

CITY OF DETROIT

Plan for the Adjustment of Debts

Summary Discussion Document

May 13, 2014



The State Settlement is a key component of the City's Plan of Adjustment

The State Settlement has the following benefits:

- Reduces cuts to pensioners
- Preserves art for the benefit of entire State of Michigan
- Provides mechanism for ensuring proper post-bankruptcy governance and oversight
- Ensures the Plan is feasible and the City can execute and deliver under the terms of the Plan
- Puts City in position to continue in a sustainable fashion in accordance with PA 436
- Provides a full release to State of Michigan from pension litigation



Without the State Settlement, the City's Plan of Adjustment is in jeopardy

No State Settlement results in the following risks:

- Pension creditors (the largest single group of creditors) would likely not approve the plan without the State Settlement
- Proceeds expected from the DIA and foundations would be lost, worsening the proposed recoveries for all creditors
- DIA art and other City assets would be at risk of loss and sale; value would be lost in a disorderly fire-sale of the art
- Proceeds from art would need to be split between all creditors, to the detriment of the pension systems
- State could be exposed to pension litigation regarding PFRS and GRS liabilities of up to ~\$3.5 billion
 - The outcome of any pension related litigation would set a precedent for other distressed municipalities
- All other settlements with other creditor groups would be at risk, sending Detroit back to square one in the Chapter 9 process



City of Detroit – Post-Bankruptcy Governance

The City of Detroit will benefit from continued oversight following bankruptcy:

- Such oversight will help to:
 - Ensure long-term fiscal stability including affordable debt service and adequate borrowing capacity
 - Protect against imprudent financial decision-making or improper practices going forward
 - Give credit markets confidence regarding the City's future
 - Safeguard the intent and benefit of the State Settlement
 - Satisfy the conditions of foundations; State and DIA benefactors necessary to fund the total settlement of \$816 million
- This oversight is expected to take three forms:
 - Following the model of New York's Municipal Advisory Committee, an advisory oversight board will be established of qualified individuals to review the City's budget, expenditures, and monitor financings and performance against the Plan of Adjustment
 - The federal bankruptcy court will retain jurisdiction over the post-emergence bankruptcy case and may establish its own monitoring and reporting function for the City to confirm adherence to the Plan of Adjustment
 - The capital markets will play an important role going forward on requiring prudent fiscal practices as the City rebuilds its credit rating and capacity to issue municipal bonds at competitive rates



The Plan objectives include the revitalization of the City, the enhancement of core City services, and returning the City to fiscal stability in a sustainable fashion

Fiscal stability and sustainability

- Stabilize key revenue streams and forecast revenues that the City can reasonably achieve
- Reduce burden of debt, pension and healthcare related (OPEB) liabilities, while providing restructured benefits to actives and retirees
- Improve controls and daily operations

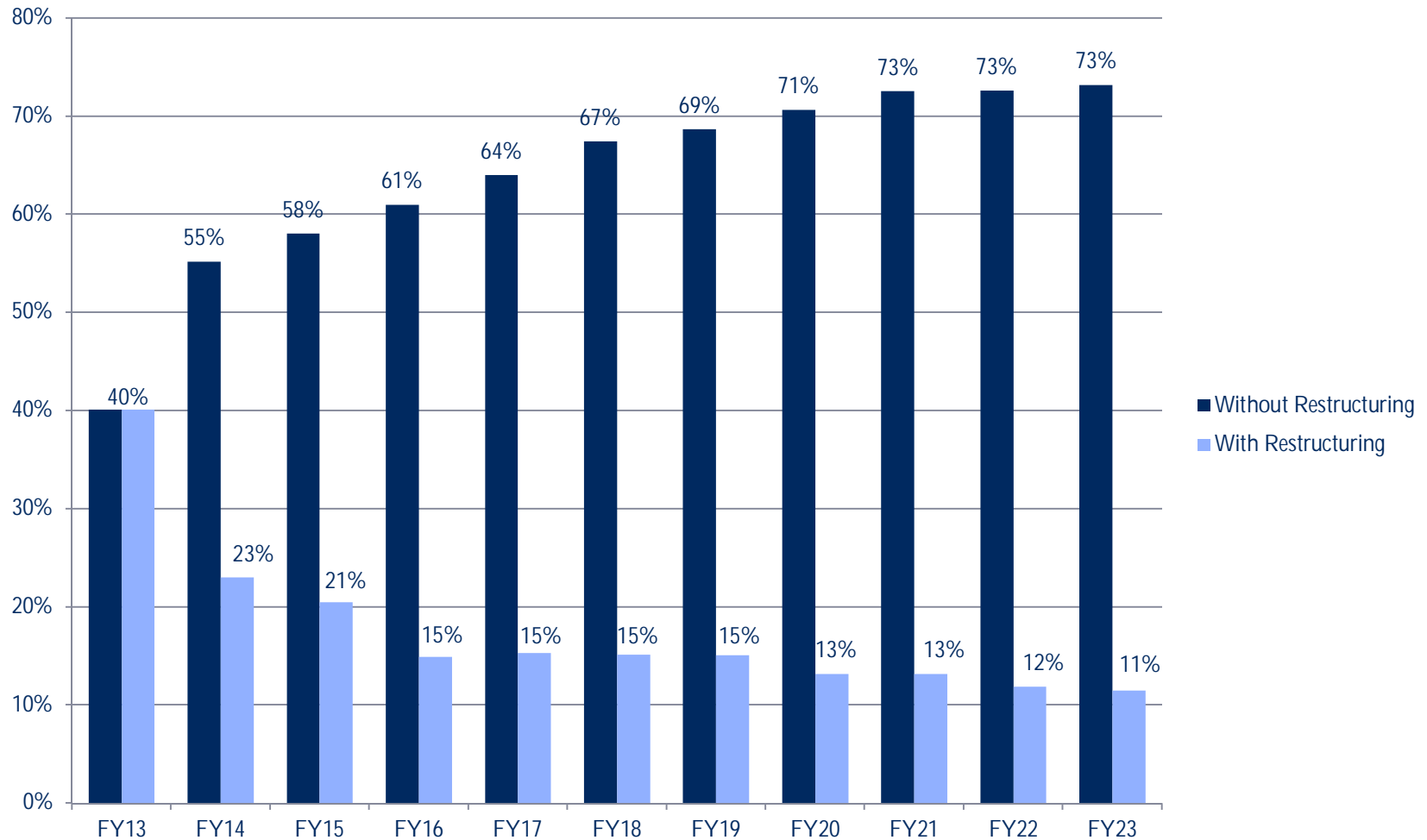
Revitalization of City of Detroit / Improvement of services for citizens

- Provide City with resources in order to reinvest, reinvent and grow within its own means
- Improve infrastructure
- Eliminate residential blight
- Public safety – reduce crime and improve response times
- Essential services – reinvest in street lighting and other City services
- Create the foundation to allow for a sustainable outcome for the City, residents, and stakeholders

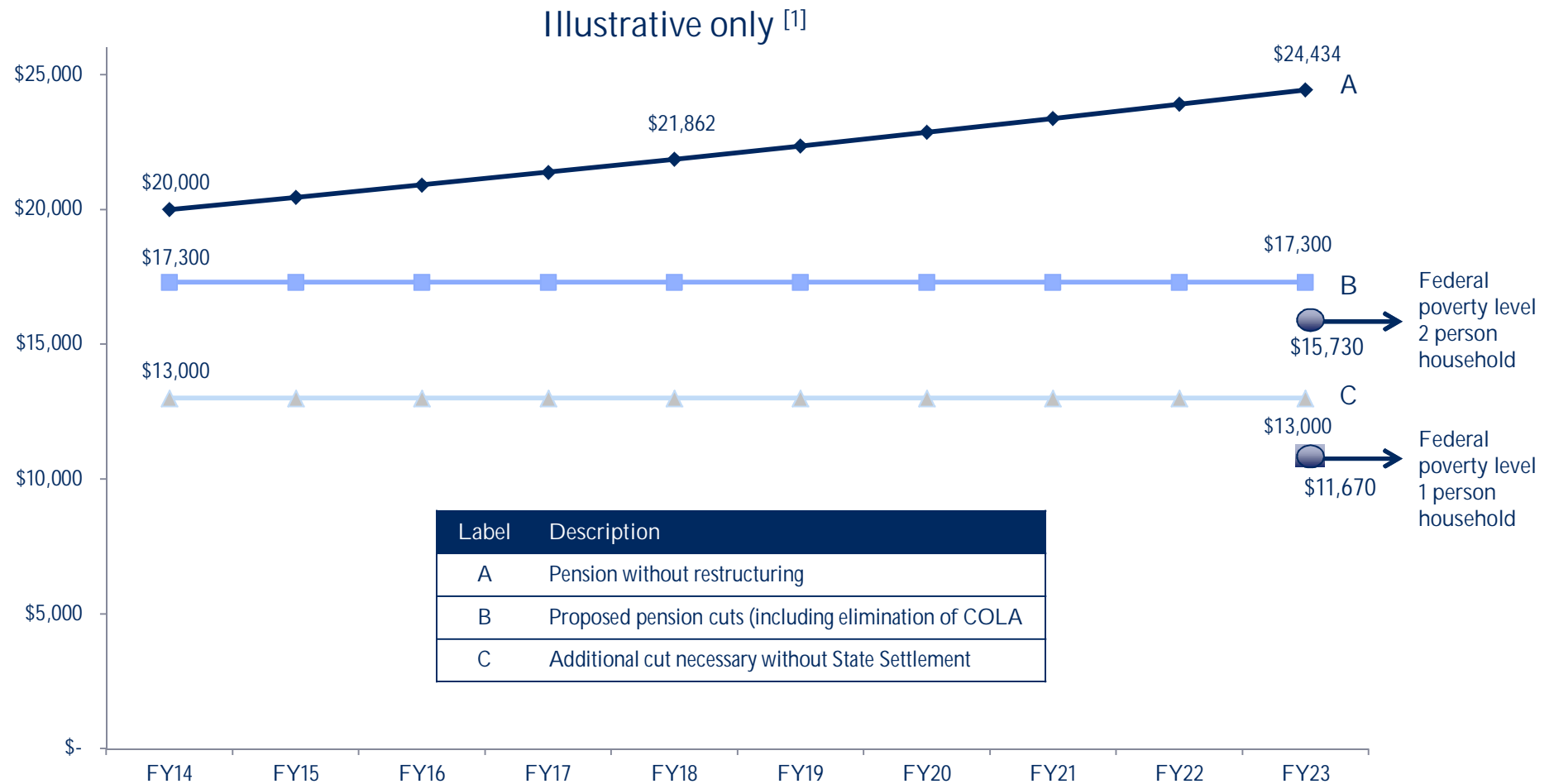


Legacy costs as a percentage of revenues will be significantly reduced through the Chapter 9 process

Legacy costs as a % of General Fund revenue



Average 10-year impact of pension cuts based on average estimated GRS pension of \$20,000



^[1] Estimated cuts are illustrative only based on preliminary estimates; actual cuts for each person could vary significantly depending on impact and status of annuity savings fund

Estimated impact of annuity savings fund ("ASF") excess earnings payouts on pension fund returns

- ASF excess earning payouts means that General Retirement System beneficiaries earned over 11% investment returns when the Plan only earned 5.5%, which essentially transferred Plan assets over to retiree accounts

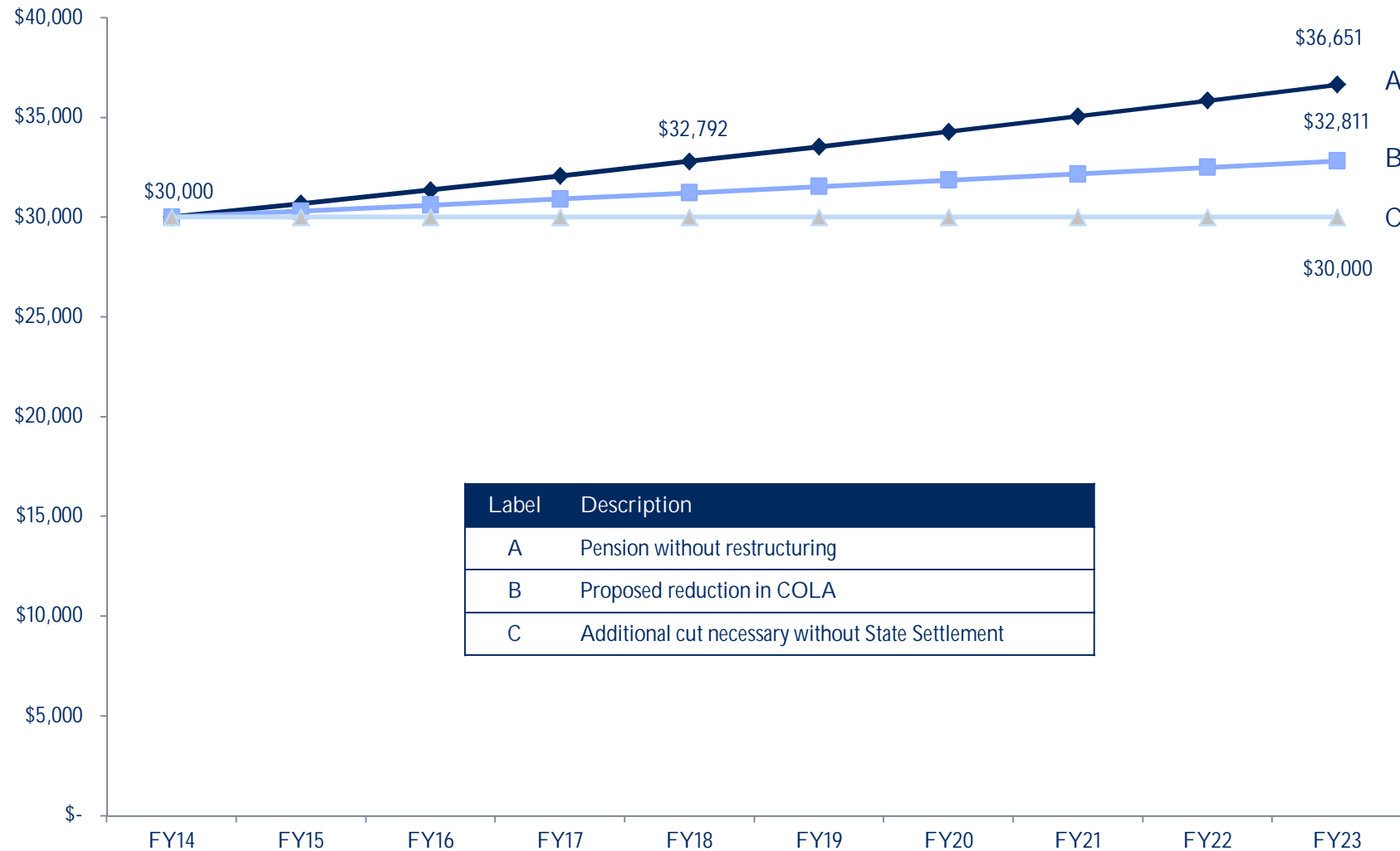
Fiscal Year Ending	Actual GRS Rate of Return	Amount Credited to ASF
June 30, 2003	3.3%	7.9%
June 30, 2004	15.6%	7.9%
June 30, 2005	9.2%	9.2%
June 30, 2006	11.6%	21.4%
June 30, 2007	18.9%	23.0%
June 30, 2008	(4.3%)	7.9%
June 30, 2009	(19.7%)	7.9%
June 30, 2010	4.5%	7.9%
June 30, 2011	20.2%	7.9%
June 30, 2012	0.5%	7.9%
Average Rate of Return (CAGR) ¹	5.5%	11.1%

^[1] Average rate of return credited to ASF was more than double the market rate of return over the nine-year period 2003 to 2012.



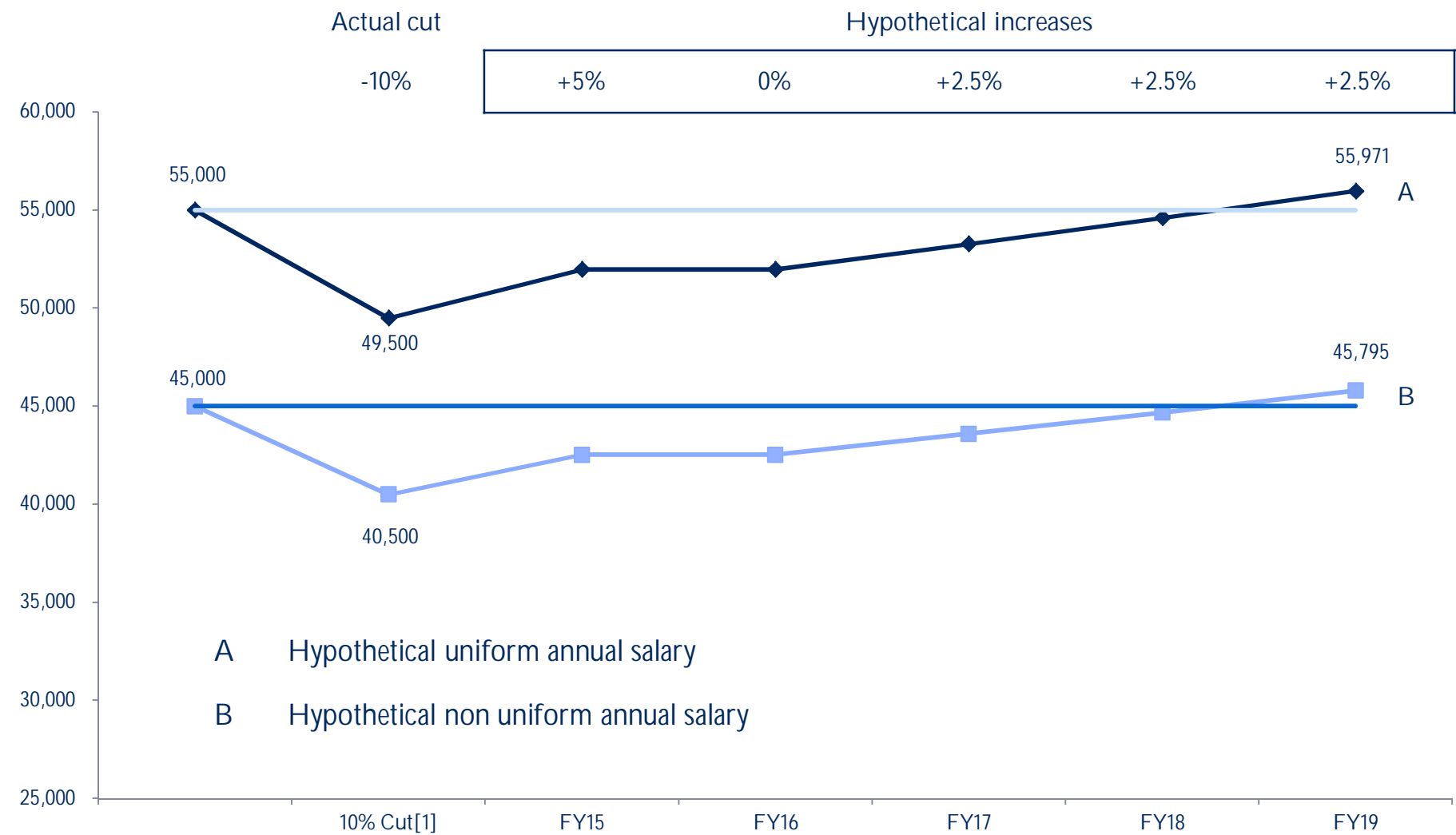
Average 10-year impact of pension cuts based on average estimated PFRS pension of \$30,000

Illustrative only ^[1]



^[1] Estimated cuts are illustrative only based on preliminary estimates; actual cuts for each person could vary significantly

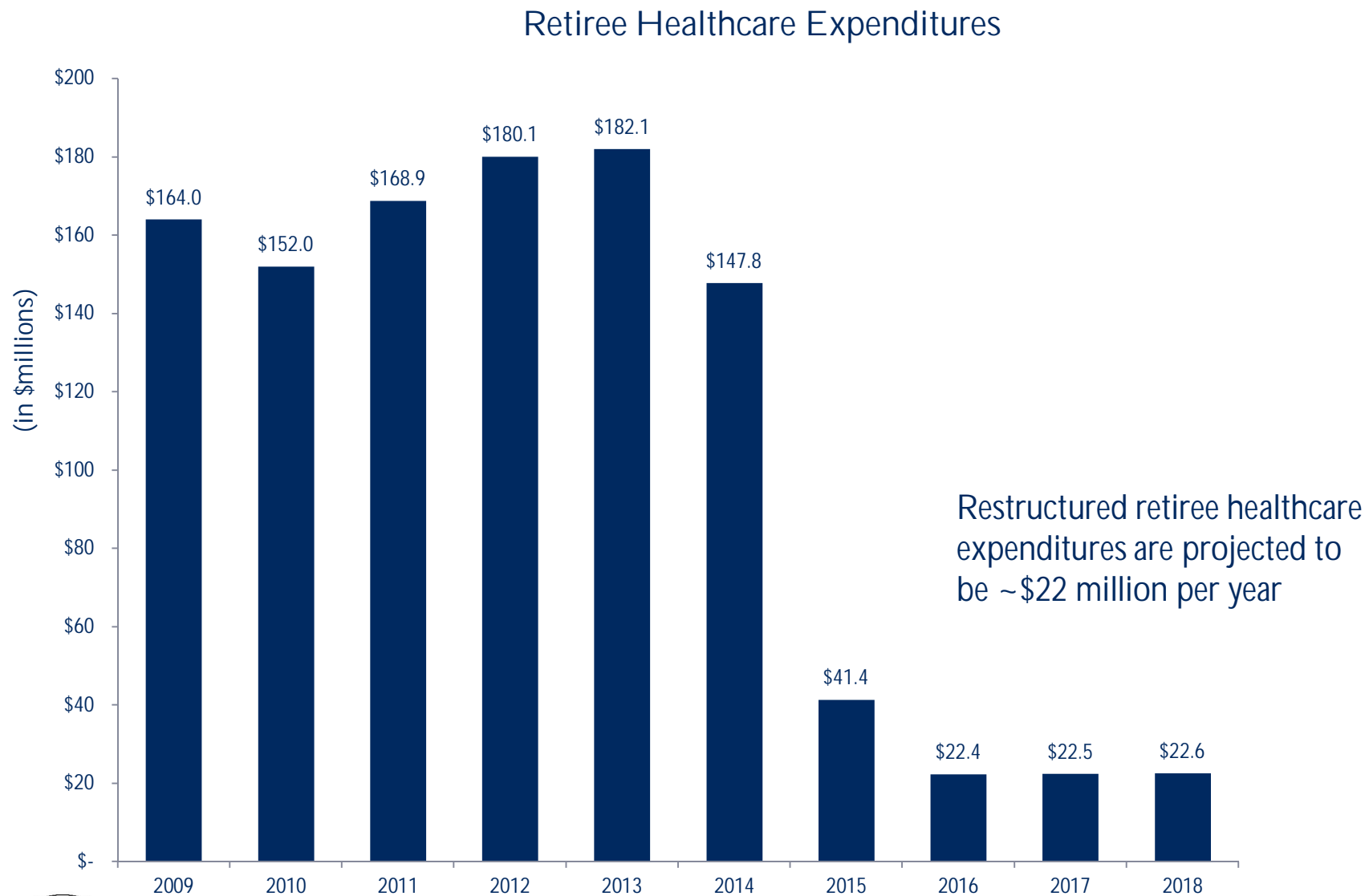
Hypothetical wage increases will bring employees back to 2012 wage levels by 2019



[1] 10% reduction was implemented at various points in time depending on union contracts



Restructured retiree healthcare expenditures (OPEB) will be significantly reduced



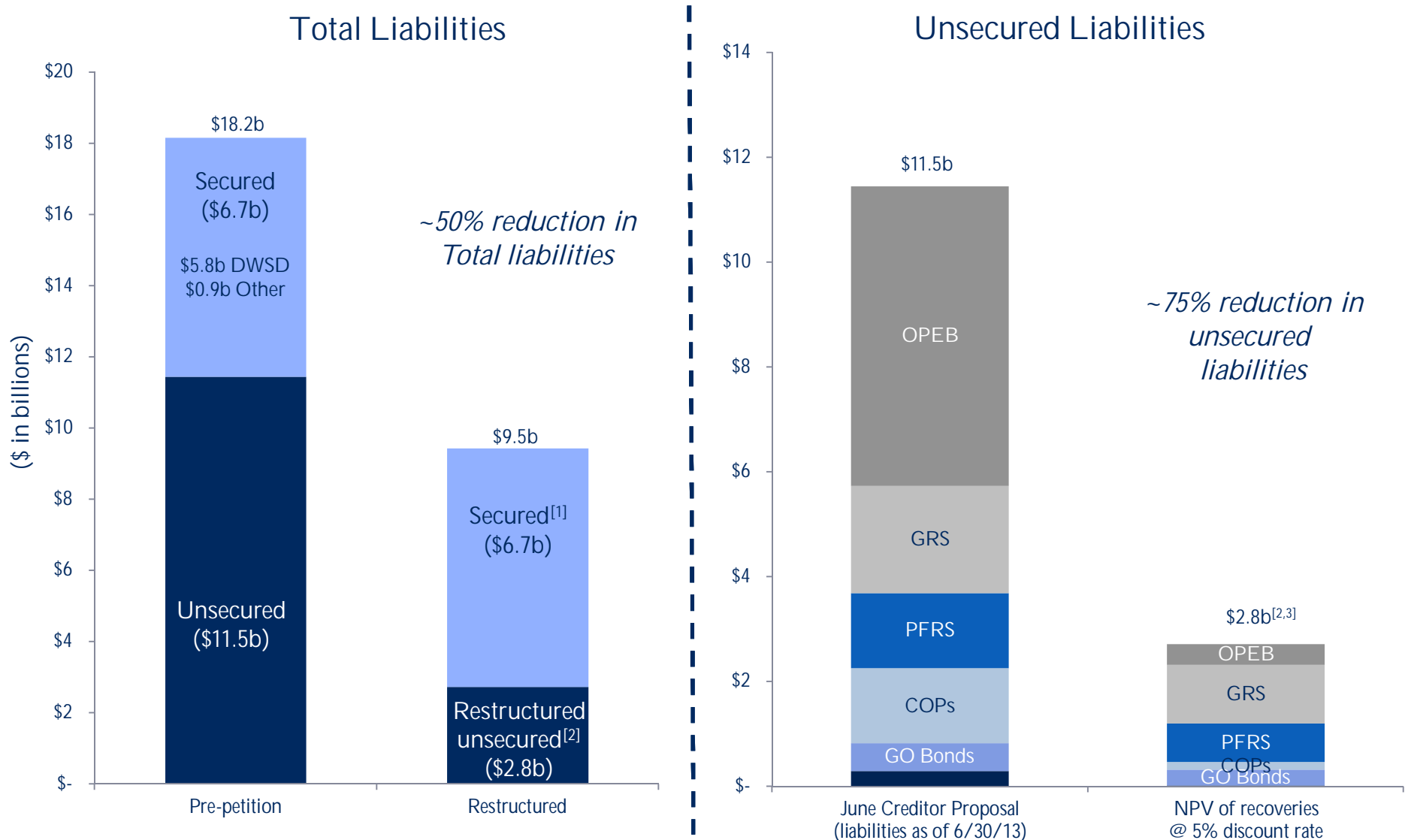
Note: Reductions in retiree healthcare expenditures will reduce average cost per employee from over \$18,000 in FY 2013 to approximately \$2,000 in FY 2016

Retiree healthcare transition plan (OPEB liability transition)

1. The City of Detroit has reached a 1-year settlement with the ~20,000 retirees receiving healthcare:
 - Full health coverage continued since the bankruptcy filing through February 28, 2014
 - Effective March 1, 2014, the City no longer sponsors healthcare plans for retirees
 - In lieu of providing healthcare coverage, the City agreed to pay monthly stipends
 - Monthly stipends generally range from \$125-\$400 per retiree per month (depending on circumstances)
 - Monthly stipends will continue through December 31, 2014
2. After 12/31/2014, the City will no longer be in the retiree healthcare business
 - As part of the Plan of Adjustment, the retirees have an unsecured healthcare (OPEB) claim of ~\$4.3 billion
 - The retiree class will receive a 30-year note with a \$450 million face value, as defined under the Plan of Adjustment
 - Proceeds paid in connection with this note will be placed into the VEBA trust, managed by the retirees, from which they can purchase or supplement insurance coverage
3. The City of Detroit will no longer have an OPEB liability



The City POA assumes ~50% reduction in total liabilities and ~75% reduction in unsecured liabilities

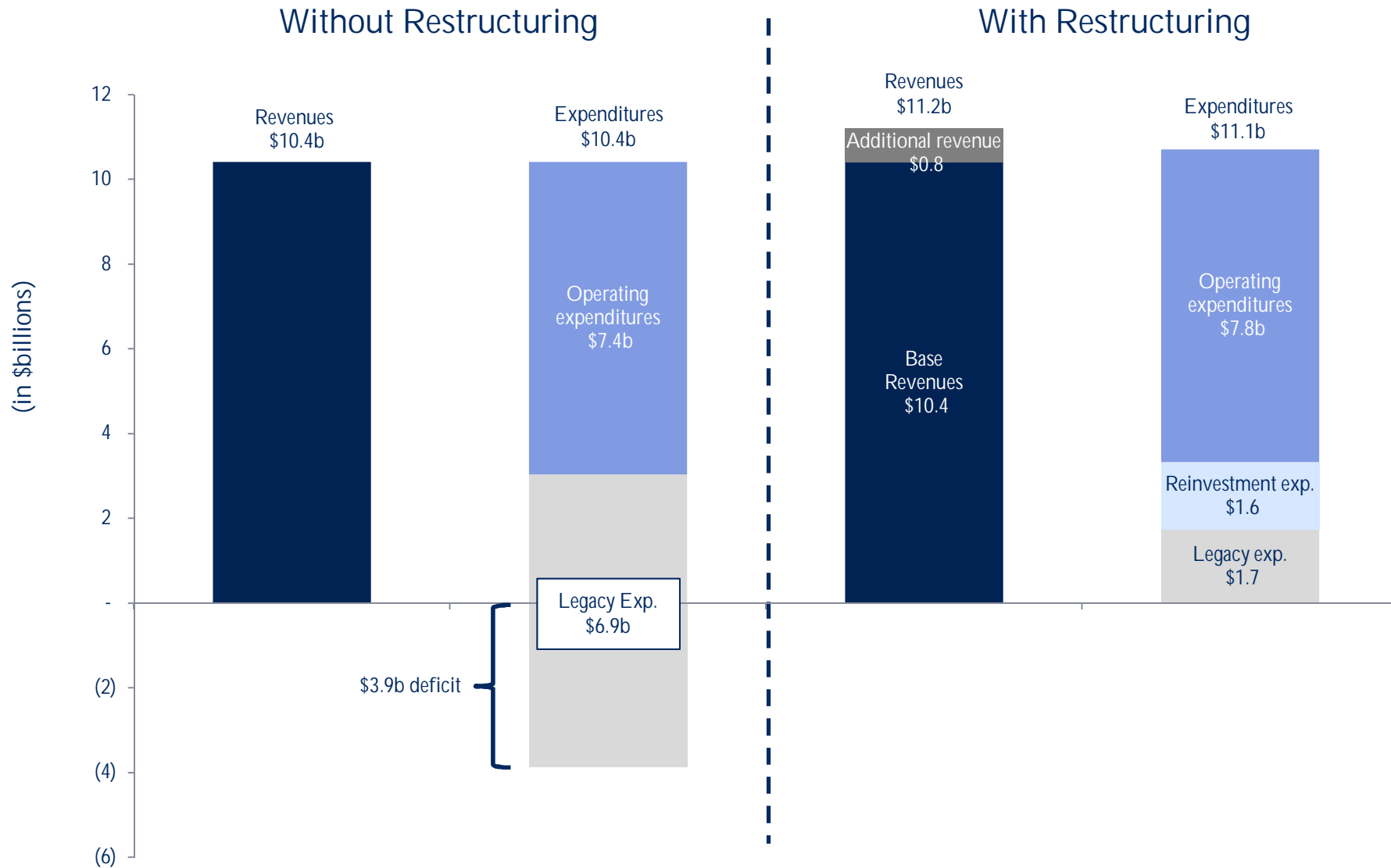


^[1] Prepetition liabilities are based on CAFR and June 14th Creditor Proposal, actual claim amounts may differ. Treatment of DWSD and other secured debt to be determined

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

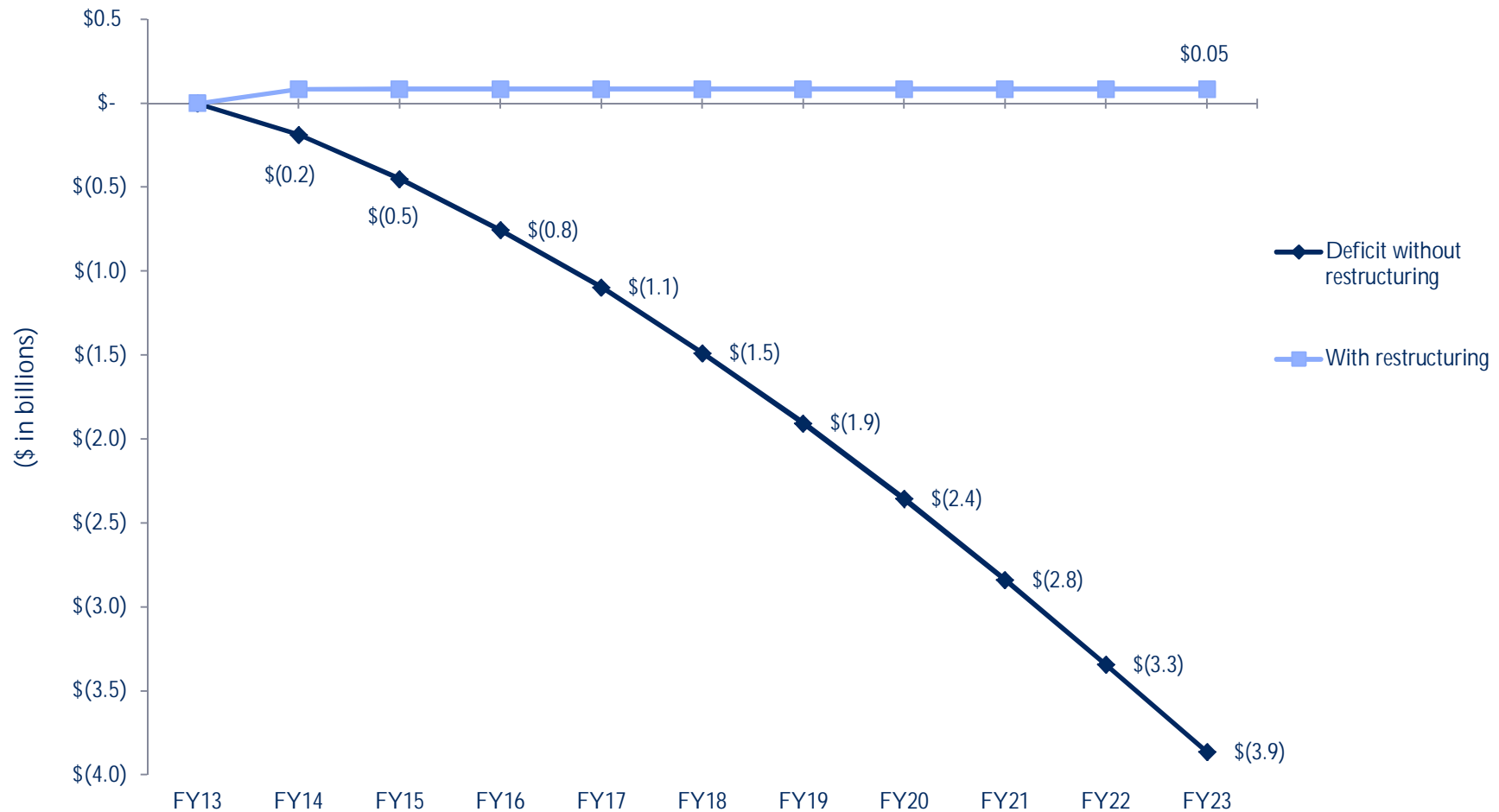
^[3] Hypothetical treatment of unsecured creditors is subject to on-going discussions and could change materially

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



Accumulated deficit would be \$3.9b over ten year period absent restructuring

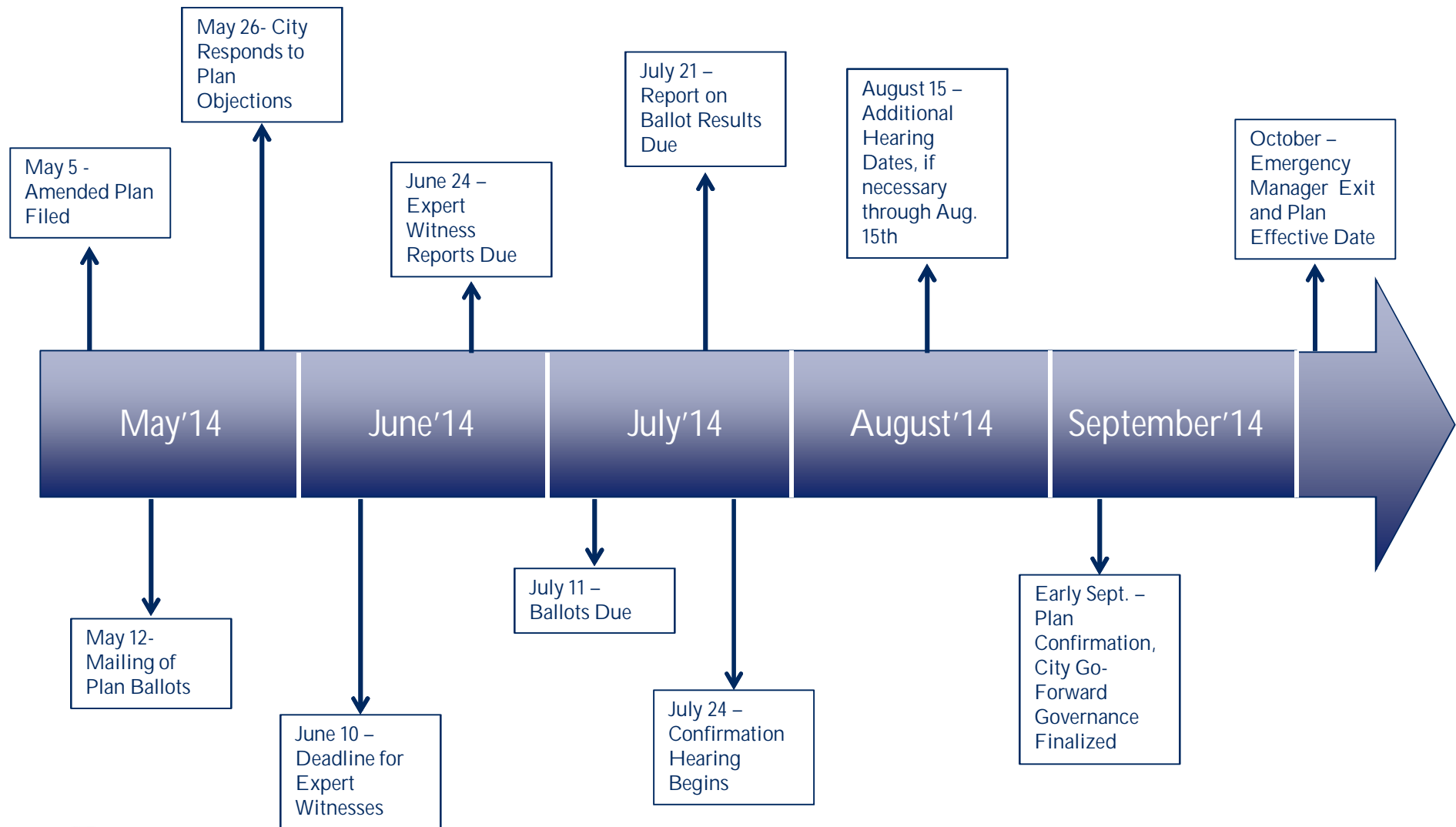
Cumulative sustainable balanced budget^[1]



^[1] Represents the cumulative surplus/deficit over the 10 year period, assuming beginning surplus/deficit balance of zero



City of Detroit – Current Bankruptcy Timeline



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