

Memorandum of Understanding City of Detroit Reform Program

The City of Detroit (“City”) has entered into certain agreements providing for the safekeeping, investment, reinvestment, administration and disposition of specified funds and the fiscal stability of the City, and a sustainable and stable platform for growth ensuring the City’s financial integrity in a manner that enables the City to grow, prosper, and thrive (“Agreements”).

The Department of Treasury of the State of Michigan (“Treasury Department”), as a condition for approving the issuance of cash stabilization bonds sold for the purpose of making a Refunding Deposit as that term is defined in the restricted escrow agreement date March 1, 2012 (“Escrow Agreement”) between the City and U.S. Bank National Association, Detroit, Michigan, consistent with the Treasury Department’s agreement with the City to support the City’s Phase I Reforms, has required that the Refunding Deposit remain in escrow until certain conditions are satisfied by the City. Among the conditions are the requisition of funds shall be (i) subject to the review and approval of the Treasury Department, and (ii) compliance with the terms of the Escrow Agreement.

To effectuate the purposes of and continued compliance with the Agreements, including without limitation requirements under Section 1.02 of the Escrow Agreement, and to provide clarity as to the satisfaction of conditions by the City under Section 3.02 and Exhibit A of the Escrow Agreement and the Agreements so as to assure the timely approval of requisitions on an orderly basis, the City and the Treasury Department will continue to implement the Reform Program and Reform Initiatives under the Agreements, and in accord with the Agreements will implement the following milestones:

I. Joint Restructuring Expenses to Be Paid By Treasury Department and City

1. Restructuring Assistance. The City will, as expeditiously as possible, select and retain a Restructuring firm or team to advise the City’s Program Management Office upon and implement the City’s Reform Program, including, but not limited to:

- a. The City's five-year outlook, given the constraints and opportunities the likely circumstances will present; and
- b. The means by which sustainability might be achieved, including considerations regarding long-term liabilities.

The Restructuring firm or team will be selected pursuant to the RFP process described in subpart 4 below; to be retained by December 14, 2012.

2. Operational Assistance. The City will, as expeditiously as possible, select and retain one or more operational assistance firms to review the management and operations of each of the departments listed below, and advise and recommend to the City a comprehensive operational improvement plan in each City department, including the estimated cost of the firm's efforts and the actions needed by the City to remove operating constraints. After review and approval by the Program Management Office and the Treasury Department, the plan will be implemented. In addition to other matters deemed relevant, each plan shall address the specific constraints as they apply to the City department currently, with operational improvement recommendations to be made to promptly address and solve the City's specific conditions:

- a. Management limitations;
- b. Labor and union constraints;
- c. Legal constraints;
- d. IT systems constraints; and
- e. Departmental restructuring opportunities.

The City will identify specific actions items in the operational plans for each of the departments listed below for submittal to the Treasury Department by November 30, 2012.

Areas of initial focus for the operational departments are as follows:

- 1) Property Tax and Assessor's Office; to be completed by December 14, 2012;
- 2) Law Department, including claims management; to be completed by February 28, 2013;
- 3) Police and fire departments (including steps to create a fire authority); to be completed by March 31, 2013;
- 4) Lighting and Transportation departments; to be completed by March 31, 2013;

- 5) Income Tax function; to be completed by March 31, 2013;
- 6) Real estate and lease review; to be completed by March 31, 2013; and
- 7) Purchasing function, as described in Part II.6. below.

The operational assistance firms will be selected pursuant to the RFP process described in subpart 4 below.

3. Workers Compensation Assistance. The City will, as expeditiously as possible, select and retain a Workers Compensation firm to advise the City on savings, efficiencies, and workplace safety improvements which may be achieved in the City's workers compensation system. The Workers Compensation firm will be selected pursuant to the RFP process described in subpart 4 below; to be retained by December 14, 2012.

4. RFP Process. The Program Management Office, after consulting with the Treasury Department, will coordinate a request-for-proposal process regarding the engagement of the Restructuring firm or team described in paragraph I.1. and Operational assistance firms described in paragraph I.2. that the City and Treasury Department determine are capable of assisting in the expeditious and effective implementation of the Reform Program and continued compliance with the Agreements. In light of the City's distress condition, the existing financial emergency, the urgency of the Reform Program, the City's contractual obligations to timely achieve and implement the Reform Program and the Reform Initiatives, and the Treasury Department's support for payment of at least 50% of the assistance expenses described in this Part I, selection of assisting firms will be approved by an RFP Committee comprised of the Program Management Director and the State Treasurer or the Treasurer's designee. The City and the Treasury Department shall act in good faith to negotiate contracts which pay for the assistance services on a contingency basis.

5. Payment of Expenses; Treasury Department Share. The Treasury Department will reimburse the City for 50% of the cost of the Restructuring firm or team and the Operational assistance firms. The Treasury Department will reimburse 100% of the cost of fraud detection costs incurred by the Workers Compensation firm engaged under this Part I, but reimbursement is contingent on the firm being hired on or before December 14, 2012., Treasury Department reimbursement, as provided in this section, is subject

to limitations imposed by the Treasury Department and the City as part of the process for selecting and engaging firms. If the City fails to implement milestones as provided in this Memorandum of Understanding or otherwise fails to implement the Agreements as required following notice and a reasonable opportunity to cure, and as a result the Treasury Departments retains funds within the escrow account and does not make the funds available to the City to make draws from the escrow account, costs otherwise payable by the Treasury Department under this paragraph will instead be paid by the Treasury Department from the escrow account on behalf of the City.

II. Further Restructuring Actions and Milestones

6. Purchasing Function. The Administration will immediately embark on process improvement in the Purchasing Function so as to reduce the time required to complete contracts. The Administration and City Council will cooperatively develop and City Council will vote on a revised Purchasing Ordinance, Privatization Ordinance and any related regulations (“Purchasing Ordinances”) with the following attributes:

- a. City Council approval will no longer be required on contracts meeting the thresholds noted on the attached Approval Threshold summary;
- b. The outsourcing portion of the Purchasing Ordinances will be rewritten in a way that requires relying on quality of service and economic considerations as the primary determinants as to whether an outsourcing initiative is undertaken. Language will be included to give labor unions a reasonable opportunity to bid on outsourced work;
- c. Allowing Purchasing to engage in intergovernmental procurement activities, including, but not limited to, joining cooperatives such as MiDeal-State of Michigan, when there is economic advantage to the City without subjecting the related contracts to the City’s RFP process and City Council approvals; and
- d. The emergency contract approval process will be amended to enable rapid Reform Program procurement and contracting on account of financial emergency, specifically including provisions which provide that any contract submitted to the appropriate City Council subcommittee and not disapproved by

City Council within 15 calendar days of submission shall be deemed approved by the City Council.

7. City Reform Program Legal Counsel. City Council will vote on the pending contract(s) of Miller Canfield as outside legal counsel to support the Reform Program; to be voted on by November 20, 2012.

8. Milestones for Draws. Achievement of milestones relating to the following initiatives will trigger the ability of the City to make draws on the ~\$80 million of Refunding Deposit in the escrow:

- a. A November 20 draw not to exceed \$10 million to be contingent on:
 - i. City Council having approved the Milliman contract;
 - ii. The City having completed a review of cashiering operations in no less than five operational areas; and
 - iii. The City Council having approved a 1-year extension of the Ernst & Young engagement on substantially the same terms as are present through December 31, 2012, and the pending Miller Canfield contract as detailed above.

- b. A December 14 draw not to exceed \$20 million is contingent on:
 - i. The City beginning the implementation process of its plan in the assessor and property tax function;
 - ii. The City having completed the review of cashiering operations not previously covered by November 20 [Section 8(a)(ii)]. The City will have completed plans and selected the firm(s) to improve the five cashiering operations identified in Section 8(a)(ii);
 - iii. The City issuing and executing a contract for its medical benefit dependent audit by November 30, 2012;
 - iv. The City issuing and executing a contract for payroll outsourcing by November 30, 2012;
 - v. The completion of a plan regarding the City's Planning & Development Department(s) that satisfies all necessary requirements for approval by the United States Department of Housing and Urban Redevelopment; and

- vi. Completion of those subjects of Part I which are to be completed on or before December 14, 2012, specifically:
 - 1. Retention of the Restructuring firm or team.
 - 2. Retention of the Workers Compensation firm.
 - vii. The Milliman contract has been executed, is effective, and work is being done on deliverables. The contract will provide interim completion and implementation dates within the identified scope of services.
 - viii. One or more of the operational assistance firms described in paragraph 2 shall have been retained.
- c. Any future draws to be negotiated between the Administration and the State are contingent on the following, provided that the escrow account will maintain a minimum balance of \$50 million at all times:
- i. The City shall have streamlined its abandoned structure demolition process;
 - ii. The City meeting timelines and metrics on its cashing, property tax & assessing, payroll, and Planning & Development initiatives, with the Planning & Redevelopment initiatives providing for the reorganized delivery of services more efficiently and effectively with approval for continued funding by the United States Department of Housing and Urban Development;
 - iii. The City meeting timelines and metrics on its Income Tax, Police, Fire, DDOT, and PLD initiatives;
 - iv. The City shall have implemented its restructuring of the Department of Health and Wellness Promotion consistent with applicable law and the pending lawsuit shall have been resolved;
 - v. The City shall have implemented its restructuring of the Department of Workforce Development;
 - vi. The City shall have implemented its restructuring of the Department of Human Services;
 - vii. The City shall have made progress satisfactory to the Treasury Department on its restructuring of DDOT.
 - viii. The City having completed its medical benefit dependent audit.

- ix. Approval of revisions to the Purchasing function as described in Part II.6.

9. Subsequent Financing. Should the Treasury Department and City determine to pursue additional financing(s) that would restructure current outstanding City debt and/or provide cash flow assistance, the Corporation Counsel shall deliver such approving opinion or opinions as shall be necessary or appropriate to permit the City to accomplish the financing(s) in an orderly manner.

10. Reform Program; Continued Implementation. The Treasury Department and the City acknowledge and agree that the actions and milestones described in this milestone agenda are in accord with the City's Reform Program and Reform Initiative obligations under Annex B and the Agreements, and are appropriate and necessary to enable the Program Management Director's timely implementation of the Reform Program and individual Reform Initiatives. Nothing in this document shall be construed as an alteration of or a waiver under any of the Agreements by the City, the Treasury Department, or any other official, person or entity. The parties shall continue to implement the Agreements as provided in the Agreements.

This instrument is dated as of November 13, 2012, and is effective immediately.

MICHIGAN DEPARTMENT OF TREASURY

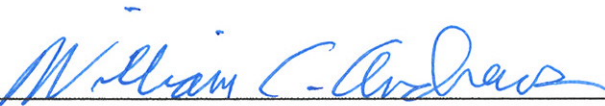
By: 

Acknowledged and agreed:

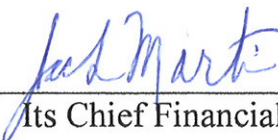
CITY OF DETROIT

By: 

Its Finance Director

By: 

Its Program Management Director

By: 
Its Chief Financial Officer

City Council Approval Threshold

Personal Services:

A contract between the City and a specific individual by name with defined performance expectations and specific compensation.

Recommendation- Annual compensation above \$50,000 or an alternative threshold recommended to the Mayor and City Council not later than December 14, 2012, by the joint Department of Finance-Purchasing Division-City Council working group on procurement (“Working Group”).

Professional Services:

Professional services means those services in a field or discipline that requires licensing, certification, specialized knowledge and/or skill not present in the public-at-large.

Recommendation- Individual &/or cumulative contract changes within a fiscal year that exceed \$100,000, or an alternative threshold recommended to the Mayor and City Council not later than December 14, 2012, by the Working Group.

Goods and Services:

Goods are tangible items and the services are those not covered by the above definition of professional services.

Recommendation- Individual &/or cumulative contract changes within a fiscal year that exceed \$150,000, or an alternative threshold recommended to the Mayor and City Council not later than December 14, 2012, by the Working Group.

100% Grant Funded Buys:

A contract that is 100% exclusively grant funded and paid for without General Fund dollars.

Recommendation- Individual &/or cumulative contract changes within a fiscal year that exceed \$250,000, or an alternative threshold recommended to the Mayor and City Council not later than December 14, 2012, by the Working Group.