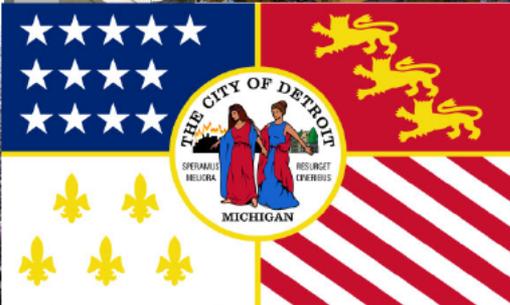




**Fourth Annual  
Municipal Finance Conference  
August 7, 2015**



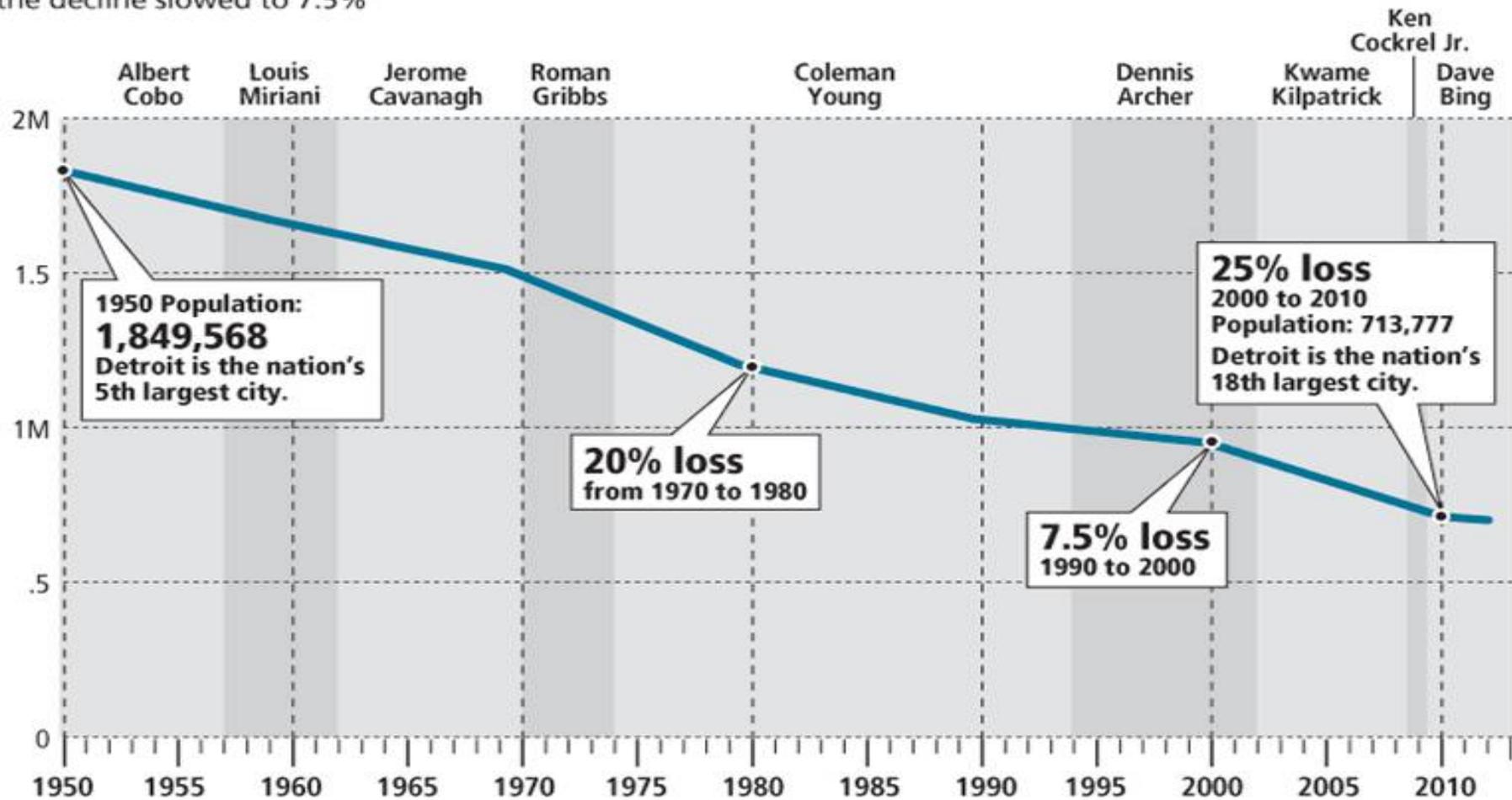


1. HISTORY OF DETROIT'S FINANCIAL AND OPERATIONAL DECLINE
2. THE BANKRUPTCY PROCESS
3. THE FUTURE

# 1. HISTORY OF DETROIT'S FINANCIAL AND OPERATIONAL DECLINE

## 1970s, 2000s HAD HIGHEST RATE OF POPULATION DECLINE

By 2010, Detroit's population was down 61% from its peak of 1.8 million residents in the 1950 census. Detroit has two decades with more than 20% decline, and one hopeful decade of the 1990s during which the decline slowed to 7.5%

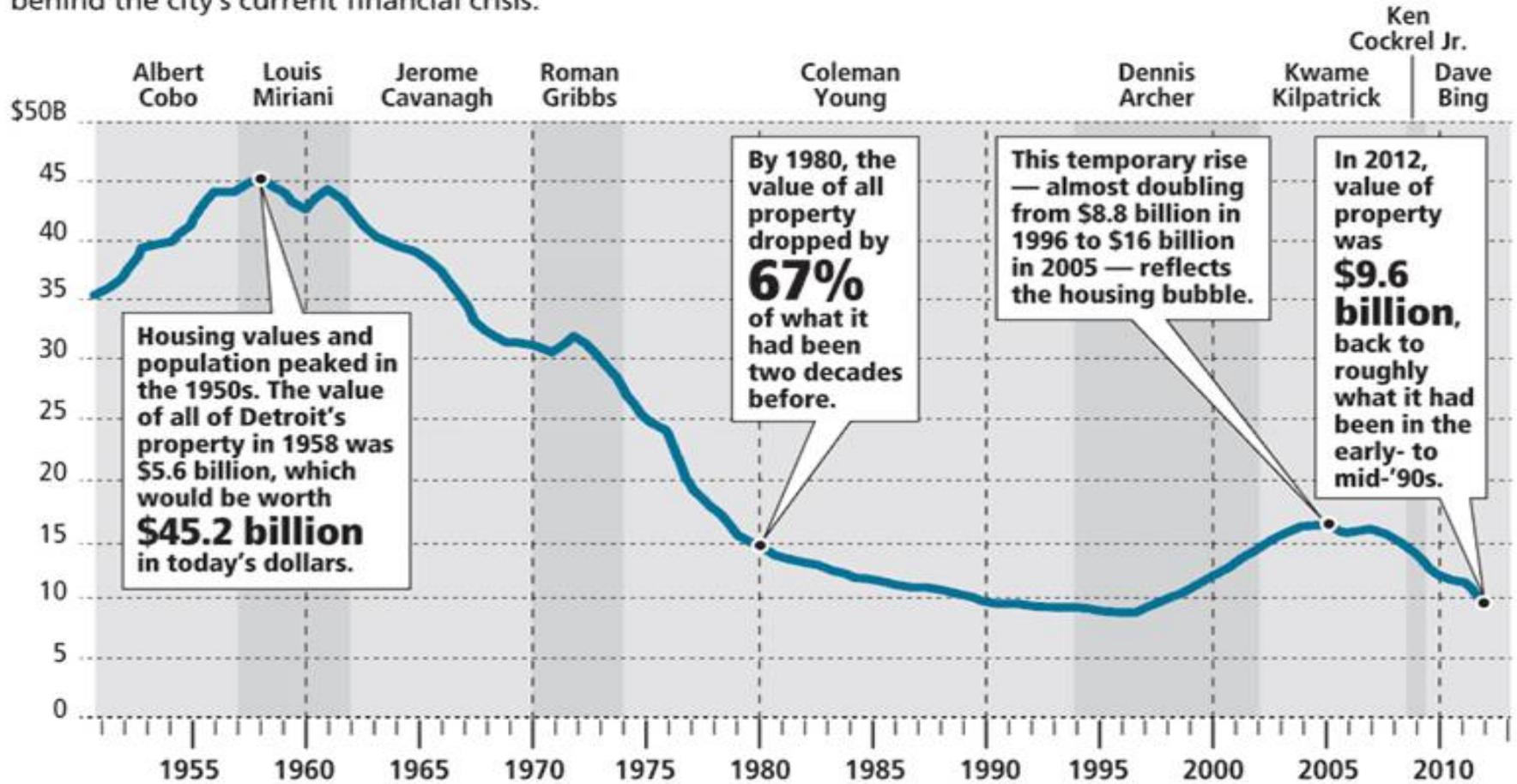


SOURCE: U.S. Census Bureau

BRIAN TODD/DETROIT FREE PRESS

# DETROIT PROPERTY VALUES PLUMMETED IN '60S AND '70S

The exodus of city residents, abandonment of homes and aging housing stock caused a dramatic plunge in assessed property values in Detroit and a corresponding drop in property-tax revenues. They are a core reason behind the city's current financial crisis.



NOTE: All dollar amounts have been adjusted for inflation and are in 2013 dollars.

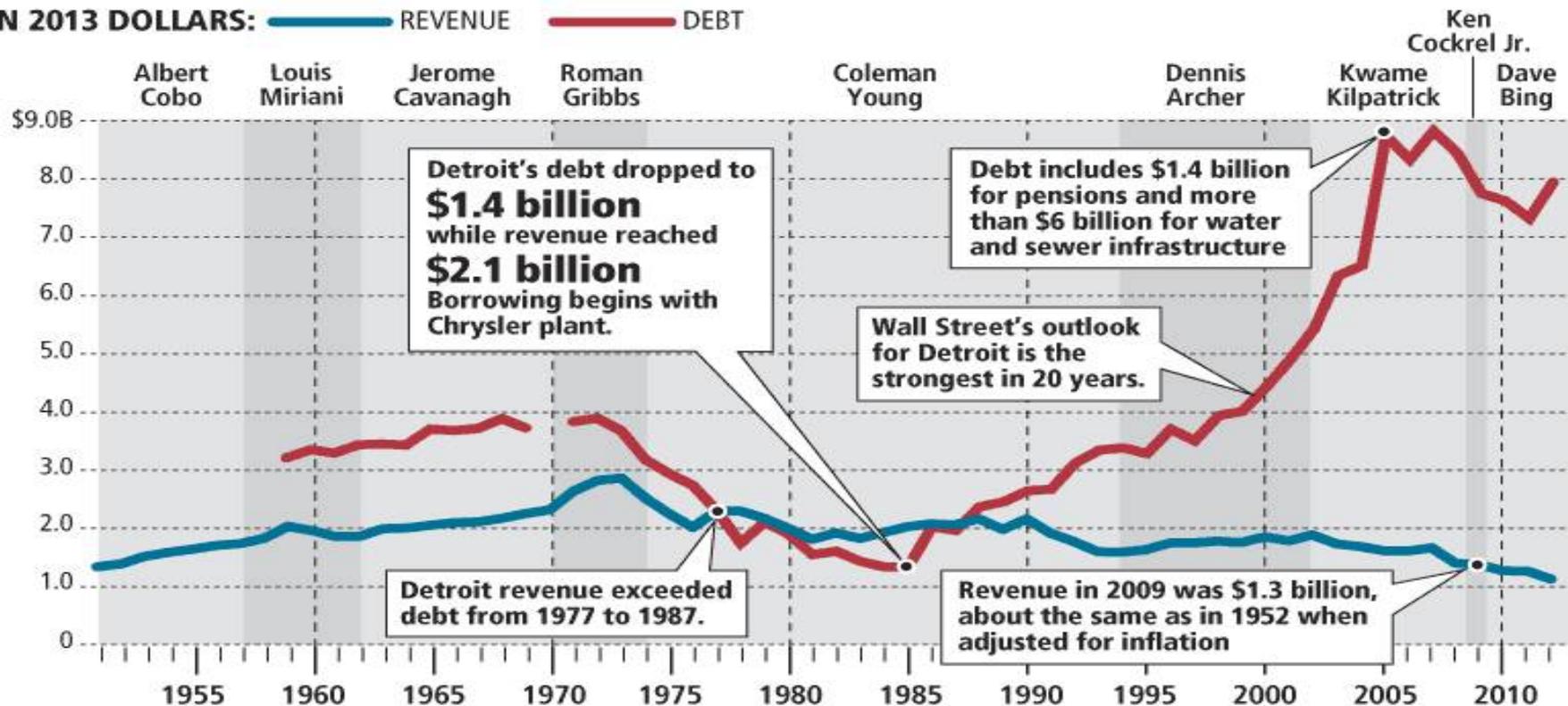
SOURCE: Detroit's annual financial reports

MOSES HARRIS/DETROIT FREE PRESS

## DETROIT'S DEBT EXPLODES IN 2000s

The city's revenue exceeded its debt for a decade starting in 1977 under Mayor Coleman Young. But when the city's bond rating improved in 1985, a surge of new borrowing began. Bonds were sold for many projects, including Chrysler's Jefferson North Assembly Plant, improvements to Cobo Center, water and sewer infrastructure and downtown redevelopment. Chart does not include future accrued liabilities such as pension, retiree health care or interest on bonds, which emergency manager Kevyn Orr says total \$18 billion.

**IN 2013 DOLLARS:** — REVENUE — DEBT



NOTE: All dollar amounts have been adjusted for inflation and are in 2013 dollars. 1970 debt records were unavailable. Debt includes total general obligation bonds; certificates of indebtedness and notes payable (general, not including water and sewers) through 1973; net direct debt after 1973, not including overlapping debt from 2006 to 2012; pension debt from 2005 to 2012.

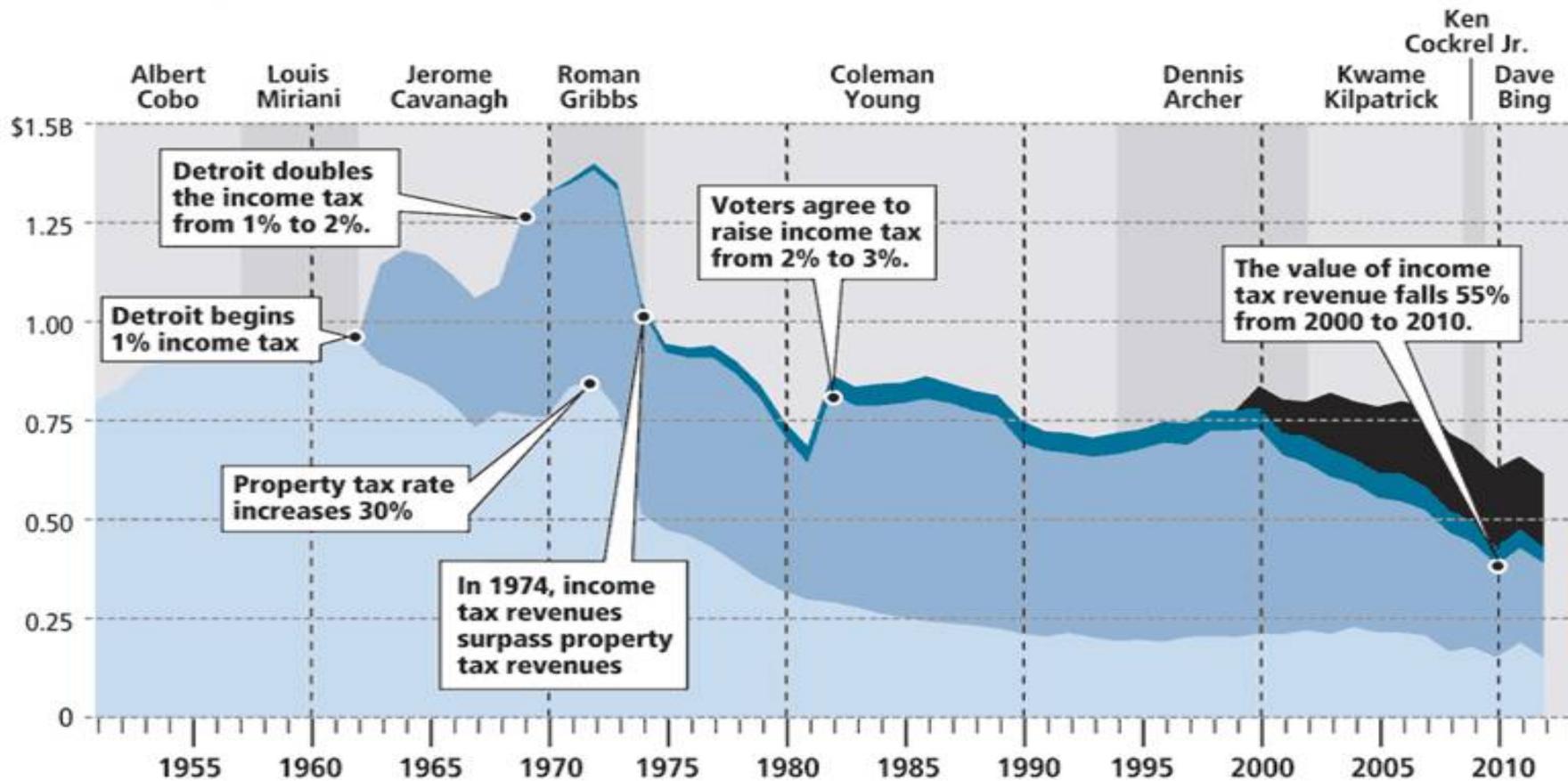
SOURCE: Detroit's annual financial reports

KOFI MYLER/DETROIT FREE PRESS

# EVEN WITH FOUR TAXES, CITY INCOME FALLS TO 60-YEAR LOW

To compensate for falling property-tax revenue, Detroit imposed new taxes or increased tax rates over the years. Since 1974, the most important tax, in terms of total revenue generated, is the income tax. In 2008, wagering tax revenues from city casinos surpassed property taxes for the first time.

**TAX REVENUES, IN 2013 DOLLARS:** ■ PROPERTY TAX ■ INCOME TAX ■ UTILITY TAX ■ WAGERING TAX



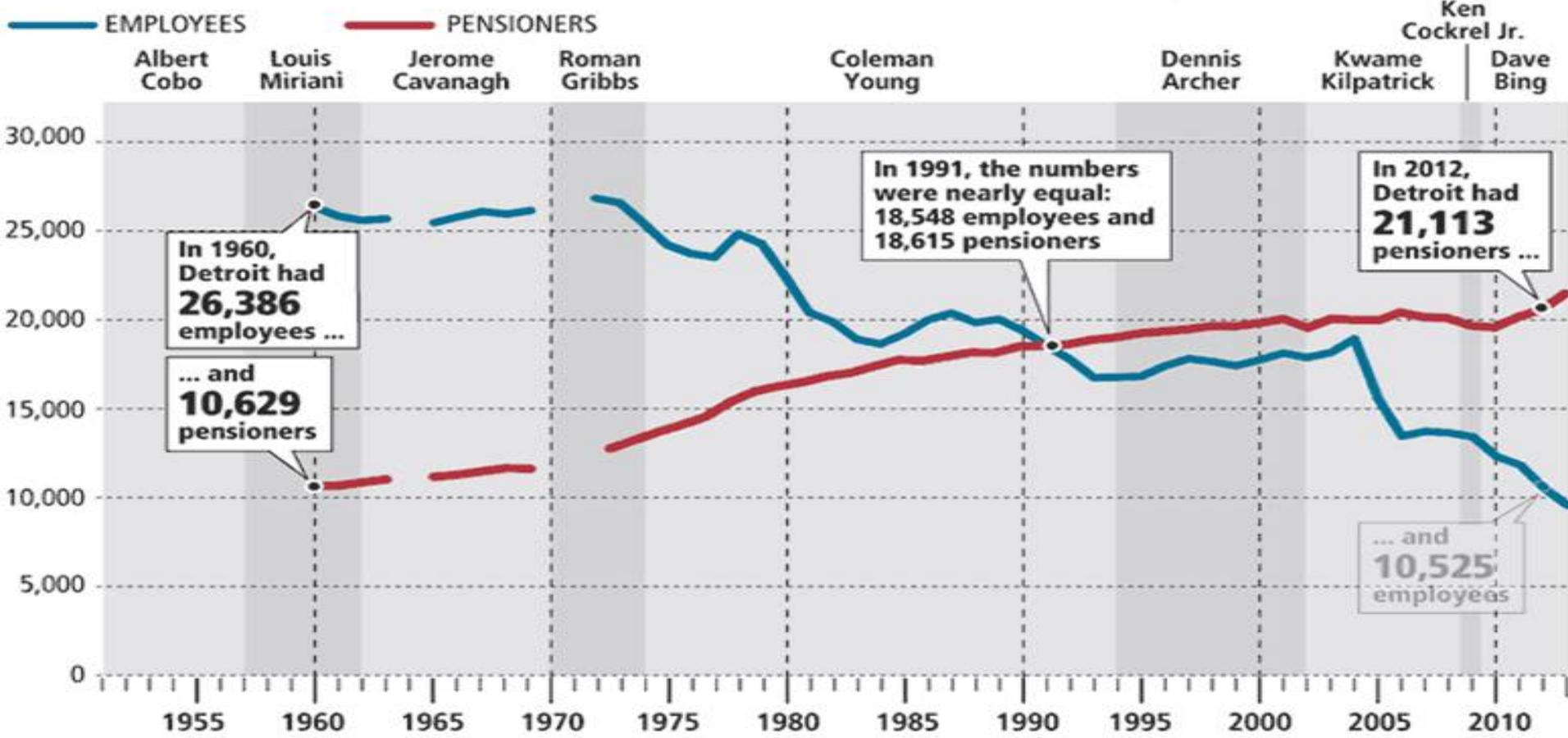
NOTE: All dollar amounts have been adjusted for inflation and are in 2013 dollars.

SOURCE: Detroit's annual financial reports

KOFI MYLER/DETROIT FREE PRESS

# DETROIT NOW HAS TWICE AS MANY PENSIONERS AS EMPLOYEES

Fifty years ago, active city employees outnumbered municipal retirees by more than 2-1. But with workforce downsizing, the city now has more retirees than active workers. Unlike many other municipal systems, Detroit's active workers are not required to contribute to the General Retirement System.



NOTE: Data unavailable for 1964, 1970 and 1971.

SOURCE: Detroit's annual financial reports

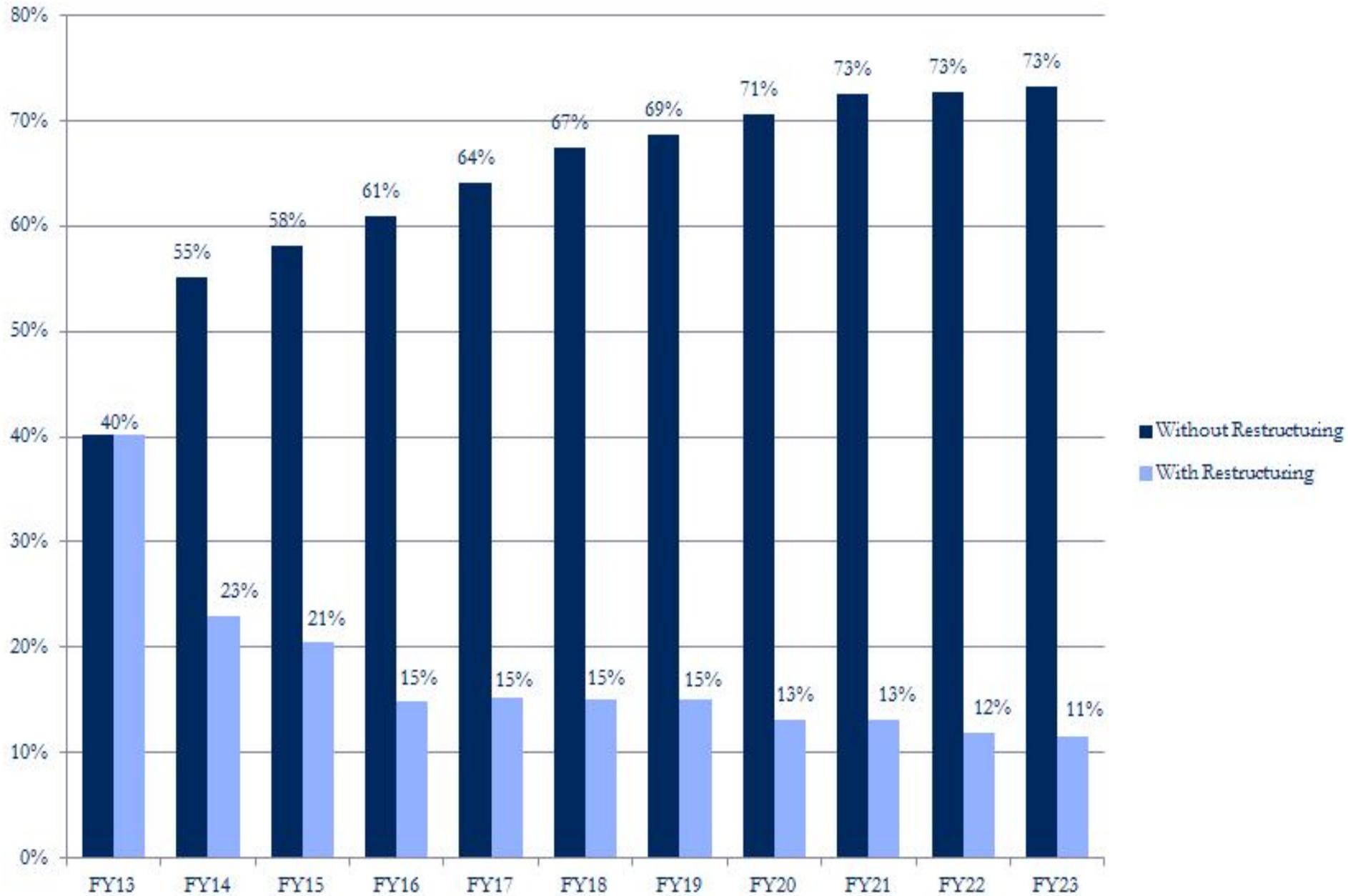
BRIAN TODD/DETROIT FREE PRESS

### Short-term cash flow forecast <sup>(1)</sup>



(1) End of month balances, net of accumulated property tax distributions owed to other taxing authorities.

## Legacy costs as a % of General Fund revenue



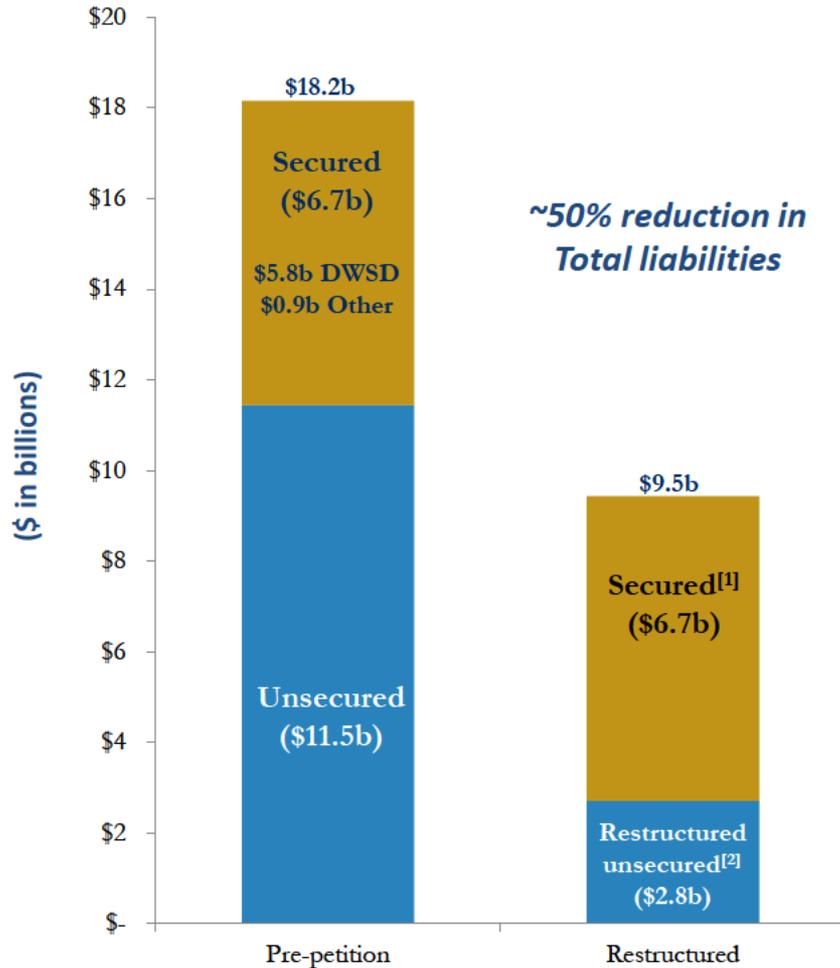
## Key Events Leading to the Declaration of Detroit's Financial Emergency

- **Fall 2011** = City leaders attempt to address the City's financial and operational deficiencies (furloughs, CETs, etc...)
- **April 2012** = City and State execute a "Financial Stability Agreement" whereby the State provided the City with operational and financial restructuring assistance
- **November 2012** = City and State execute a "Memorandum of Understanding – City of Detroit Reform Program" to further address the City's operational and financial restructuring efforts
- **January 2013 – March 2013** = State-led economic review team combs through Detroit's finances and operations and ultimately recommended to the Governor that he: (i) declare there is a financial emergency in Detroit, and (ii) appoint an Emergency Manager for the City
- **March 25, 2013** = Kevyn Orr appointed as Detroit's Emergency Manager

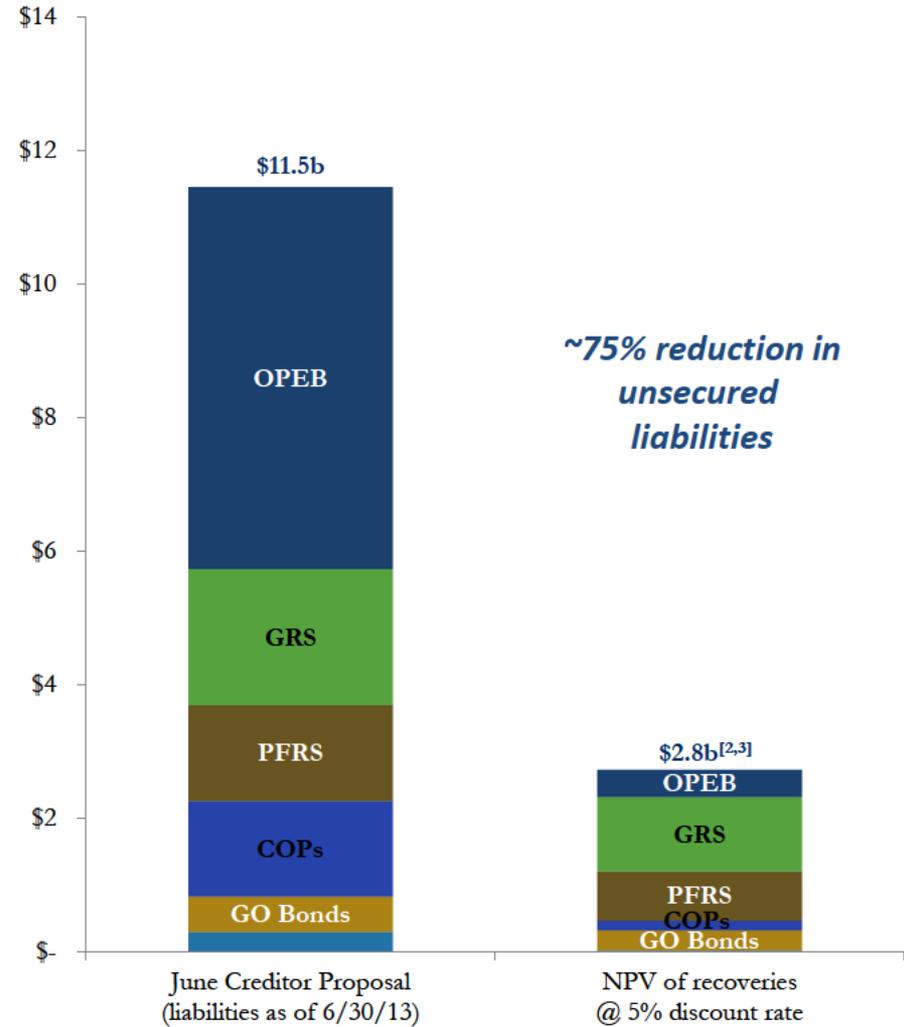
## 2. THE BANKRUPTCY PROCESS

The Plan assumes ~50% reduction in total liabilities and ~75% reduction in unsecured liabilities.

### Total Liabilities



### Unsecured Liabilities



<sup>[1]</sup> Prepetition liabilities are based on CAFR and June 14th Creditor Proposal, actual claim amounts may differ. Treatment of DWSD and other secured debt to be determined

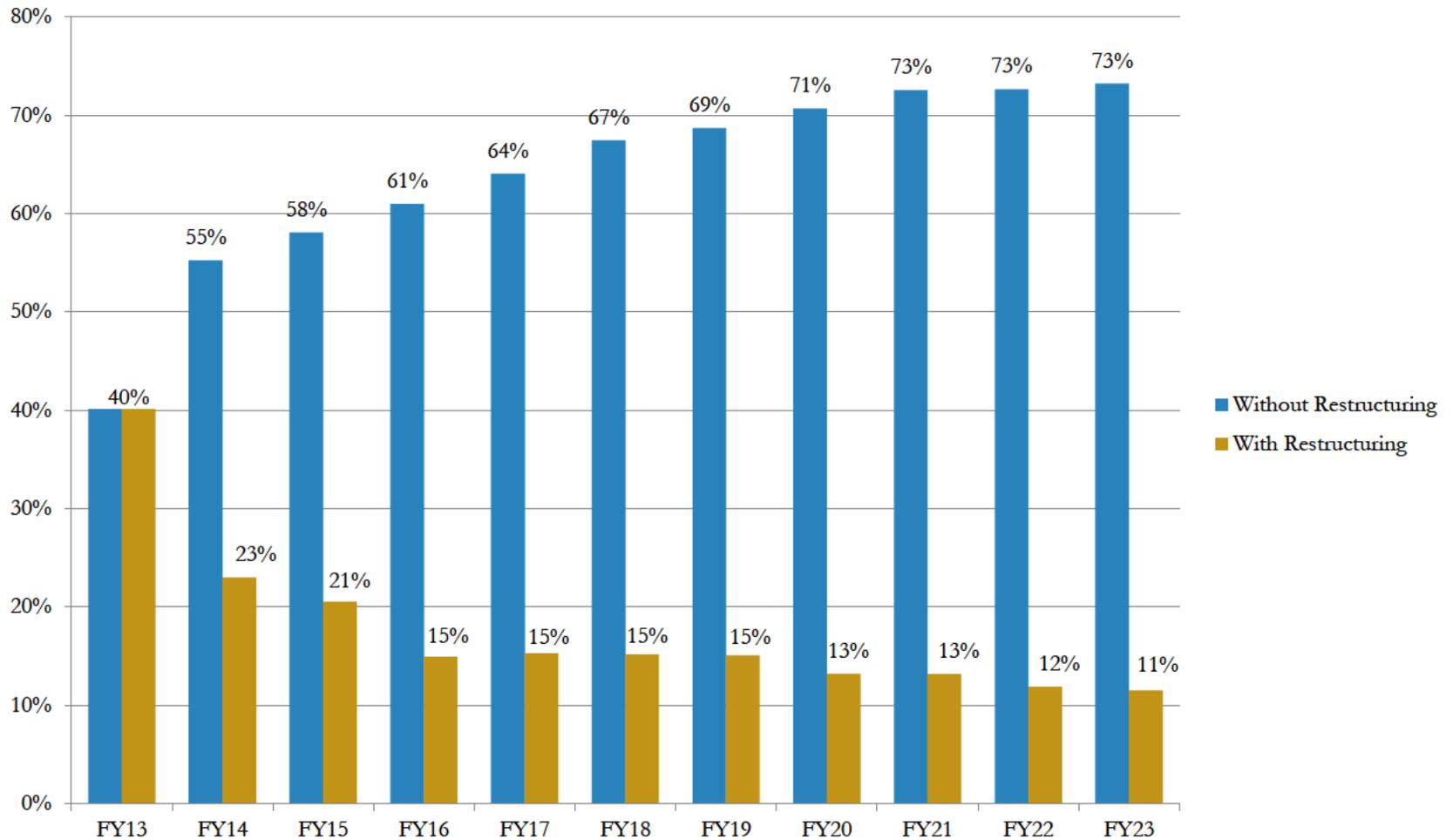
<sup>[2]</sup> Represents net present value of cash flows to unsecured creditors discounted at 5%. Actual liabilities at emergence are estimated to be slightly lower

<sup>[3]</sup> Hypothetical treatment of unsecured creditors is subject to on-going discussions and could change materially



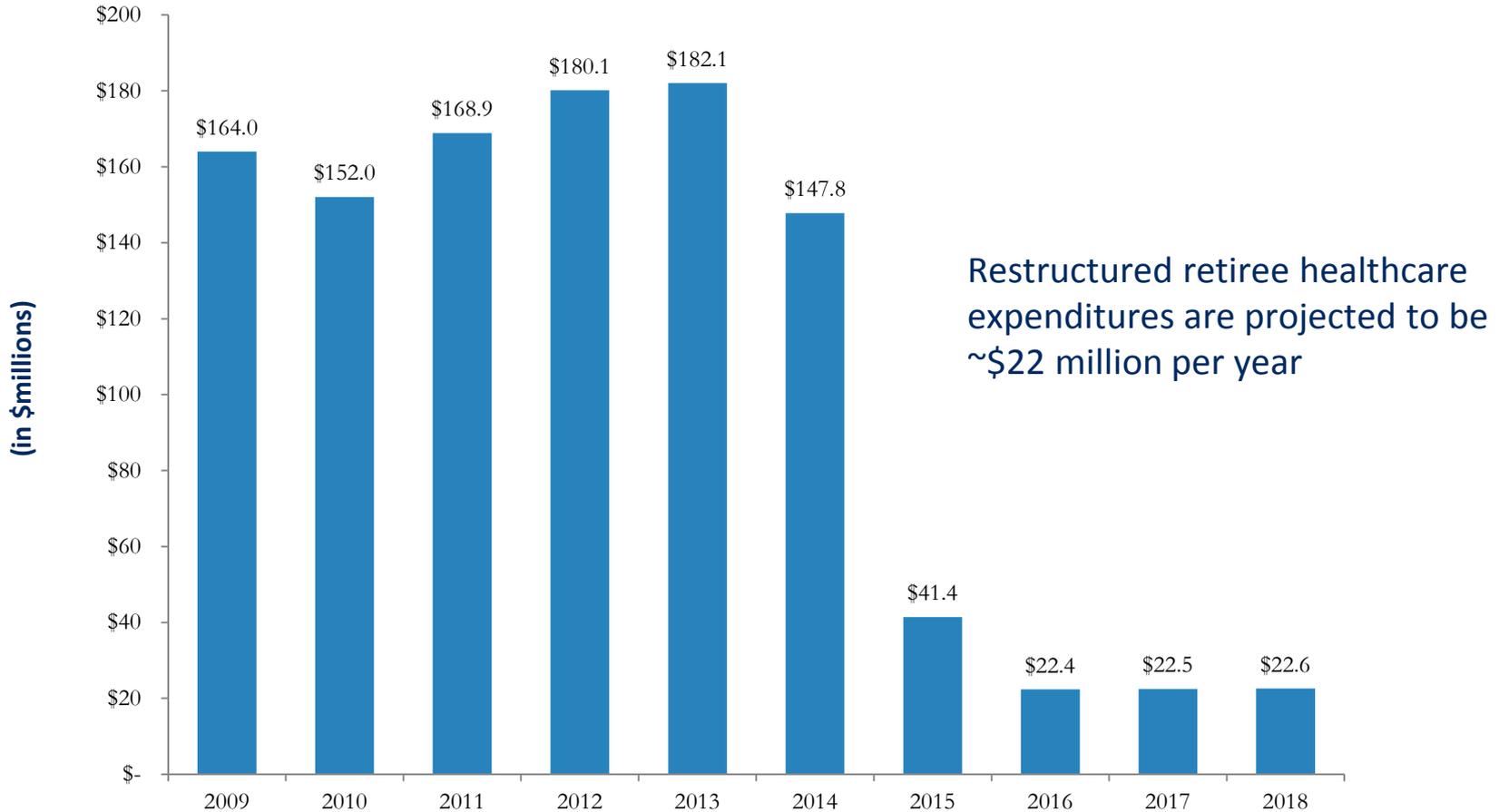
Legacy costs as a percentage of revenues will be significantly reduced through the Chapter 9 process.

Legacy costs as a % of General Fund revenue:



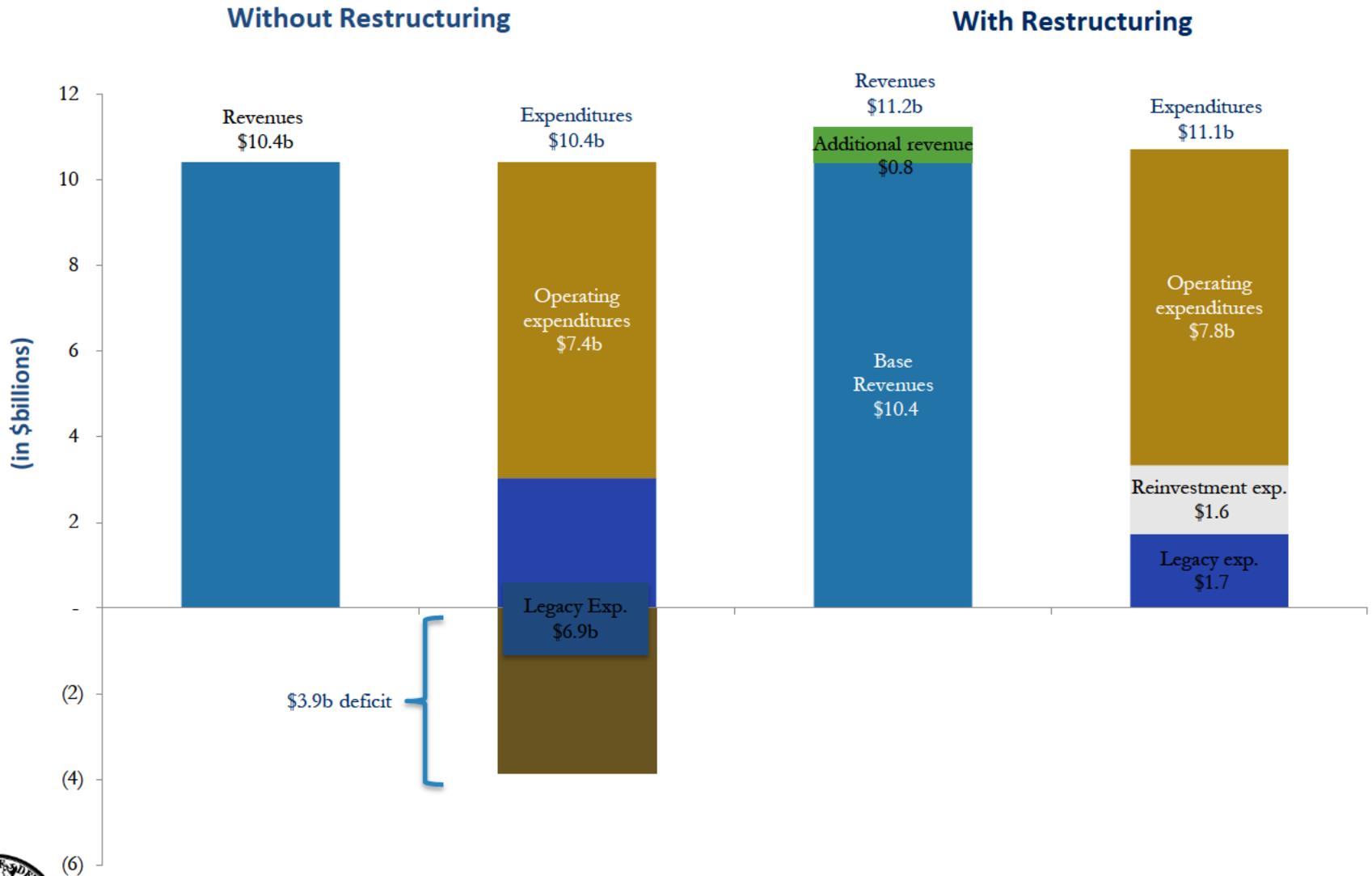
# Restructured retiree healthcare expenditures (OPEB) will be significantly reduced.

## Retiree Healthcare Expenditures:



**Note:** Reductions in retiree healthcare expenditures will reduce average cost per employee from over \$18,000 in FY 2013 to approximately \$2,000 in FY 2016

The Plan avoids a projected ten year deficit of \$3.9 billion absent restructuring .



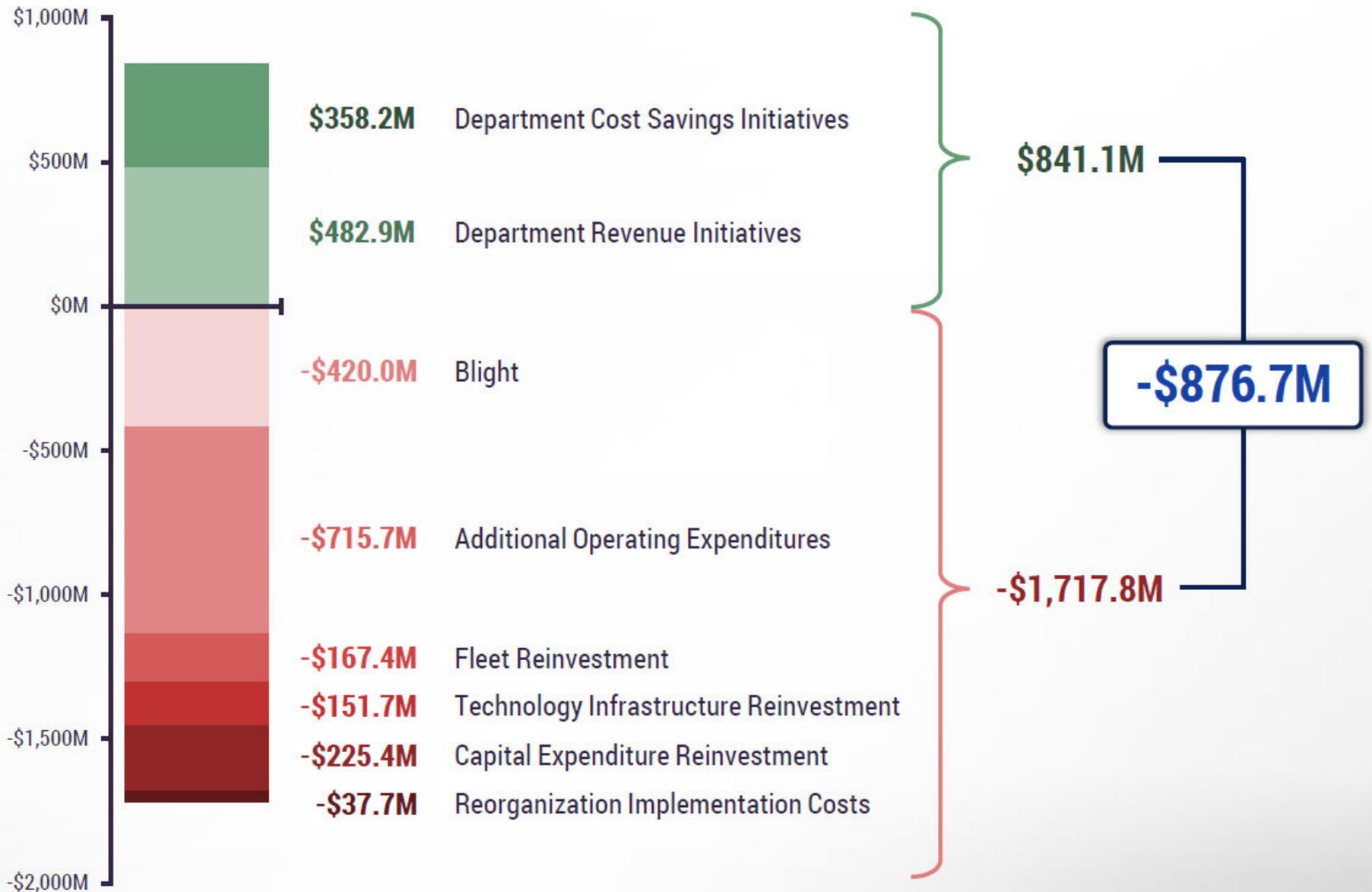
# Percentage Recoveries for Each Class of Detroit Debt

Class(es)	Type of Debt	Recovery
1, 2, 3, 4 and 6	DWSD Bonds, Secured GO Bonds, Other Secured Debt, HUD Notes, Parking Bonds (Secured)	100%
5	Settled COP Swap (Secured)	30%
7	Settled LTGO	34%
8	Settled UTGO	74%
9	Settled COPs	13%
10	PFRS Pension	39-59%
11	GRS Pension	48-60%
12	Settled OPEB	10%
13	DDA Notes	10-13%
14	Other Unsecured	10-13%
15	Convenience Claims	25%
16	Subordinated Claims	0%
17	36 <sup>th</sup> District Court Claims	33%



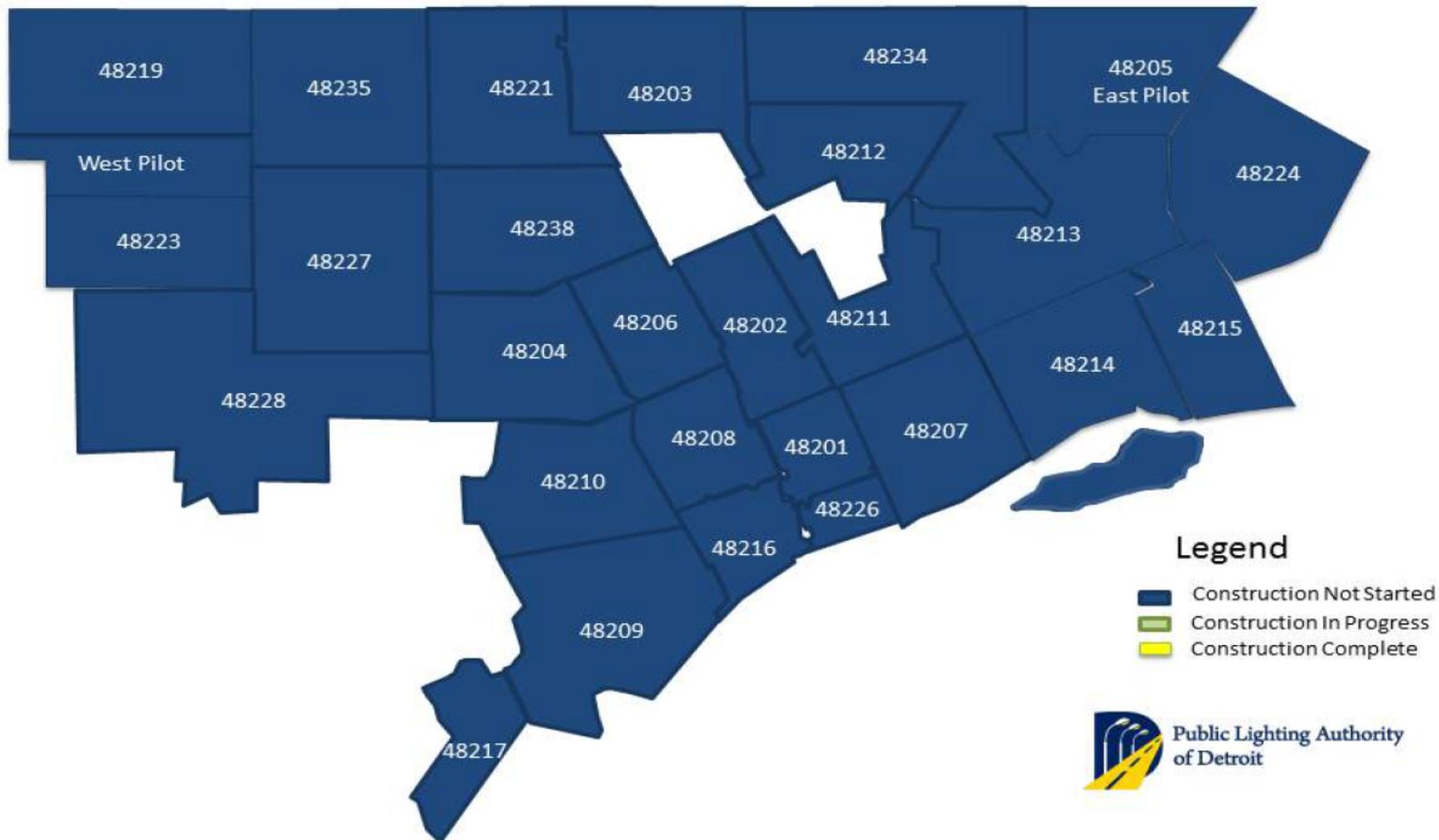
### 3. THE FUTURE

# Financial Summary of Reinvestment Initiatives – Ten-Year Total

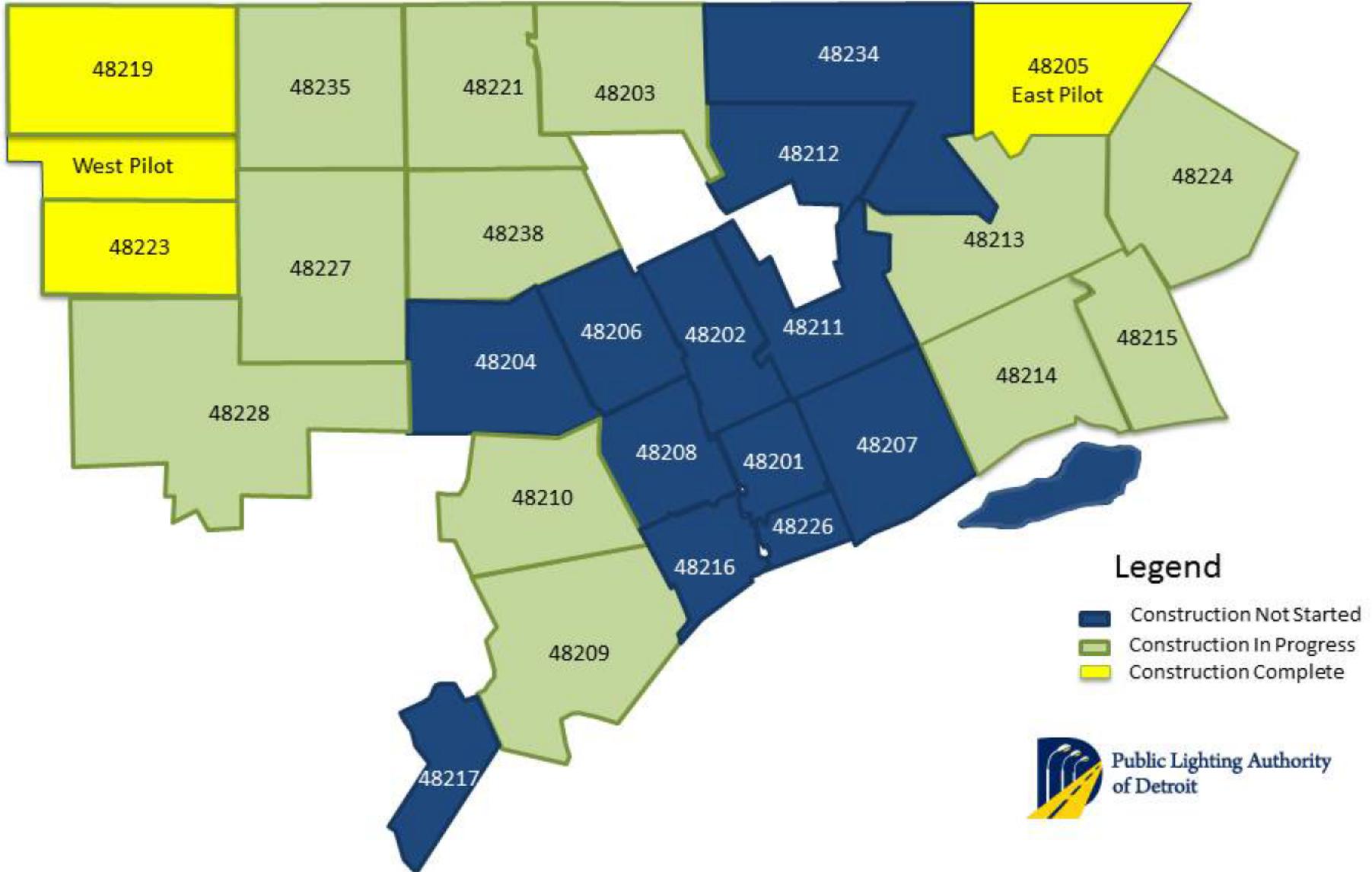


# Lights Status: January, 2014 Less than 500 New Lights

Overhead Construction January 2014 By Zip Code

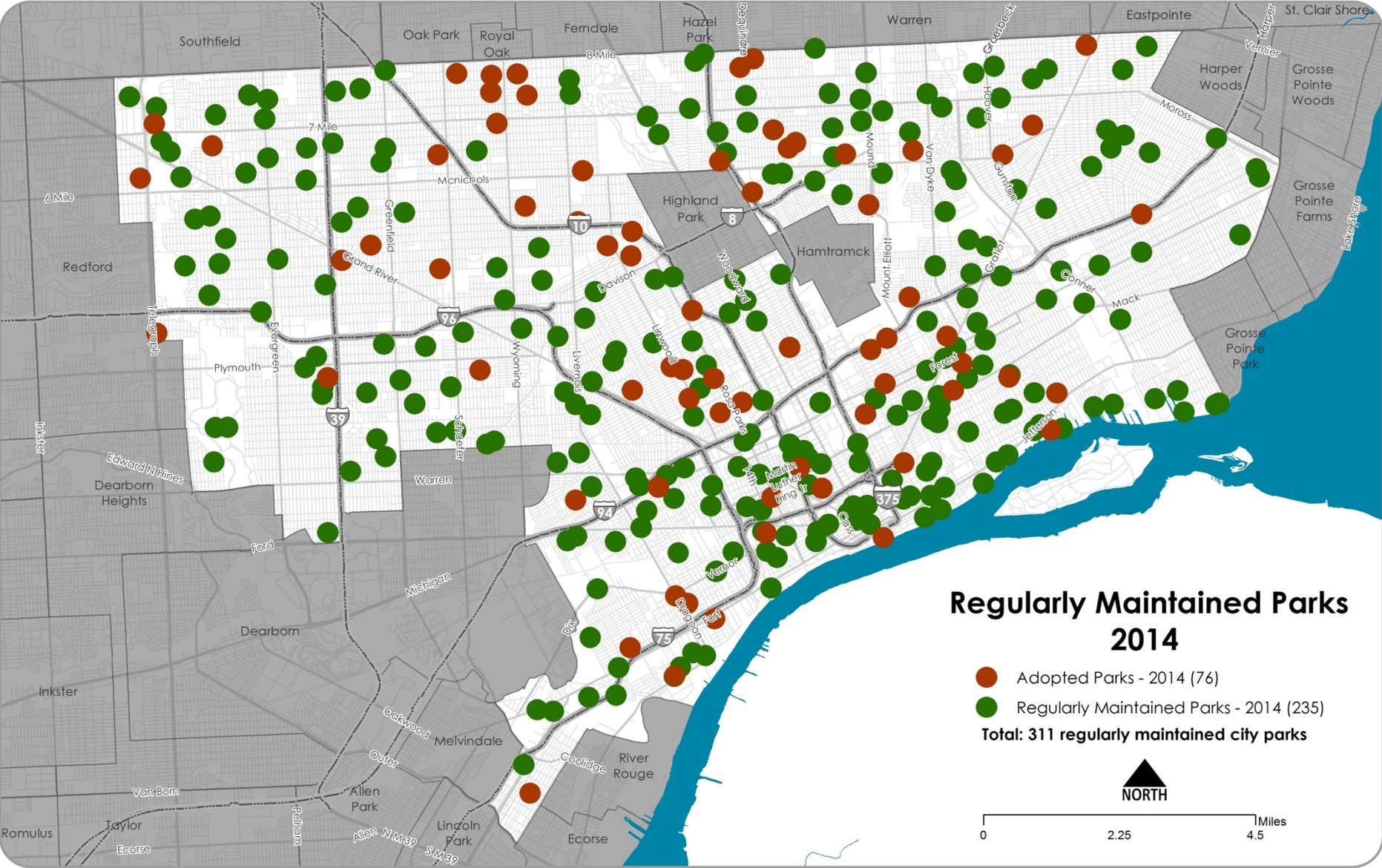


# September 16<sup>th</sup>: 20,000<sup>th</sup> Light Installed





# 2014 Parks City and Partners Together

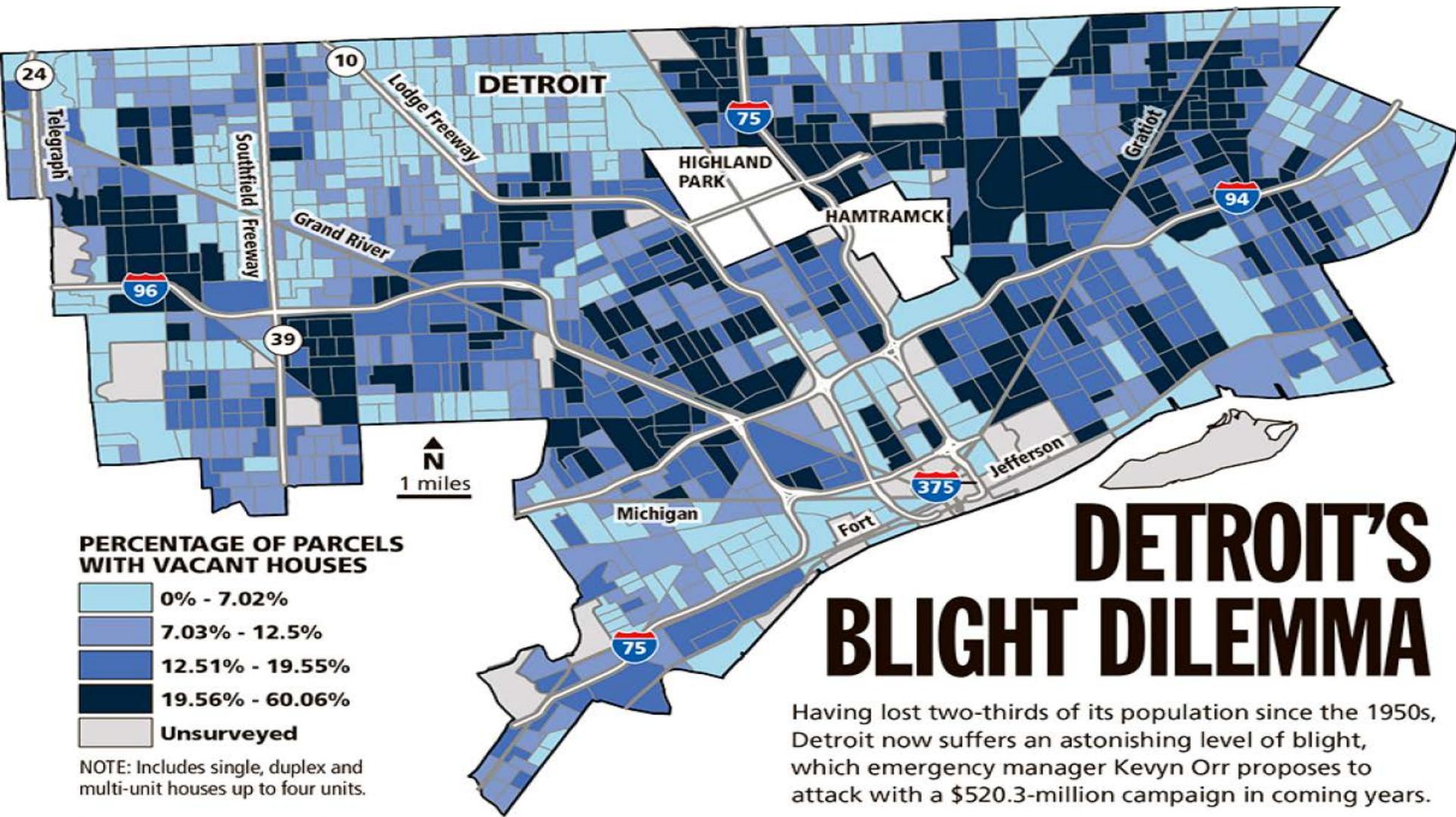


**DPW's Illegal Dump Site Teams are now removing  
650 tons of debris each week –  
so that this...**



**...looks like this**





SOURCE: 2010 Detroit Residential Parcel Survey

# DETROIT'S BLIGHT DILEMMA

Having lost two-thirds of its population since the 1950s, Detroit now suffers an astonishing level of blight, which emergency manager Kevyn Orr proposes to attack with a \$520.3-million campaign in coming years.

MARTHA THIERRY/DETROIT FREE PRESS



# Detroit Free Press

## \$2 BILLION TO WIPE OUT BLIGHT

Detroit's enormous task can be completed in 5 years, report says



The Detroit Blight Removal Task Force concluded that the city suffers with 84,641 blighted or nearly blighted structures and vacant lots, of which some 40,000 are so bad off they should be demolished and cleaned up immediately. MARY SCHROEDER/DETROIT FREE PRESS

By John Gallagher  
Detroit Free Press Business Writer

The task is immense, but the time is now. That was the message Tuesday as Mayor Mike Duggan joined leaders of the Detroit Blight Removal Task Force to release the most in-depth road map ever to eradicate eyesore houses and trash-strewn lots from the city, a crucial next step in rebuilding bankrupt Detroit.

It will take \$850 million to clean up residential neighborhoods and nearby retail strips over the next five years, and about \$2 billion total when adding in huge commercial edifices such as the Packard Plant and the Michigan Central Station.

About \$456 million in federal money and from other sources has been identified, leaving a gap of about \$394 million still needed to clean up the neighborhoods. That money could come from savings from the bankruptcy, officials said.

The task force concluded that Detroit suffers with 84,641 blighted or nearly blighted structures and vacant lots, of which some

40,000 are so bad off they should be demolished and cleaned up immediately. Also, 93% of the tens of thousands of tax-foreclosed Detroit properties held by the city, county and state are in really bad shape and should be knocked down or cleaned up, the report said.

The removal of blight is seen as a first, obvious way to improve the city's image and spur development once Detroit exits Chapter 9 bankruptcy protection, possibly by the fall.

Detroit's bankruptcy feels for many like a fresh start for a city that for decades has endured relentless image-bashing as a decaying, crime-ridden, irretrievable and once-great urban center. So much of that reputation has been tied to home abandonment and eventual wide-scale blight, which not only breeds crime and other social ills but also just looks bad.

Duggan and other elected officials recognize the positive mood in the air when it comes to rehabilitating the city and want to seize on the opportunity to raise needed

See **TASK FORCE**, Page 3A

### TASK FORCE RECOMMENDS

- Take aggressive action to gain title to blighted properties.
- Hire more inspectors and hearing officers.
- Establish demolition review board to speedily review complaints of dangerous buildings.
- Survey the 380,000 parcels in the city to keep database up-to-date.
- Establish two new recycling centers to promote reuse of lumber and other materials salvaged from blighted houses.
- Help smaller contractors obtain air-monitoring devices needed for the demolition work.

### DETROIT BLIGHT, BY THE NUMBERS

**84,641** blighted or nearly blighted parcels and vacant lots

**6,135** vacant lots that are

**93%** of government-owned parcels from foreclosures are blighted

**\$850 MILLION** to clean up all neighborhood blight

**\$2 BILLION**

to clean up everything, including large commercial structures such as the Packard Plant and Michigan Cen-

**\$456 MILLION**

could come from the federal Hardest Hit Fund and other government sources

**\$368 MILLION**

could come through savings from the bankruptcy