

**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
)
_____)

OBJECTION OF NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION TO MOTION OF THE DEBTOR FOR A FINAL ORDER PURSUANT TO 11 U.S.C. §§ 105, 362, 364(c)(1), 364(c)(2), 364(e), 364(f), 503, 507(a)(2), 904, 921 AND 922 (I) APPROVING POST-PETITION FINANCING, (II) GRANTING LIENS AND PROVIDING SUPERPRIORITY CLAIM STATUS AND (III) MODIFYING AUTOMATIC STAY

National Public Finance Guarantee Corporation (“National”), by and through its undersigned attorneys, hereby submits this objection (the “Objection”)¹ to the Motion of the Debtor for a Final Order Pursuant to 11 U.S.C. §§ 105, 362, 364(c)(1), 364(c)(2), 364(e), 364(f), 503, 507(a)(2), 904, 921 and 922 (I) Approving Post-Petition Financing, (II) Granting Liens and Providing Superpriority Claim Status and (III) Modifying Automatic Stay [Docket No. 1520]

¹ Additionally, National hereby joins in U.S. Bank National Association’s *Limited Objection and Reservation of Rights with Respect to the Debtor’s Motion for Entry of an Order (I) Approving Post-Petition Financing, (II) Granting Liens and Providing Super-Priority Claim Status and (III) Modifying the Automatic Stay* [Docket No. 1797] (the “Water/Sewer Trustee Limited Objection”), and adopts and incorporates the arguments and reservation of rights in the Water/Sewer Trustee Limited Objection as if set forth in this Objection.

(the “Financing Motion”).² In support of this Objection, National respectfully submits as follows:

Introduction

1. National is a municipal bond insurer and a creditor and party in interest in this chapter 9 proceeding. In particular, National has insured several bonds totaling approximately \$2.4 billion issued by the City of Detroit (the “City”) and City authorities, including unlimited tax general obligation bonds, water supply system bonds, and sewage disposal system bonds. These bonds represent long-term obligations of the City. With this significant stake in Detroit’s success, National has a strong financial interest in seeing the City stabilize and thrive.

2. National files this Objection primarily to address two (2) concerns: (i) the City should be transparent in terms of how it spends the Quality of Life Bonds proceeds (at the City’s proposed pace of \$20 million per month) to enable Detroit’s stakeholders to determine whether or not the borrowed funds are being used on essential City services; and (ii) if the Court approves the Postpetition Financing, the Proposed Order should clarify that any section 364(c)³ superpriority claim granted in favor of the Purchaser, Indenture Trustee or Bondholders shall not

² Capitalized terms undefined herein shall have the meanings ascribed to them in the Financing Motion.

³ All section references herein are references to the Bankruptcy Code unless otherwise noted.

be satisfied or payable from the proceeds (the “Restricted Funds”) of *ad valorem* taxes levied or pledged specifically to secure repayment of the unlimited tax general obligation bonds (collectively, the “Unlimited Tax Bonds”), pending resolution of the issues raised in the Adversary Proceeding (as defined below).⁴ The Financing Motion should be denied unless the concerns regarding reporting, and the clarification related to the Restricted Funds raised by this Objection are resolved.

Argument

3. To obtain approval of the Postpetition Financing, the City must demonstrate that it was unable to obtain financing on an unsecured basis and that its entry into the financing is an exercise of the City’s reasonable business judgment. (Financing Motion ¶¶ 51, 54.)

4. The City’s request for post-petition financing is unique in the context of chapter 9. Courts in chapter 11 cases consider various factors in deciding whether to approve post-petition financing under Section 364 (which are

⁴ In addition, if the Forbearance Agreement Approval Motion is denied, the Swap Termination Bonds portion of the Post-Petition Financing should be denied. National has joined [Docket No. 353] in an objection to the Forbearance Agreement Approval Motion filed by Ambac Assurance Corporation [Docket No. 348, corrected by Docket No. 410] (the “Swap Objection”). The Swap Objection raises serious concerns regarding the propriety of the City’s entry into the Forbearance Agreement, which essentially locks the City into treating and paying the claims under the Swap Agreements as allowed secured claims. As set forth in the Swap Objection, the City has several strong and meritorious arguments that the alleged claims and liens of the swap counterparties are *void ab initio*.

instructive in chapter 9), including whether (a) the financing is in the best interests of the estate and its creditors and (b) whether the transaction is necessary to preserve the assets of the estate, and is necessary, essential, and appropriate for the continued operation of the debtor's businesses. See, e.g., Bland v. Farmworker Creditors, 308 B.R. 109, 113 (S.D. Ga. 2003); In re Farmland Indus., Inc., 294 B.R. 855, 879-80 (Bankr. W.D. Mo. 2003). In describing the bill that incorporated section 364 into chapter 9, Congress made clear that the "primary purpose of chapter 9 is to allow a municipal unit to continue operating while it adjusts or refinances creditor claims with minimum (and in many cases, no) loss to its creditors." H.R. Rep. No. 95-595, at 263 (1977); see also H.R. Rep. No. 94-686, at 524. The Financing Motion, and this Objection, should be viewed through this narrow lens.

5. The City cites Ames Dept Stores, Inc. for the proposition that the Court has the discretion to grant the Postpetition Financing provided that the financing terms do not leverage the bankruptcy process and the purpose of the financing is to benefit the City, its citizens and its creditors. (See Financing Motion ¶ 54, citing Ames Dept. Stores, Inc., 115 B.R. 34, 40 (Bankr. S.D.N.Y. 1990).) The City cannot satisfy this standard if it does not resolve the concerns raised in this Objection. Transparency and accountability certainly benefit the City, its citizens and its creditors. Similarly, the requested carve out of the

Restricted Funds pending the resolution of the Adversary Proceeding will ensure that the Postpetition Financing does not leverage the bankruptcy process to National's detriment, and allows for the full resolution of the issues raised in the Adversary Proceeding.

A. The City Should Provide Detailed Reports On How It Actually Spends The Quality Of Life Bond Proceeds

6. Transparency is of paramount importance in chapter 9, particularly given the jurisdictional limitation on a bankruptcy court's authority to interfere with a municipal debtor's use of its resources. This jurisdictional limitation, however, is not absolute. The manner in which a municipal debtor conducts its affairs and manages its resources during the pendency of a chapter 9 case is subject to review and scrutiny by creditors and the bankruptcy court at confirmation. As Judge Klein recently observed in the chapter 9 case involving the City of Stockton, "[i]n short, the capital market creditors have, in effect, given notice that they reserve the right to litigate the debtor's conduct and management and spending choices during the case at the time of plan confirmation. *That is the limiting principle and the protection to which they are entitled.*" In re City of Stockton, 486 B.R. 194, 200 (Bankr. E.D. Cal. 2013) (emphasis added).

7. Assessment of the consequences of a municipal debtor's spending is not simply left to the political process in a chapter 9 case, nor can a municipality hold up section 904 as a shield to block inquiry into, or an evaluation

of, its actions leading up to confirmation—the day of reckoning is plan confirmation. To the extent the borrowed funds are not used for essential services and do not improve the quality of life in the City, or are used to prefer one group of creditors over another, the City’s potentially improper spending may raise a host of confirmation issues, including whether a plan of adjustment that ratifies such improper spending (i) has been proposed in good faith, (ii) is fair and equitable to dissenting creditors and (iii) is in the best interests of creditors.⁵

8. Chapter 9 recognizes—and case law confirms—that a municipality has a responsibility to ensure that the plan not only benefits its citizens, but also maximizes returns to creditors. When a municipal debtor engages in pre-plan spending that is subsidized unnecessarily by cuts to creditor recoveries, the best interests of creditors test is not satisfied and the plan must be rejected. See Fano v. Newport Heights Irrigation Dist., 114 F.2d 563, 564-66 (9th

⁵ The “best interest of creditors” test in section 943 is meant to protect creditors because, in chapter 9, the confirmation of a plan is a significant event that results in a discharge of the municipal debtor from all debts as of the time when the plan is confirmed. 11 U.S.C. §§ 943(b)(7), 944(a), (b). The best interests test has been described as a “floor requiring a reasonable effort at payment of creditors by the municipal debtor.” In re Pierce County Hous. Auth., 414 B.R. 702, 718 (Bankr. W.D. Wash. 2009) (quoting Mount Carbon Metro. Dist., 242 B.R. 18, 34 (Bankr. D. Colo. 1999)); see also W. Coast Life Ins. Co. v. Merced Irr. Dist., 114 F.2d 654, 678 (9th Cir. 1940) (in applying best interests test, court considered whether the creditors’ recovery was “all that could reasonably be expected in all the existing circumstances”).

Cir. 1940) (chapter 9 debtor’s substantial infrastructure spending, subsidized by cuts to creditor recoveries, rendered plan of adjustment non-confirmable because “it would be highly unjust to allocate their cost to the bondholders” and such plan treatment was neither fair and equitable nor in the best interest of creditors); see also In re Pierce County Hous. Auth., 414 B.R. 702, 718-719, 721 (Bankr. W.D. Wash. 2009) (plan rejected as violation of best interests of creditors test where plan precluded creditors from investigating and pursuing all potential sources of recovery).

9. Disclosure regarding how the City actually spends the Quality of Life Financing now will aid the Court and the City’s creditors in evaluating any plan of adjustment the City may file. The City’s stakeholders should not be forced to resort to formal discovery to obtain basic information regarding how the borrowed funds were expended.

- (i) Reporting Should be Sufficiently Detailed to Allow the Court, Creditors And Citizens to Assess How the Borrowed Funds Are Utilized.

10. The Court can and should require the City to: (a) make available to creditors and citizens its detailed plan, and budget if available, regarding how the City intends to spend the Quality of Life Bonds proceeds (which the City presumably has prepared given it proposes to spend \$100 million between January and May 2014); (b) make publicly available detailed reporting regarding how the City actually spends the Quality of Life Bonds proceeds; and (c) make

such detailed reporting available in “real time” including through updating, on a rolling basis, the City’s 13-week cash flow projections (which cash flow projections the City has previously prepared and produced).

11. The City proposes to spend the proceeds of the Quality of Life Bonds (at the rate of \$20 million per month) for any and all “*purposes permitted by law*, including to fund expenditures designed to contribute to the improvement of the quality of life in the City”⁶ While the City states that it *intends* to devote the proceeds of the Quality of Life Bonds to three primary areas consisting of “public safety, information technology upgrades, and blight removal” (Financing Motion ¶ 23), there is no assurance the City will actually spend the borrowed funds on these essential needs. And the City’s current reporting, if continued, will not provide the Court or the City’s stakeholders with the ability to assess whether the borrowed funds are being spent on these essential needs (which, as noted above, may impact plan confirmation directly).

⁶ See, e.g., Financing Order ¶ D(iii) (emphasis added) (containing a proposed finding that City has agreed to use the proceeds of the Quality of Life Bonds “for purposes permitted by law, including to fund expenditures designed to contribute to the improvement of the quality of life in the City”); Financing Motion Exhibit 6A Commitment Letter, Quality of Life Note Term Sheet, at 1 (stating that the Quality of Life Bonds proceeds “shall be used for purposes permitted by law, agreed upon between the City and the Purchaser in the QOL Note Documents and approved by the Bankruptcy Court, including, without limitation, to fund expenditures that are designed to contribute to the improvement of quality of life in the City”).

12. Required reporting should include actual project descriptions, the activities specifically funded, any anticipated future project expenditures, and how the specific projects contribute to improvement of the quality of life in the City. This reporting should also include an update regarding the status of various reinvestment initiatives that the City indicates it is pursuing, including the efforts of the “blight” task force.⁷

13. The Emergency Manager is unlikely to include such detailed reporting in his published reports unless the Court so orders. The Emergency Manager publishes two (2) financial reports pursuant to P.A. 436. Pursuant to section 9(5) of P.A. 436, the Emergency Manager is required to provide a quarterly report on the financial condition of the City (the “Quarterly Report”). The most recent Quarterly Report was submitted on October 15, 2013 for the period from

⁷ There has been a lack of informational transparency by the City throughout this chapter 9 process, as evidenced most recently by the belated disclosure of the fees already paid to Barclays in connection with the Postpetition Financing (as discussed herein). For example, the City should be producing (on a regular basis): updated bank account information, updated revenue forecasts, an updated business plan and financial projections, reports on operational improvements and efficiencies that have been realized or are in process, regular updates as to the status of the DIA artwork assessment, the ultimate assessment regarding the value of the DIA artwork collection, and assessments of any other assets that may be monetized to fund reinvestment initiatives and/or plan recoveries. Rather than provide such information, the City seems singularly focused on meeting its own self-imposed deadline to file a plan of adjustment by year end (with or without creditor support) instead of providing the type of material information that could facilitate resolutions and form the basis for a consensual plan.

July 1, 2013 through September 30, 2013 (attached hereto as Exhibit A).⁸ The Quarterly Report does not contain any detail regarding specific expenditures, and instead summarizes the status of this case and provides a high-level unaudited *pro forma* summary of revenues and expenditures.

14. The Emergency Manager is also required, pursuant to section 17 of P.A. 436, to provide what could be characterized as an “operating” report every three months (the “Operating Report” and collectively, with the Quarterly Reports, the “Financial Reports”). On September 30, 2013, the Emergency Manager filed the first Operating Report for the period from March 25, 2013 through August 31, 2013.⁹ While the Emergency Manager is required under P.A. 436 to include in the Operating Report, among other things, a “description” of each expenditure made or approved in excess of \$5,000.00 and the source of funds for such expenditure, the Emergency Manager has, to date, only provided vague “listings” of expenditures rather than true “descriptions.”

⁸ Available at: <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>

⁹ Available at: <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>. The first Operating Report covers six months, subsequent Operating Reports are to be filed every three months. P.A. 436 § 17; MCL § 141.1557.

15. In the Emergency Manager’s first Operating Report, for example, two extremely significant expenditures, apparently from general obligation bond funds, were listed as follows:

Fund	Agency	Vendor	Amount
4513 General Obligation Bond Fund – Series 2010	D23010 Administration	Detroit Building Authority	\$11,569,505
4513 General Obligation Bond Fund – Series 2010	D23130 General Accounting	Detroit Building Authority	\$8,086,127

(See Emergency Manager Report Pursuant to Section 17 of Local Financial Stability and Choice Act September 30, 2013, at 24 (excerpt annexed hereto as Exhibit B).) From these listings, it is virtually impossible to discern how the City spent almost \$20 million. A review of the September 30, 2013 Operating Report reveals various additional listings of line item entries with almost no detail whatsoever as to the nature of the expenditures.

16. In addition to the requested budget and reporting information, the City should provide access to the financial information it is required to produce pursuant to the Bond Purchase Agreements and the Indenture. Under section 19 of both Bond Purchase Agreements, the City has agreed to provide the Purchaser with “all information with respect to the City and the transactions contemplated [by the Bond Purchase Agreements] . . . , including such financial information and projections as Purchaser may reasonably request in connection with the structuring,

arrangement and syndication of the Bonds”. Providing such information will not be burdensome for the City as it is already obligated to compile the information.

(ii) Reporting Should Be Made in “Real Time.”

17. The City can provide the requested reporting as part of its 13-week cash flow projections, which it previously prepared and provided to creditors, as well as in the reports the Emergency Manager is obligated to prepare under applicable state law. Given the City’s stated intent to file a plan of adjustment before the end of this year, the City’s current timeline for issuing the Financial Reports does not provide an adequate opportunity for review. Under P.A. 436, the Emergency Manager submits the Financial Reports every three (3) months. The Emergency Manager has, to date, submitted the Financial Reports approximately one (1) month in arrears. On this timetable, the Emergency Manager’s first Financial Report covering the use of the Quality of Life Bonds proceeds may not be disclosed until four (4) months after the funds had been spent. There should not be such a significant delay in the provision of this crucial information.

18. National, and other parties, have reason to be concerned with the City’s willingness to disclose its financial decisions in a timely fashion and the manner in which the City spends its money, as evidenced by the City’s previously-undisclosed entry into the Barclay’s Fee Letter. The terms of the Fee Letter only came to light after the Court denied the City’s request to file it under seal following

objection by various parties, including National. In the Fee Letter, the City has obligated itself to pay a commitment fee of approximately \$4,375,000. The City has already paid half of this commitment fee, and will have paid the entire commitment fee prior to the hearing on the Financing Motion.¹⁰

19. Even more concerning is that the vast majority of the commitment fee—approximately \$3 million of the \$4.375 million total—is attributable to the Swap Termination Bonds, which may never be issued if the Court does not approve the Forbearance Agreement Approval Motion. As the Court knows, the Forbearance Agreement Approval Motion is subject to multiple objections. If that motion is denied, the City will have already given approximately \$3 million to Barclays on account of a failed transaction—money which could have been used to revitalize the City.

(iii) The Court Has the Discretion And Authority to Impose Reporting Obligations.

20. Section 904 does not limit, and section 364 and Ames Dept. Stores, Inc. embrace, the Court’s authority to impose reporting obligations (beyond what is required under applicable state law) on the City in respect of its use of the Quality of Life proceeds. As noted above, the creditors and citizens of the City have a right to know how the money is spent, and those decisions are subject to

¹⁰ According to the terms of the October 6, 2013 Fee Letter, the commitment fee is due “(a) 50% on the date hereof and (b) 50% on the earlier of (i) 60 days from the date hereof and (ii) the Closing Date.” (Fee Letter at 1 [Docket No. 1761].)

review at confirmation. See In re City of Stockton, 486 B.R. at 200. Disclosure now will aid this process later.

21. The City has expressly consented, under section 904, to the Court's jurisdiction with respect to the financing. (See Financing Motion at 35.) Such consent should be broadly interpreted given what the City is asking the Court to do, and the legal basis upon which the City is seeking relief. In this regard: (i) the financing is *conditioned upon* "entry of findings by this Court that such financing is in the best interests of the City" (see Financing Order ¶ F(i)); and (ii) the City expressly relies upon the legal standard articulated by Ames Dept. Stores, Inc. that the Court has "discretion under Section 364 of the Bankruptcy Code to permit debtors to exercise reasonable business judgment so long as (a) the terms of the financing agreement do not leverage the bankruptcy process and powers and (b) the financing agreement's purpose is primarily to benefit the estate and not a party in interest." (Financing Motion ¶ 54, citing Ames Dept. Stores, Inc., 115 B.R. 34, 40 (Bankr. S.D.N.Y. 1990).) The requested disclosures are in the best interests of the City, its citizens and its creditors because they allow for transparency and accountability and ensure compliance with the Ames Dept. Stores, Inc. standard upon which the City relies in the Financing Motion.

B. The Financing Order Should Clarify That Any Superpriority Claims Shall Not be Paid From Restricted Funds

22. The Proposed Order should be clarified to provide that no claim or interest granted in favor of the Purchaser, Indenture Trustee or Bondholders in respect of the Postpetition Financing be payable from the Restricted Funds pending the resolution of the issues raised in the Adversary Proceeding.¹¹

23. It does not appear that the City is asking the Court to grant a lien upon or interest in the Restricted Funds in connection with the Postpetition Financing. The City does, however, request that the Court grant a Superpriority Claim in favor of the Purchaser, Indenture Trustee and Bondholders, and the Proposed Order does not specify the funds from which such Superpriority Claim could be paid or satisfied.

24. Given the pending Adversary Proceeding, National respectfully requests that the following clarifying language be added to the Proposed Order:

Nothing herein or in any of the Financing Documents shall grant or be deemed to grant in favor of the Purchaser, the Indenture Trustee, the Bondholders, or any other party, a lien on, interest in or superpriority claim against (including, without limitation, any Lien or Superpriority

¹¹ On November 8, 2013, National and Assured Guaranty Municipal Corp. commenced an adversary proceeding (the “Adversary Proceeding”) by filing a Complaint for Declaratory Judgment and Order seeking, among other things a declaration that the Restricted Funds cannot be used for any purposes other than repaying holders of the Unlimited Tax Bonds [Adv. Pro. No 13-05309].

Claim) the proceeds of *ad valorem* taxes levied or pledged specifically to secure the repayment of unlimited tax general obligation bonds; provided, however, that the foregoing is without prejudice to the City's right, upon notice and an opportunity for parties in interest to be heard, to seek a modification of this decretal sentence upon resolution of the issues raised in the Adversary Proceeding commenced on November 8, 2013 by National Public Finance Guarantee Corporation and Assured Guaranty Municipal Corp.

25. National believes that this clarification is necessary to preserve the status quo and the parties' rights with respect to the Restricted Funds pending the resolution of the Adversary Proceeding. If the Court is inclined to approve the Post-Petition Facility, National respectfully requests that the Court include such clarifying language in the Proposed Order.¹²

¹² The City's proposed lender, Barclays, will not be prejudiced by this clarification because Barclays has already publicly acknowledged the special character of the Restricted Funds. In a Municipal Credit Research report dated August 7, 2013 distributed by Barclays, Barclays advised investors that, in its view, the Unlimited Tax Bonds should be treated as secured special revenue bonds in this chapter 9 proceeding.

WHEREFORE, National respectfully request that the Court deny the Financing Motion unless the concerns raised by this Objection are resolved and grant such other and further relief as is just and proper.

Dated: November 27, 2013

Respectfully submitted,

JAFFE RAITT HEUER & WEISS, P.C.

By: /s/ Paul R. Hage .
Louis P. Rochkind (P24121)
Paul R. Hage (P70460)
2777 Franklin Road, Suite 2500
Southfield, MI 48034
Tel: (248) 351-3000
Fax: (248) 351-3082
Email: lrochkind@jaffelaw.com
Email: phage@jaffelaw.com

and

SIDLEY AUSTIN LLP

Jeffrey E. Bjork
555 West Fifth Street, Ste. 4000
Los Angeles, CA 90013
Tel: (213) 896-6000
Fax: (213) 896-6600
Email: jbjork@sidley.com

Guy S. Neal
1501 K Street, N.W.
Washington, DC 20005
Tel: (202) 736-8000
Fax: (202) 736-8711
Email: gneal@sidley.com

*Attorneys for National Public Finance
Guarantee Corporation*



October 15, 2013

Mr. Andrew Dillon
State Treasurer and Chair,
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, MI 48992

Dear Mr. Dillon:

I enclose the quarterly report of the Emergency Manager of the City of Detroit as required by Section 9(5) of the Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012). The report details the financial condition of the City for the quarterly period of July 1, 2013 through September 30, 2013.

Respectfully submitted,

Kevyn D. Orr
Emergency Manager, City of Detroit

Enclosure

cc: Mr. Roger S. Fraser, Deputy Treasurer
Mr. Edward B. Koryzno, Administrator, Office of Fiscal Responsibility

<u>State Representatives</u>	<u>State Senators</u>
The Hon. Brian Banks	The Hon. Coleman Young, II
The Hon. Alberta Talabi	The Hon. Bert Johnsen
The Hon. John Olumba	The Hon. Morris W. Hood, III
The Hon. Rose Mary Robinson	The Hon. Virgil Smith
The Hon. Fred Durhal	The Hon. Tupac A. Hunter
The Hon. Rashida Tlaib	
The Hon. Thomas Stallworth	
The Hon. David Nathan	
The Hon. Harvey Santana	
The Hon. Phil Cavanagh	

**QUARTERLY REPORT WITH RESPECT TO THE FINANCIAL CONDITION OF
THE CITY OF DETROIT**

October 15, 2013

This quarterly report covers the period from July 1, 2013 through September 30, 2013 (the "Reporting Period") and addresses the financial condition of the City of Detroit.

Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012) ("PA 436")

Section 9(5) [MCL § 141.1549(5)]

The emergency manager shall submit quarterly reports to the state treasurer with respect to the financial condition of the local government in receivership, with a copy to the superintendent of public instruction if the local government is a school district and a copy to each state senator and state representative who represents that local government. In addition, each quarterly report shall be posted on the local government's website within 7 days after the report is submitted to the state treasurer.

Status of the Financial Condition of Detroit
July 1, 2013 – September 30, 2013

Emergency Manager's Comments on the Financial Condition of the City of Detroit

The financial condition of the City of Detroit continues to be dire. On July 18, 2013, the City filed for relief under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code"). The City has stopped making payments related to unsecured funded debt and legacy liabilities, with the exception of retiree healthcare benefits, which the City has continued to pay in the ordinary course, and certain important vendors. The City is in the process of seeking a \$350 million post-petition bankruptcy loan (the "Postpetition Financing"); however, the projections included herein do not reflect the impact of such transaction.

General Fund cash flows and liquidity results for the first quarter of fiscal year 2014 (See Appendix A)

The City's 2014 fiscal year runs from July 1, 2013 through June 30, 2014. At the beginning of fiscal year 2014, the City's General Fund had cash of \$71.3 million before accumulated property tax distributions in the amount of \$35.3 million, resulting in a net unrestricted cash balance of \$36.0 million. Based upon actual results for the first quarter of fiscal year 2014 (i.e., the three months ended September 30, 2013), the City had positive net cash flow of \$140.3 million. This resulted in cash balance of \$211.6 million, as of September 30, 2013, before deducting accumulated property tax distributions of \$83.1 million (preliminary estimate), leaving net ending unrestricted cash balance of \$128.5 million. This unrestricted cash balance exceeded the first quarter forecasted balance by \$56.7 million.

The positive cash flow in the first quarter was mostly driven by the collection of more than \$237 million of summer property taxes. Historically, the first quarter of the fiscal year has been the high point in cash for the General Fund. The General Fund's portion of the property taxes collected by the City is approximately \$50 million; the remainder is collected by the City on behalf of other taxing authorities (e.g. Wayne County, Detroit Public Schools, State Education Trust, etc.). During the first quarter, the City continued to make payments related to certain LTGO debt, UTGO debt, and certificate of participation interest rate swaps, that constitute secured debt. Amounts paid related to these obligations were \$6.2 million, \$1.3 million, and \$16.9 million, respectively. While the City has continued to make payments related to health coverage for retirees, the General Fund did not make pension contribution either to the General Retirement System ("GRS") or the Police and Fire Retirement System ("PFRS"). The City did not make any payments on unsecured bond debt during the first quarter.

When comparing the forecasted and actual cash flows for the first quarter of fiscal year 2014, the major variances were as follows:

- \$13.7 million positive variance in gaming taxes related to timing and partially off-set by the \$4.2 million June swap payment made in July;

- \$13 million positive variance in other receipts primarily due to grant receipts, voided checks due to the chapter 9 filing, and a payment from Detroit Public Schools to the Public Lighting Department;
- \$20 million negative variance in refinancing proceeds due to refinancing bond escrow funds not being released as forecast; and
- \$44 million positive variance resulting from not making forecasted pension contributions.

General Fund cash flows and liquidity projections for the second quarter of fiscal year 2014 (ending December 2013) (See Appendix A)

The second quarter of fiscal year 2014 is projected to result in a General Fund net cash flow of negative \$82.3 million, resulting in a December 31, 2013 cash balance of \$129.3 million before accumulated property tax distributions of \$82.4 million, or a \$46.8 million unrestricted cash balance net of distributions. The forecast for the second quarter assumes that \$20 million is released from the refinancing bond escrow funds. The forecast also assumes that the Postpetition Financing is not obtained or available during the second quarter of fiscal year 2014.

Preliminary unaudited revenues and expenditures for the first quarter of fiscal year 2014 (See Appendix B)

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 difference may be material.

Preliminary unaudited General Fund revenues and expenditures for the first quarter ended September 30, 2013 result in a surplus of \$55.8 million. Year-to-date revenues are approximately \$22 million lower than last fiscal year mostly related to declining trends in property and other taxes and the reallocation of the utility users' taxes to the new Public Lighting Authority. Operating expenditures have declined by approximately \$11 million, largely due to a reduction in employee headcount, from 10,325 city employees as of September 30, 2012 to approximately 9,322 city employees as of September 30, 2013.

Emergency Manager Actions Regarding Restructuring Process

Background

As described in the initial quarterly report pursuant to section 9(5) of the PA 436 dated July 15, 2013 (the "First Quarterly Report"), the Emergency Manager began the process of developing a comprehensive restructuring plan for the City, and addressing the City's other urgent needs, immediately upon the Emergency Manager's appointment. The Emergency Manager has taken decisive action to improve public health and safety by taking steps to update outdated and poorly maintained emergency vehicles, information technology infrastructure and facilities and address other longstanding

needs of the City. These activities are described in the First Quarterly Report and include, among other things, opening the Detroit Public Safety Headquarters, hiring a new Chief of Police and developing and pursuing a plan to fix streetlights and address the City's outdated power grid.

To assist in this process, the Emergency Manager spent significant time from the outset of his appointment working with the City's financial and legal advisors to cast a critical eye on all of the City's financial obligations and operational issues to develop a realistic assessment of the City's problems, obstacles, needs and opportunities. As noted in the First Quarterly Report, the goal of this process was to develop a comprehensive plan to: (a) ensure that the City is able to provide for or procure governmental services essential to the health, safety and welfare of its citizens; (b) assure the fiscal accountability and stability of the City; and (c) promote private investment in the City and the revitalization of the community in a sustainable fashion.

One of the first steps was the development of a financial and operating plan for the City (the "Financial and Operating Plan"), which placed the City's challenges in context and defined a series of goals and initiatives. The Financial and Operating Plan, dated May 12, 2013, was submitted to the State Treasurer as required by section 11(2) of PA 436 on May 13, 2013 and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

Continuing to build on these actions, the Emergency Manager and his advisors developed and presented a detailed restructuring proposal to creditors on June 14, 2013 (the "Restructuring Proposal"). The 128-page Restructuring Proposal details a thorough overhaul and restructuring of the City's operations, finances and capital structure. The Restructuring Proposal also proposes recoveries for each creditor group. The proposal is based on ten-year projections that provide a realistic basis for evaluating the City's financial wherewithal to satisfy creditors' claims and achieve the City's restructuring goals. The Restructuring Proposal is described in the First Quarterly Report and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

As noted in the First Quarterly Report, following the presentation of the Restructuring Proposal to approximately 150 creditor representatives on June 14, 2013, the City conducted a series of individualized meetings with its organized and represented creditor constituencies to: (a) provide them with additional details on the financial condition of the City, (b) describe key assumptions used to develop the ten-year projections underlying the Restructuring Proposal, (c) provide a forum to answer questions from creditors; (d) solicit responses and counter-proposals from the various constituencies and (e) negotiate in good faith regarding the City's Restructuring Proposal.

General Actions Since the First Quarterly Report

Since the submission of the First Quarterly Report, the Emergency Manager, his staff and outside advisors have continued to dedicate significant time and energy addressing the City's financial and operational emergency. Meetings with interested parties, state and federal government officials, professional advisors and creditors occur numerous times each week, if not daily.

In support of the City's restructuring, the Emergency Manager issued several important orders that promote the health, safety and welfare of the City's residents and visitors. These orders also were designed to assist the Emergency Manager in his efforts to analyze the factors and circumstances contributing to the City's financial emergency. Since the submission of the First Quarterly Report, the Emergency Manager has entered orders consistent with PA 436 that: (a) approved a trust fund mechanism to collect and hold certain City revenue sources dedicated to reconfiguring the City's streetlight footprint to provide reliable public lighting service and make the streets safer for Detroit citizens under the management of the new Public Lighting Authority; (b) suspended certain City ordinances in order to streamline contractors' ability to obtain the permits needed to demolish blighted, abandoned or dangerous residential structures in a prompt, safe and cost efficient manner; and (c) directed certain City employees to provide various records, books, documents and data related to the finances and operations of the Detroit General Retirement System and Detroit Police and Fire Retirement System to assist in evaluating the fiscal soundness of the retirement systems. These orders are consistent with the initiatives outlined at the Restructuring Proposal and reflect meaningful steps taken with respect to the issues facing the City. These orders, in addition to all prior and future orders, are available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Orders.aspx>.

The Emergency Manager continued to evaluate and, where appropriate, pursue opportunities relating to the City's assets. For example, after a series of negotiations, the Emergency Manager entered into a lease with the State with respect to Belle Isle Park (the "Belle Isle Lease") on September 30, 2013. Thereafter, on October 1, 2013, the Belle Isle Lease was approved by the Governor pursuant to section 12(1)(r) of PA 436 and was submitted to the Detroit City Council for review and approval in accordance with section 19 of PA 436 on October 3, 2013. Under the proposed lease transaction, the State, through its Department of Natural Resources, will lease Belle Isle Park from the City and enhance its management, operation and maintenance for the benefit of the City and the general public. This will result in an anticipated savings of over \$6 million each fiscal year to the City. In addition to removing a cost center from the City's budget, the Belle Isle Lease contemplates that the State will upgrade and enhance, among other things, Belle Isle's roads, bridges, landscaping and hardscaping during the course of the Belle Isle Lease. The City further benefits from the Belle Isle Lease because, at its conclusion, any improvements become property of the City without any cost to the City. On October 14, 2013, Detroit City Council disapproved the Belle Isle Lease and approved an alternative proposal. Pursuant to section 19(2) of PA 436, the Belle Isle Lease and the Detroit City Council's alternative proposal will be submitted to the local emergency financial assistance loan board for consideration. Under section 19(2) of PA 436, within 30 days, the local emergency financial assistance loan board "shall approve the proposal that best serves the interest of the public."

Finally, on September 30, 2013, the Emergency Manager submitted to the Governor and other public officials his initial report in accordance with section 17 of PA 436 (the "Six Month Report"). Among other things, the Six Month Report included the following information for the reporting period of March 25, 2013 through August 31, 2013: (a) expenditures made, approved or disapproved by the Emergency Manager in excess of \$5,000; (b) contracts awarded or approved by the Emergency Manager with a cumulative value of in excess of \$5,000; (c) loans sought, approved or disapproved by the Emergency

Manager that have a cumulative value of \$5,000 or more; and (d) new positions created, vacancies filled and positions eliminated by the Emergency Manager. The Six Month Report is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

Filing Petition for Chapter 9

As noted above, following the presentation of the Creditor Proposal on June 14, 2013, the Emergency Manager conducted a series of meetings with representatives of various creditor constituencies. Unfortunately, these efforts did not result in either: (a) sufficient consensual savings from major creditor constituencies to ameliorate the City's financial emergency; (b) sufficient contract amendments to successfully restructure the City's finances; or (c) the realistic prospect of any such consensual agreements in the near term (if at all). Given the vast and fragmented pool of potential creditors, it was impossible to negotiate a consensual restructuring outside of a court process. Moreover, many key parties to these negotiations were unrepresented, such as retirees and uninsured bondholders. Even where creditors were available to participate in negotiations, certain parties rejected the City's proposals outright, while others made untenable and unworkable counterproposals that contemplated that their particular group would not be impaired in the restructuring process.

Unable to reach a workable out-of-court solution, and with no prospect of being able to do so, the Emergency Manager delivered a letter to the Governor and the State Treasurer on July 16, 2013, pursuant to section 18(1) of PA 436 (the "Recommendation Letter"), recommending and requesting that the City be authorized to seek relief under chapter 9 of the Bankruptcy Code. The detailed rationale for this recommendation and request is set forth in the Recommendation Letter. A copy of the Emergency Manager's Recommendation Letter is available on the State's website at http://michigan.gov/documents/snyder/Detroit_EM_Kevyn_Orr_Chapter_9_Recommendation_427831_7.pdf.

On July 18, 2013, the Governor delivered a letter to the Emergency Manager and the Treasurer (the "Authorization Letter") authorizing the City to commence a bankruptcy case under chapter 9 of the Bankruptcy Code. In the Authorization Letter, the Governor agreed with the Emergency Manager that chapter 9 offers the only feasible alternative to fix the City's finances and to complete a sustainable restructuring for the benefit of Detroit's 700,000 residents. Based on the Emergency Manager's Recommendation Letter, the Governor determined that: (a) the City cannot meet its basic obligations to its citizens; (b) the City cannot meet its basic obligations to its creditors; (c) the City's failure to meet its obligations to its citizens – leading to a dwindling population and tax base – is a primary cause of its inability to meet its obligations to its creditors; and (d) the only feasible path to ensuring the City will be able to meet obligations in the future is to have a successful restructuring under the federal bankruptcy process. Each of these determinations was explained in detail in the Governor's Authorization Letter, which is available on the State's website at http://www.michigan.gov/documents/snyder/Governor_Snyder_Chapter_9_Authorization_427830_7.pdf.

Upon receiving the Authorization Letter, the Emergency Manager issued an order directing the commencement of the City's chapter 9 bankruptcy case. Consistent with these approvals, on July 18,

2013 (the "Petition Date"), the City filed a voluntary petition under chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (the "Bankruptcy Case"). Along with its voluntary petition, the City filed various other papers, including the Declaration of Kevyn D. Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code (the "Orr Declaration"). The Orr Declaration explains the history of the City's financial and operational problems, details the dire circumstances facing the City and provides support for the City's eligibility to be a chapter 9 debtor under the Bankruptcy Code. The Orr Declaration, along with other Bankruptcy Case filings and other information relevant to the Bankruptcy Case can be found on the website of the City's claims and noticing agent at www.kccllc.net/Detroit (the "Restructuring Website").

On July 19, 2013, Bankruptcy Judge Stephen W. Rhodes was assigned to the Bankruptcy Case by the Chief Judge of the United States Court of Appeals for the Sixth Circuit.

It is the intent of the Emergency Manager to move the Bankruptcy Case as expeditiously as possible to complete an adjustment of the City's debts under the Bankruptcy Code by no later than September 2014. Completing the Bankruptcy Case in a timely and efficient manner is important to the City's revitalization and reinvestment activities because it will free the City from burdensome and unsustainable debt obligations and allow it to reinvest in the City's operations and infrastructure, which will in turn attract new businesses and residents to the City and promote the health, safety and welfare of the public.

Activities in the Bankruptcy Case

Since filing the Bankruptcy Case, the Emergency Manager has coordinated the City's legal strategy related to bankruptcy with his professional advisors. The Emergency Manager is committed to advancing the bankruptcy process as promptly and efficiently as possible to complete a sustainable adjustment of the City's debts. From the outset, the Emergency Manager has exercised the City's rights, and fulfilled the City's obligations, to pursue these goals. Certain of the primary activities to date in the Bankruptcy Case are summarized below:

Administrative Matters

Since the Petition Date, the Emergency Manager has taken steps to preserve the benefits and protections afforded by the automatic stay imposed by sections 362 and 922 of the Bankruptcy Code (the "Chapter 9 Stay"). For example, at the outset of the Bankruptcy Case, the City obtained orders of the Bankruptcy Court (a) confirming the application of the Chapter 9 Stay to the City and its officers and inhabitants and (b) extending the protections of the Chapter 9 Stay to, among others, non-director City employees and certain State officials. The Chapter 9 Stay provides the City with an important "breathing spell" to address the City's financial circumstances and craft a plan of adjustment without interference from adverse creditor actions.

The Emergency Manager also has fulfilled other administrative requirements necessary to pursue the prompt conclusion of these cases. For example, on September 30, 2013, the City filed a 3,000-plus page list of potential creditors and their claims, consistent with sections 924 and 925 of the Bankruptcy Code. On October 1, 2013, the City filed a motion to establish certain bar dates for the filing of proof of claims. The Emergency Manager intends to move promptly to establish a claims resolution process. This will allow the City to establish the claims that will be addressed in its plan of adjustment.

Retiree Committee

Since the Petition Date, the Emergency Manager has continued to participate in negotiations with the City's creditors and other interested parties with the goal of reaching consensus, to the fullest extent possible, on the terms of a plan of adjustment. In support of these discussions, at the outset of the Bankruptcy Case, the City requested the appointment of an official committee of retired employees (the "Retiree Committee") to represent the interests of retirees in these negotiations. Prior to the commencement of the Bankruptcy Case, no party was empowered to represent the City's retirees — holders of billions of dollars of legacy claims that must be addressed in any restructuring. On August 2, 2013, the Bankruptcy Court entered an order directing the appointment of the Retiree Committee, which was formed on August 22, 2013. Since that time, the City has engaged in regular discussion of restructuring issues with the Retiree Committee and its advisors.

Eligibility

At this stage in the Bankruptcy Case, the primary issue before the Bankruptcy Court is whether or not the City is eligible to be a chapter 9 debtor under the Bankruptcy Code. This requires, among other things, the Bankruptcy Court determine whether: (a) the City is a municipality; (b) the City was specifically authorized to be a debtor by state law; (c) the City is insolvent; (d) the City desires to effectuate a plan to adjust its debts; and (e) either (i) the City negotiated in good faith with its various creditor constituencies or (ii) it was impracticable to negotiate with the City's creditors. To resolve this threshold issue of eligibility without delay, the Emergency Manager requested that the Bankruptcy Court expedite the process of identifying and adjudicating any objections to eligibility. In response, Judge Rhodes established a prompt timeline to determine whether the City is eligible to be a debtor under chapter 9 of the Bankruptcy Code. This resulted in over 100 objections to the City's eligibility within the first month of the Bankruptcy Case.

Within days of the eligibility objections being filed, the City and the objecting parties (the "Objectors") exchanged written discovery requests. Within approximately two weeks, the City produced over 10,000 documents in response to over 100 document requests, in addition to responding to over 150 interrogatories and nearly 50 requests for admission from the various Objectors. In addition to the fast-paced and voluminous discovery, the Bankruptcy Court has conducted nearly a dozen hearings related to the City's eligibility, ranging from discovery and privilege disputes to substantive legal arguments related to the Bankruptcy Court's Constitutional authority to decide whether the City is eligible to be a chapter 9 debtor. In a compressed period, numerous depositions have been taken of various City employees and professional advisors, the Mayor, the Emergency Manager and certain State officials, as

well as depositions of certain of the Objectors or their representatives. Oral argument before Judge Rhodes on purely legal issues associated with eligibility are scheduled to begin on October 15, 2013. A bench trial before Judge Rhodes on the factual basis for the City's chapter 9 eligibility is scheduled to begin on October 23, 2013.

Swap Settlement

Immediately prior to the Petition Date, the Emergency Manager reached a consensual resolution with the counterparties to the City's interest rate swap agreements to eliminate one of the City's largest secured obligations at a discount and ensure ongoing access to critical casino revenues that were pledged to support the swap arrangements. This agreement is memorialized in a Forbearance and Optional Termination Agreement (the "FOTA") between the City and the swap counterparties. On the Petition Date, the City filed a motion with the Bankruptcy Court to assume the FOTA under section 365 of the Bankruptcy Code and approve the parties' settlement under Rule 9019 of the Federal Rules of Bankruptcy Procedure (the "Settlement Motion"). There has been significant opposition to the Settlement Motion, particularly from Syncora Guarantee, Inc. and other monoline insurers, which has resulted in litigation regarding, among other things, the appropriateness of the compromises in the FOTA, the swap counterparties' ability to consummate the FOTA and the City's ability to pay for the settlement. This litigation is ongoing and currently is expected to be set for an evidentiary hearing in November 2013. In the meantime, the parties are participating in Court-ordered mediation in an effort to resolve or narrow their disputes, and the City is working to obtain Postpetition Financing pursuant to section 364 of the Bankruptcy Code to assist in the funding of the settlement and other contemplated restructuring and reinvestment activities.

Mediation

In addition to mediation of the swap settlement disputes, substantial time and effort has been devoted by the Emergency Manager and his staff and advisors to negotiate other key restructuring issues through a mediation program established by the Bankruptcy Court to facilitate these efforts. In particular, Judge Rhodes appointed Judge Gerald E. Rosen, Chief Judge for the United States District Court for the Eastern District of Michigan, as the mediator for the City's Bankruptcy Case. In turn, Judge Rosen appointed six additional mediators, each focusing on different elements of the City's restructuring and reorganization activities. To date there have been multiple mediation sessions and numerous written submission related to, among other things, the City's core restructuring and reorganization initiatives outlined in the Restructuring Proposal, as well as labor and pension matters. The Emergency Manager has embraced the mediation process.

Outside of the mediation sessions, the City has continued to engage in ongoing dialog with its unions, pension systems, debtholders (trustees, individual holders and ad hoc groups), the Retiree Committee and other interested parties to advance key restructuring issues. The Emergency Manager and his staff and advisors will continue to meet with creditors and interested parties with the goal of developing, to the fullest extent possible, a consensual plan that addresses the City's operational and financial restructuring needs.

Plan of Adjustment

The Bankruptcy Court set a deadline of March 1, 2014 for the City to file a plan of adjustment in the Bankruptcy Case. The Emergency Manager intends to file the City's proposed plan of adjustment and related disclosure statement in advance of this deadline by the Bankruptcy Court — with the goal of filing these documents by the end of December 2013.

Appendices

- A. Cash Flow Actuals and Projections for the Period Jul-Sep 2013
- B. Preliminary Unaudited Revenues and Expenditures for Q1 Fiscal Year 2014

	FY 2014		FY 2014		3A + 3F FY 2014
	Forecast Q1	Actual Q1	Forecast Q2	Variance Q1	
<i>\$ in millions</i>					
Operating Receipts					
Property taxes	\$ 223.1	\$ 237.6	\$ 30.2	\$ 14.5	\$ 267.8
Income & utility taxes	73.7	68.6	74.9	(5.0)	143.6
Gaming taxes	37.7	51.4	40.7	13.7	92.1
Municipal service fee to casinos	7.6	7.3	8.0	(0.3)	15.3
State revenue sharing	61.4	60.6	30.9	(0.8)	91.5
Other receipts	79.0	92.0	77.2	13.0	169.2
Refinancing proceeds	20.0	-	20.0	(20.0)	20.0
Total operating receipts	502.5	517.5	281.9	15.1	799.4
Operating Disbursements					
Payroll, taxes, & deductions	(84.1)	(89.2)	(90.9)	(5.0)	(180.1)
Benefits	(46.4)	(45.8)	(48.8)	0.6	(94.6)
Pension contributions	(44.0)	-	(12.7)	44.0	(12.7)
Subsidy payments	(18.9)	(8.4)	(13.5)	10.4	(22.0)
Distributions - tax authorities	(135.3)	(103.9)	(23.3)	31.4	(127.2)
Distributions - UTGO	(12.0)	-	-	12.0	-
Distributions - DDA increment	-	-	(8.0)	-	(8.0)
Income tax refunds	(5.2)	(5.0)	(2.5)	0.2	(7.5)
A/P and other miscellaneous	(103.4)	(101.7)	(146.8)	1.7	(248.6)
Sub-total operating disbursements	(449.4)	(354.1)	(346.6)	95.3	(700.7)
POC and debt related payments	(17.4)	(23.2)	(17.6)	(5.8)	(40.8)
Total disbursements	(466.8)	(377.2)	(364.2)	89.5	(741.5)
Net cash flow	35.7	140.3	(82.3)	104.6	57.9
Beginning cash balance	71.3	71.3	211.6	(0.0)	71.3
Net cash flow	35.7	140.3	(82.3)	104.6	57.9
Cash before required distributions	\$ 107.0	\$ 211.6	\$ 129.3	\$ 104.6	\$ 129.3
Accumulated property tax distributions	(35.2)	(83.1)	(82.4)	(47.9)	(82.4)
Cash net of distributions	\$ 71.8	\$ 128.5	\$ 46.8	\$ 56.7	\$ 46.8
Memo:					
Refunding bond proceeds in escrow	51.7	79.5	59.5	27.8	59.5
Reimbursements owed to other funds	tbd	tbd	tbd	tbd	tbd

	FY13 Q1	FY14 Q1	FY14 - FY13 Q1 Difference
<i>(\$ in millions)</i>			
Revenues			
Property Taxes	\$ 62.2	\$ 51.5	\$ (10.7)
Municipal Income Tax	53.3	50.9	(2.5)
Wagering Taxes	45.4	43.7	(1.7)
Utility Users' and other taxes	3.9	0.3	(3.6)
Licenses, Permits and Inspection Charges	5.8	0.9	(4.9)
State Revenue Sharing	43.3	44.2	0.8
Sales and Charges for Services	14.5	15.4	0.9
Revenue from Use of Assets	0.8	1.2	0.3
Parking/court fines and other revenue	11.3	10.3	(1.0)
General Fund and Other Contributions	1.2	1.8	0.5
Grant Revenue	-	-	-
Transfers in	0.1	0.1	(0.0)
Total revenues	242.0	220.2	(21.9)
Expenditures			
Salaries & Wages	(75.7)	(63.5)	12.3
Overtime	(7.7)	(8.3)	(0.5)
Pensions	(13.5)	(13.7)	(0.2)
Benefits	(44.5)	(36.0)	8.5
Professional and contractual services	(1.1)	(9.4)	(8.2)
Materials & Supplies	(10.0)	(6.4)	3.7
Utilities	(0.7)	(1.7)	(1.0)
Purchased Services	(1.1)	(3.5)	(2.4)
Risk management and insurance	(0.7)	(1.1)	(0.4)
Other expenses	(4.1)	(6.7)	(2.6)
Debt Service	(3.5)	(0.4)	3.2
Contributions	(11.7)	(12.0)	(0.3)
Transfers Out	(1.2)	(1.8)	(0.5)
Total expenditures	(175.7)	(164.4)	11.4
Deficit (excl. financing proceeds)	66.3	55.8	(10.5)
Financing proceeds	138.6	-	(138.6)
Total surplus (deficit)	\$ 204.9	\$ 55.8	\$ (149.1)

**Emergency Manager Report Under Section 17 of Public Act 436
September 30, 2013**

This report is made by Kevyn D. Orr, in his role as emergency manager (the "Emergency Manager") for the City of Detroit, Michigan (the "City"), pursuant to section 17 of Michigan Public Act 436 of 2012 ("PA 436"), also known as the Local Financial Stability and Choice Act, MCL § 141.1557. The information contained in this report covers the period from March 25, 2013 through August 31, 2013 (the "Reporting Period").

Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012)

Section 17 [MCL § 141.1557]

Beginning 6 months after an emergency manager's appointment, and every 3 months thereafter, an emergency manager shall submit to the governor, the state treasurer, the senate majority leader, the speaker of the house of representatives, each state senator and state representative who represents the local government that is in receivership, and the clerk of the local government that is in receivership, and shall post on the internet on the website of the local government, a report that contains all of the following:

- (a) A description of each expenditure made, approved, or disapproved during the reporting period that has a cumulative value of \$5,000.00 or more and the source of the funds.*
- (b) A list of each contract that the emergency manager awarded or approved with a cumulative value of \$5,000.00 or more, including the purpose of the contract and the identity of the contractor.*
- (c) A description of each loan sought, approved, or disapproved during the reporting period that has a cumulative value of \$5,000.00 or more and the proposed use of the funds.*
- (d) A description of any new position created or any vacancy in a position filled by the appointing authority.*
- (e) A description of any position that has been eliminated or from which an employee has been laid off.*
- (f) A copy of the contract with the emergency manager as provided in section 9(3)(e).*
- (g) The salary and benefits of the emergency manager.*
- (h) The financial and operating plan.*

Expenditures

Pursuant to section 17(a) of PA 436, attached is a schedule identifying expenditures made, approved, or disapproved during the Reporting Period that have a cumulative value of \$5,000.00 or more. Expenditures during the Reporting Period are identified on the attached schedule based on the source of the funds, the corresponding agency, and vendor. Payroll-related payments were excluded from this schedule due to the sensitivity of this personal information. Other than payments reported herein and excluded payroll-related payments, no expenditures with cumulative value of \$5,000.00 or more were approved during the Reporting Period. Certain operating expenditures, which were deemed non-critical, were disapproved after the City's commencement of its Chapter 9 bankruptcy case on July 18, 2013. Similarly, certain pension contributions and scheduled payments related to pension certificates of participation were disapproved. Disapproved expenditures are identified by category on the attached schedule.

Expenditures: Made & Approved

Fund	Agency	Vendor	Amount
4308 ARRA - DCH - BJA - 2009 Police	A37000 Police Department	DETROIT PUBLIC SCHOOLS	14,710
9708 ARRA - DCH - BJA - 2009 Police Total			14,710
5509 ARRA - DOJ - COPS Hiring - 2009 Police	A37000 Police Department	ABS STORAGE PRODUCTS	19,200
5609 ARRA - DOJ - COPS Hiring - 2009 Police	A37000 Police Department	BILL SNETHKAMPS LANSING DODGE INC	2,254,921
5709 ARRA - DOJ - COPS Hiring - 2009 Police	A37000 Police Department	HUBB SYSTEMS LLC	367,130
5709 ARRA - DOJ - COPS Hiring - 2009 Police Total			2,641,251
5712 ARRA - DOE-EECBG-GSD-DBA	A37000 Police Department	DETROIT BUILDING AUTHORITY	100,343
5712 ARRA - DOE-EECBG-GSD-DBA	General Service Dept	DETROIT BUILDING AUTHORITY	591,991
5712 ARRA - DOE-EECBG-GSD-DBA Total			692,333
5913 ARRA - Neighborhood Stabilization Program II	A13000 Buildings and Safety Department	HERITAGE INDUSTRIAL SAFETY SUPPLY	10,106
5913 ARRA - Neighborhood Stabilization Program II Total			10,106
6301 Renewable Energy & Energy Optimization PA 295 Fund	A38000 Public Lighting Department	MICHIGAN PUBLIC POWER AGENCY	6,828
6301 Renewable Energy & Energy Optimization PA 295 Fund	A38000 Public Lighting Department	WALKER-MILLER ENERGY SERVICES LLC	27,838
6301 Renewable Energy & Energy Optimization PA 295 Fund Total			34,666
4410 Gen Obl Bond Fund-Series 1993	A13000 Buildings and Safety Department	DMC CONSULTANTS INC	29,751
4410 Gen Obl Bond Fund-Series 1993	A31000 Information Technology Services Department	GROUNDWORK 0	27,599
4410 Gen Obl Bond Fund-Series 1993	A36000 Planning and Development Department	DETROIT HOUSING COMMISSION	82,001
4510 Gen Obl Bond Fund-Series 1993	A36000 Planning and Development Department	UNIVERSITY COMMONS ORGANIZATION (UCO)	238,322
4510 Gen Obl Bond Fund-Series 1993	A36000 Planning and Development Department	WAYNE COUNTY TREASURER	162,347
4510 Gen Obl Bond Fund-Series 1993	A39000 Recreation Department	CLARKS CONSTRUCTION	12,878
4510 Gen Obl Bond Fund-Series 1993	A39000 Recreation Department	COMMUNITY DEVELOPMENT SOLUTIONS LLC	30,585
4510 Gen Obl Bond Fund-Series 1993	General Service Dept	BEST FUEL SERVICE INC	5,284
4510 Gen Obl Bond Fund-Series 1993 Total			588,768
4413 General Obligation Bond Fund - Series 2010	A39000 Recreation Department	DRV CONTRACTORS LLC	14,481
4413 General Obligation Bond Fund - Series 2010	A39000 Recreation Department	GREAT LAKES WELDING LLC	29,427
4413 General Obligation Bond Fund - Series 2010	A39000 Recreation Department	REASONABLE ROOFING & REMODELING INC	35,581
4413 General Obligation Bond Fund - Series 2010	A39000 Recreation Department	WCI CONTRACTORS	88,709
4413 General Obligation Bond Fund - Series 2010	D23010 Administration	DETROIT BUILDING AUTHORITY	11,569,505
4413 General Obligation Bond Fund - Series 2010	D23130 General Accounting	DETROIT BUILDING AUTHORITY	8,086,127
4413 General Obligation Bond Fund - Series 2010 Total			19,823,830
5002 Airport Operation and Maint	A10000 Airport Department	AVSURANCE CORPORATION	22,902
5002 Airport Operation and Maint	A10000 Airport Department	CASEY FENCE CO INC	12,087
5002 Airport Operation and Maint	A10000 Airport Department	DTE ENERGY	52,071
5002 Airport Operation and Maint	A10000 Airport Department	FOREST PAINTING INC	6,000
5002 Airport Operation and Maint	A10000 Airport Department	WATERFRONT PETROLIFUM TERMINALCOMPANY	12,219
5002 Airport Operation and Maint	A10000 Airport Department	WEINGARTZ SUPPLY CO INC	6,729
5002 Airport Operation and Maint	D23130 General Accounting	IPO/PLD	5,846