

Escrow Release Milestones 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 over the next 90 days:

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 7, 2012.

2. Operational Assistance. The City will, as expeditiously as possible, select and retain one or more operational restructuring 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 need 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.

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

- 1) Police and fire departments (including steps to create a fire authority), reviews to include improved delivery of services in an efficient manner including enhanced employee and community engagement efforts; to be completed by March 31, 2013;
- 2) Lighting and Transportation departments; to be completed by February 28, 2013;
- 3) Property Tax and Assessor's Office; to be completed by December 15, 2012;
- 4) Income Tax function; to be completed by March 31, 2013;
- 5) Law Department; to be completed by February 28, 2013; and

- 6) Real estate and lease review; to be completed by March 31, 2013.

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 and efficiencies 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 5 below; to be retained by December 7, 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 2 and Operational assistance firms described in paragraph 3 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 more than 50% of the consulting expenses described in this Part I, selection of consultants will be approved by an RFP Committee comprised of the Program Management Director and the State Treasurer or the Treasurer's designee.

5. Payment of Expenses; Treasury Department Share. The Treasury Department will pay for 50% of the cost of the Restructuring firm or team and the Operational assistance firms and 100% of the cost of fraud detection costs incurred by the Workers Compensation firm engaged under this Part I, subject to limitations imposed by the Treasury Department and the City as part of the process for selecting and engaging firms. Savings realized from the Reform Initiatives shall be used to the extent available to pay for the foregoing expenses.

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 approve a revised Purchasing Ordinance, Privatization Ordinance and any related regulations by November 30, 2012, with the following attributes:

- a. City Council approval for budgeted items will no longer be required on contracts meeting the thresholds noted on the attached Approval Threshold summary;
- b. The outsourcing portion of the Purchasing Ordinance will be rewritten in a way that requires relying on economic considerations as the primary determinant 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 City Council 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 approve the pending contract(s) of Miller Canfield as outside legal counsel to support the Reform Program; to be approved by November 2, 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 approving the Milliman contract;
 - ii. The City beginning the implementation process of its plan in the assessor and property tax function;
 - iii. The City completing its plan to improve its cashiering operations; and
 - iv. The City Council approving 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 issuing a contract for its dependency audit and payroll outsourcing executed by November 30, 2012;
 - ii. Meeting timelines and metrics in the improvement of its cashiering operations;
 - iii. Meeting timelines and metrics on its dependency audit and its payroll outsourcing;
 - iv. 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
 - v. 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.
 - 3. Approval of revisions to the Purchasing function.
 - vi. The Milliman contract has been executed, is effective, and implementation has begun.
 - vii. 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:
 - i. The City shall have streamlined its abandoned structure demolition process;

- ii. The City meeting timelines and metrics on its cashiering, 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 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 made progress satisfactory to the Treasury Department on all other Annex B initiatives;
- ix. The City having completed its dependency audit.

9. 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 October __, 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

City Council Approval Threshold
October 18, 2012

Personal Services:

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

Recommendation- Negotiate threshold with City Council.

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- Negotiate threshold with City Council.

Goods and Services:

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

Recommendation- Negotiate threshold with City Council.

100% Grant Funded Buys:

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

Recommendation- Negotiate threshold with City Council

Notes:

All purchases would still follow the expected competitive bid process and applicable procedures, including documentation and subject to audit. Specific examples of the various types of buys / contracts can be identified to make perfectly clear what approval is required by City Council. It is also recommended that the Purchasing Director give a quarterly report and presentation to City Council and Research Analysis Division on expenditures below the revised thresholds.