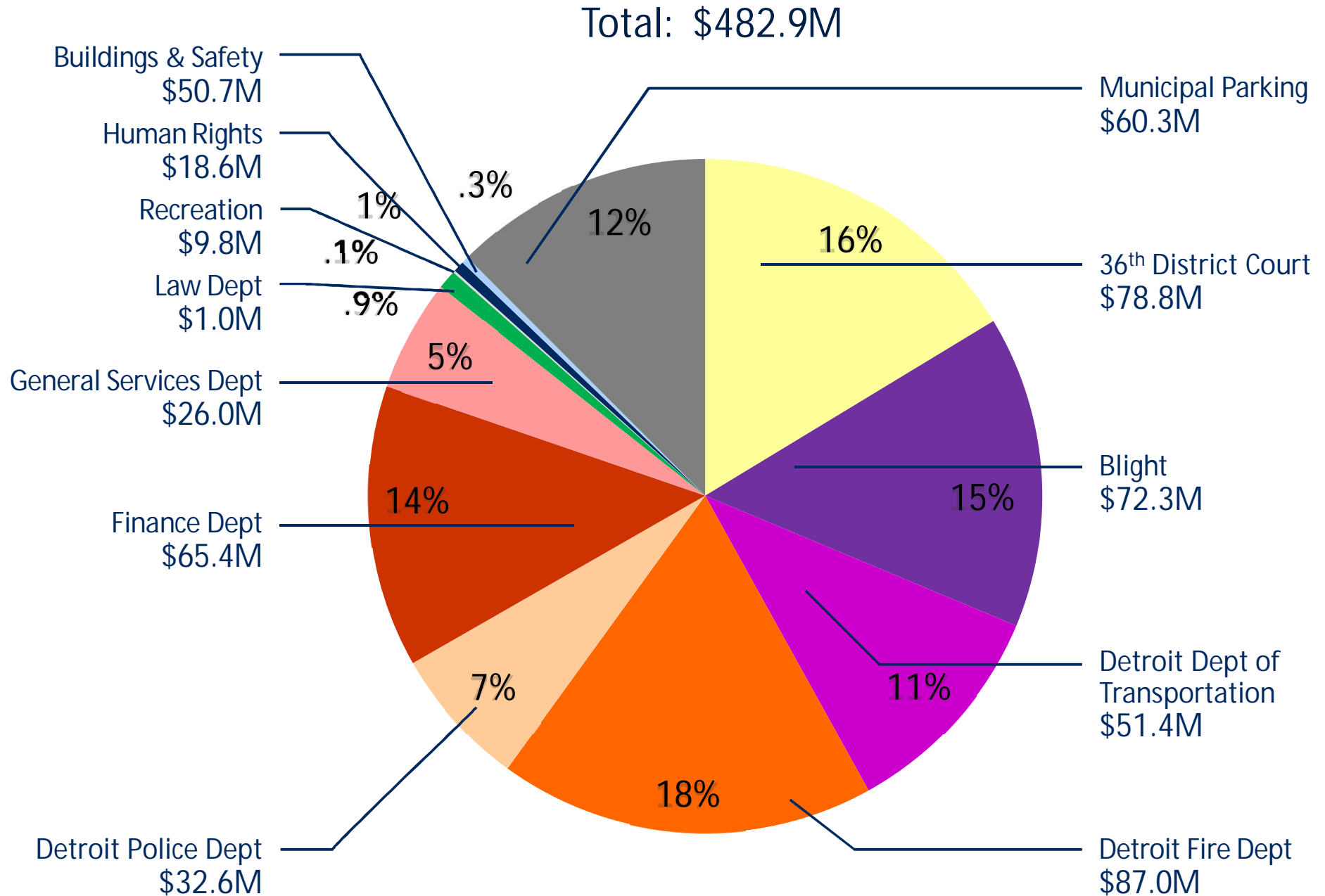
Financial Summary of Reinvestment Initiatives – Ten-Year Total



Reinvestment and Restructuring Costs (Consolidated) – Ten-Year Total

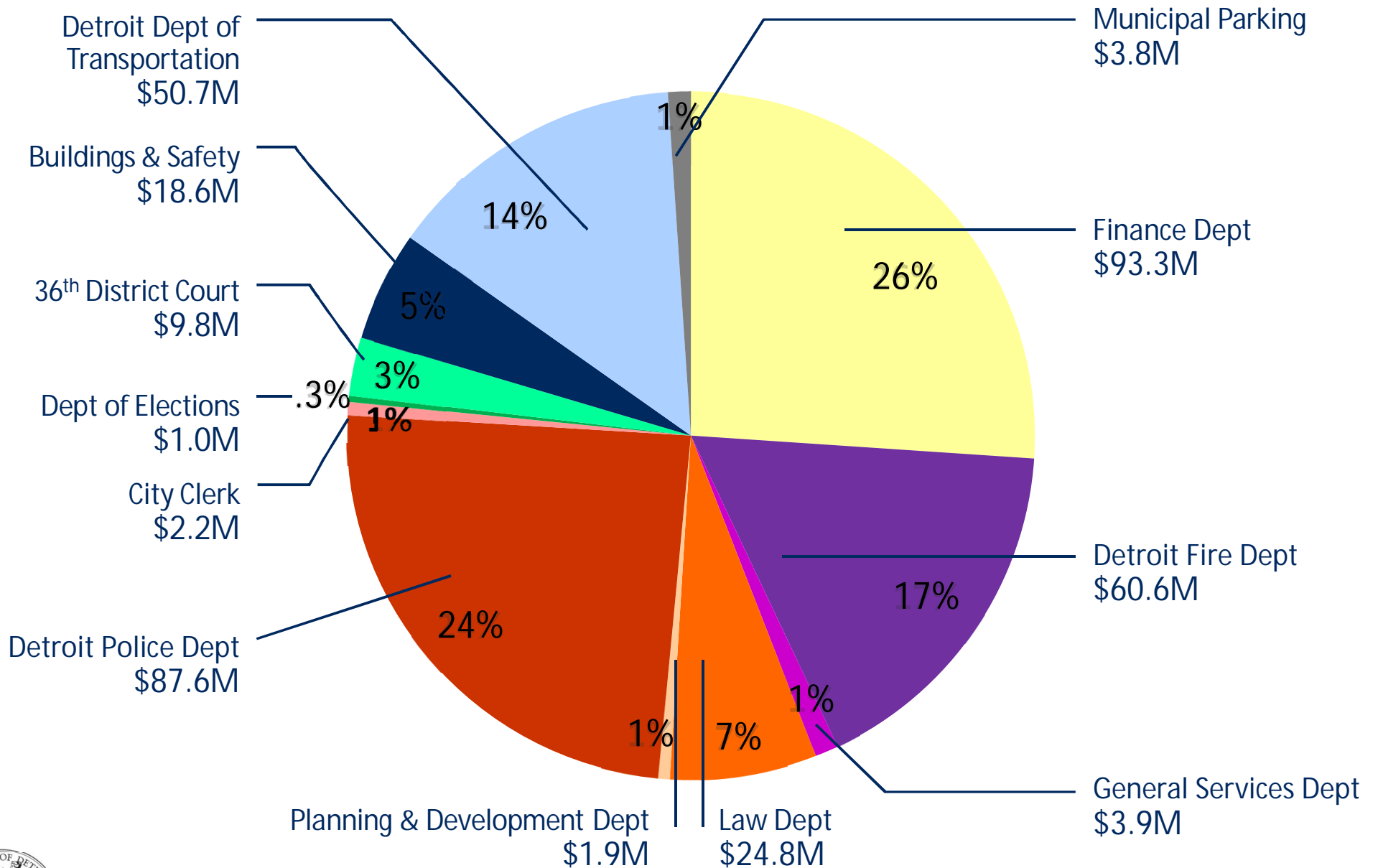


Revenue Initiatives



Cost Savings Initiatives

Total: \$358.2M



Key Initiatives

Capital	
Detroit Land Bank Authority (Blight)	Remove blighted homes, remove illegal dumping, and renovate vacant homes
Public Lighting Department	Increase number of streetlights and install LED streetlights
Fleet & Infrastructure	Implement fleet vehicle replacement program for public safety vehicles and buses

Operational	
Police	Reduce response time and hire civilians allowing redeployment of police force
Fire	Reduce response time and increase the number of firefighters and ambulances
DDOT	Increase available buses and bus service area

Organizational	
Office of the CFO	Improve management oversight and consolidate finance, budget, procurement and grant activities
Dept. of Innovation and Technology	Upgrade/replace obsolete technology infrastructure and implement new ERP system
Restructuring of HR Dept.	Improve hiring, training, retention, and performance management of City employees



3. KPMG Audit Activities



KPMG Audit Activities

- Uniform Budget and Accounting Act (PA2 of 1968) requires an audit to be filed within 6 months of the fiscal year end of the local unit of government
 - The City of Detroit fiscal year ends on June 30th
 - 2013 CAFR was filed on July 25, 2014 due to reporting complexities caused by the bankruptcy
 - 2014 CAFR is in process with a target date for filing on March, 31, 2015
 - Extension request will need to be sent to the State Treasurer

- Report of internal control over financial reporting
 - 10 findings reported by the City's auditor
 - 3 findings are considered material weaknesses

- Single audits for grant programs
 - 13 major programs under review
 - 2013 report expected to be issued by December 31, 2014

