

**FINANCIAL STABILITY AGREEMENT
AMONG THE CITY OF DETROIT, THE CITY OF DETROIT FINANCIAL
REVIEW TEAM AND THE TREASURER FOR THE STATE OF MICHIGAN**

WHEREAS, the City of Detroit (the "City"), through its Mayor and City Council, seeks to promote a long-term vision for achieving the sustainable growth critical for a stable Detroit and ensuring the City's financial integrity in a manner that improves Detroiters' quality of life; and

WHEREAS, the State of Michigan (the "State") seeks to support the efforts of the City for the betterment of the residents of the City and the State as a whole; and

WHEREAS, the City and the State seek to implement and facilitate this long-term vision for a revitalized City through the adoption of this Financial Stability Agreement (this "Agreement"); and

WHEREAS, this Agreement contains the terms and conditions to lay the groundwork for efficiently restructuring the City's operations and tackling the City's systemic issues with the goals of (i) ensuring that the City remains a safe and secure environment where residents and visitors can live and work and (ii) promoting the economic development necessary to attract jobs and businesses to the City; and

WHEREAS, approval of this Agreement is not intended to alter the Mayor's and City Council's control over development of the strategy and policies of the City; and

WHEREAS, on December 6, 2011, pursuant to Section 12(1) of Act 4, Public Acts of Michigan, 2011, the Local Government and School District Fiscal Accountability

Act ("Act 4"),¹ a preliminary review (the "Preliminary Review") was commenced by the Michigan Department of Treasury (the "Treasury Department") to determine whether a "local government financial problem" existed with respect to the City; and

WHEREAS, on December 21, 2011, the State Treasurer of Michigan (the holder of such office at any given time, the "State Treasurer") reported to the Governor of Michigan (the holder of such office at any given time, the "Governor") that, based upon the Preliminary Review, "probable financial stress" existed within the City and recommended the appointment of a review team for the City (the "Financial Review Team"); and

WHEREAS, pursuant to Section 12(3) of Act 4, the Governor appointed a ten-member Financial Review Team on December 27, 2011 to conduct a municipal financial management review of the City (the "Financial Review"); and

WHEREAS, during its 90-day appointment and in accordance with Section 13(2) of Act 4, the Financial Review Team met with City officials, union officials and other parties, and collected relevant information and documentation, for the purpose of assessing the financial condition of the City and conducting a Financial Review; and

WHEREAS, in accordance with Section 13(3) of Act 4, the Financial Review Team concluded that (i) the City was in a condition of "severe financial stress" within the meaning of Section 14(2) of Act 4 but (ii) consistent with Section 13(1)(c) of Act 4, a consent agreement between the City and the Financial Review Team containing a plan to resolve that severe financial stress could be devised; and

¹ All references to Act 4 in this Agreement are to such Act as it is in effect as of the date hereof even if subsequently modified, amended or repealed, and the provisions in such Act referenced herein are incorporated in this Agreement.

WHEREAS, City officials, as evidenced by approval of this Agreement, demonstrate a desire to enter into this Agreement to address the City's severe financial stress, thereby enabling the Financial Review Team to report to the Governor, pursuant to Section 13(4)(b) of Act 4, that a consent agreement containing a plan to resolve the severe financial stress within the City has been adopted; and

WHEREAS, this Agreement, including the Continuing Operations Plan (defined below) contemplated herein, constitutes a "consent agreement" within the meaning of Section 13(1)(c) of Act 4; and

WHEREAS, this Agreement represents and incorporates by reference the power and authority of the Treasury Department to protect the credit of the State and its municipalities including, but not limited to, under Act 34, Public Acts of Michigan, 2001, as amended, the Revised Municipal Finance Act ("Act 34").

NOW, THEREFORE, the parties hereby agree as set forth below. Without limiting the foregoing, the City, through its Mayor (the holder of such office at any given time, the "Mayor") and the City Council of the City of Detroit ("City Council"), hereby agrees and promises to undertake the remedial steps outlined in the following paragraphs in consideration of and reliance upon: (i) the Financial Review Team and the State Treasurer entering into this Agreement; (ii) the Financial Review Team (A) reporting to the Governor, pursuant to Section 13(4)(b) of Act 4, that this Agreement has been adopted and (B) forbearing from reporting to the Governor, pursuant to Section 13(4) of Act 4, that a "financial emergency" exists within the City; (iii) the Treasury Department maintaining existing discretionary state revenue sharing initiatives and agreements between the State and the City pursuant to Act 140, Public Acts of Michigan, 1971, as amended, the Glenn Steil State Revenue Sharing Act of 1971 ("Act

140"); (iv) the City's continuing ability to issue new municipal securities with appropriate approvals under Act 34 until such time as the City achieves "qualified status" thereunder or otherwise; (v) the City's ability to obtain additional financing pursuant to Act 243, Public Acts of Michigan, 1980, as amended, the Emergency Municipal Loan Act ("Act 243") with appropriate approvals; and (vi) the other agreements and commitments made herein by and on behalf of the State.

I. SUMMARY OF ROLES AND RESPONSIBILITIES

a. Office of the Mayor:

i. Per the 2012 Detroit City Charter (the "Charter") and State law, the Mayor continues as the chief executive of the City and, as provided by the Charter, has control of and is accountable for the executive branch of City government.

ii. Except as otherwise provided by law, the Charter, or this Agreement, executive and administrative authority for the implementation of programs, services and activities of the City is vested exclusively in the executive branch.

b. City Council:

i. Per the Charter and State law, the City Council continues as the City's legislative body. It maintains the powers and duties provided by law and the Charter, except as otherwise expressly provided in this Agreement.

ii. The President of the City Council will continue to preside at all regular session meetings of the City Council. The president will maintain administrative responsibility on behalf of the City Council.

c. Financial Advisory Board:

i. The Financial Advisory Board shall provide oversight with respect to the financial management and stability of the City as follows, but not limited to:

1. Improving the quality of financial reporting, establishment of sound internal controls, and encouraging ethical behavior.

2. Improving operational business management processes.

3. Engaging in a meaningful discussion with auditors and management about financial reporting quality.

d. "Advisory Board Liaison" (defined below):

i. The Advisory Board Liaison will serve under the direction of the Mayor and shall be responsible for the implementation of the strategies, policies, financial management and Restructuring of the City.

e. Powers

i. The exercise of administrative power under this Agreement shall be as expressly so delegated, and no delegation or transfer of administrative power shall be implied except as expressly provided in this Agreement. No delegation or transfer of legislative power or authority shall be implied by this Agreement except as authorized by Act 4 or other applicable law.

II. SPECIFIC TERMS

1. FINANCIAL ADVISORY BOARD

1.1. Establishment and Purpose. Pursuant to this Agreement and other applicable law, a financial advisory board (the "Financial Advisory Board") shall be immediately established to administer and execute this Agreement. The Financial Advisory Board shall be a public body corporate. The primary purposes of the Financial Advisory Board shall be to take action to mitigate financial distress and promote fiscal stability, including, but not limited to: (a) promote and monitor a long-term financial and operational restructuring of the City (the "Restructuring"), (b) restore the City to Financial Stability (as such term is defined in Section 9.1 below), and (c) supervise an Advisory Board Liaison (the "Advisory Board Liaison"), who (x) shall be charged with assisting the Mayor with refining, managing, implementing and executing the Continuing Operations Plan to be attached as Annex A hereto (the "Continuing Operations Plan"), (y) shall report directly to the Mayor, and shall be physically housed in the executive office of the Mayor, and (z) is deemed to hold an identified position as an "officer" of the City within the meaning of Section 14a(9) of Public Act 4, or any successor statute. The Continuing Operations Plan shall be (a) a "continuing operations plan" within the meaning of Section 14a of Public Act 4, or any successor statute, (b) a "financial plan" (sometimes referred to as a "deficit elimination plan") within the meaning of Act 140 and (c) subject to the terms of this Agreement. The Continuing Operations Plan shall be developed by the City and adopted by the State Treasurer in accordance with Sec. 14a of Act 4.

1.2. Composition. The Financial Advisory Board shall be composed of seven members, each of whom shall possess professional qualifications and character

suitable for the rendering of well-informed judgments within the context of highly complex restructurings. The initial Financial Advisory Board shall be composed of the following members:

- (a) The State Treasurer;
- (b) One individual appointed by the Governor;
- (c) Two individuals appointed by the Mayor;
- (d) Two individuals appointed by the Mayor and confirmed by the City Council from a list of 6 candidates provided by the Mayor; and
- (e) One individual appointed by the City Council who shall serve at the will of the City Council.

Each member of the Financial Advisory Board (any such member, a "Member") shall possess at least five years' experience with either (a) sophisticated municipal financial transactions, (b) restructuring in high-profile and complex turnaround, crisis, bankruptcy and/or rapid transition environments, (c) labor and/or pension matters, (d) local government management, or (e) other relevant professional experience satisfactory to the appointing entity, provided that the State Treasurer shall not be subject to the foregoing requirements.

Members shall not be officers or employees of the City or a member of the City Council. The terms of all Members other than the member serving at the will of the City Council shall be three years, provided that upon appointment (a) one Member identified in Section 1.2(c) shall serve an initial 12-month term; (b) of the Members identified in Section 1.2(d), one Member shall serve an initial 12-month term and the other shall serve an initial 24-month term; and (d) the State Treasurer shall serve for so long as the Financial Advisory Board is in existence. Vacancies shall be filled in the same manner as the original appointment. Upon the formation of the Financial Advisory Board and

thereafter, the Governor and the Mayor shall jointly select the Chairman of the Financial Advisory Board (the "Board Chairman") from its then-current membership. The Board Chairman shall serve at the will of the Governor and the Mayor.

1.3 Compensation; Ethical Restrictions. Members shall be entitled to annual compensation in the amount of \$25,000.00 (such compensation, the "Annual Compensation") during their terms of service, provided that (a) the State Treasurer shall not be entitled to receive any Annual Compensation, (b) such Annual Compensation shall be payable in cash in four equal installments on a quarterly basis and (c) such Annual Compensation shall be prorated as necessary in the event that a Member serves less than a full quarter for any reason. All Members shall be entitled to reimbursement of actual, reasonable, necessary and documented expenses (including, but not limited to, expenses related to travel, meals and lodging) incurred in connection with their service on the Financial Advisory Board (such expenses, the "Reimbursable Expenses"). The Treasury Department shall be responsible for the payment of all Annual Compensation and Reimbursable Expenses incurred by Members, provided that neither the State, the City, the Treasury Department nor any other entity shall be responsible for the payment of any Reimbursable Expense that is not evidenced by a copy of the corresponding receipt. All Members shall be subject to the provisions of (i) Act 317, Public Acts of Michigan, 1968, as amended, (ii) Act 196, Public Acts of Michigan, 1973, as amended, pertaining to standards of conduct for public officers and employees, and (iii) such gift acceptance guidelines and similar ethical obligations and restrictions as are applicable to the State Treasurer in the performance of his/her duties as State Treasurer.

1.4 Authority. Consistent with this Agreement and applicable law, the Financial Advisory Board shall have authority to do all of the following:

- (a) Adopt rules of procedure governing the conduct of its business, including, but not limited to, the (i) identification of the responsibilities of the Board Chairman (which will include the role of chairing Revenue Conferences (as such term is defined below)), (ii) appointment of its officers as necessary and appropriate and (iii) adoption of specific procedures governing the duties of oversight, consultation and approval described in this Agreement.
- (b) Hire, employ, appoint and/or supervise professional staff to assist in the completion of its duties and to assist state and local officials. The Treasury Department shall be responsible for the payment of all reasonable fees and expenses incurred by the Financial Advisory Board in connection with such professionals' services.
- (c) Enter into contracts to assist in the completion of its duties and sue and be sued in its own name.
- (d) Obtain appropriate levels of insurance for its Members, including director and officer insurance or its equivalent. The Treasury Department shall be responsible for the payment of all reasonable premiums and expenses incurred by the Financial Advisory Board in connection with such insurance.
- (e) Recommend financial and operational metrics by which the Restructuring shall be monitored and evaluated in consultation with the State as to best management practices for local governmental entities.
- (f) Monitor the Restructuring and the timely implementation of the Continuing Operations Plan.
- (g) Evaluate the City's existing debt structure.
- (h) Advise the Governor, the Mayor and other State or City officials regarding the Restructuring, including, but not limited to, policy objectives necessary and proper to achieve the Restructuring.
- (i) Assist the City in the preparation of the City's annual proposed operating and capital budgets (including, but not limited to, an appropriation proposed therein) (any such budget a "Budget") consistent with the Continuing Operations Plan. No proposed Budget (or amendment, modification or supplement thereto) shall be submitted to the City Council by the Mayor absent the prior approval thereof by the Financial Advisory Board.
- (j) As part of the annual proposed Budget review and approval process under Sec. 1.4(g), review and approve the sources of any funding for the City, and otherwise make recommendations as to funding for the City.

- (k) From and after July 1, 2012, receive from the Mayor, and review and approve prior to submission to City Council by the Mayor, (i) any material capital markets transaction (including transactions involving new or existing swaps) proposed to be entered into by the City (including, but not limited to, any proposed exchange offers), (ii) any proposed changes to the City's debt structure, (iii) any proposed sale of any material asset of the City, (iv) and (v) any other action by the City that could have a material impact on the financial condition of the City.
- (l) Review and comment on any proposed amendment or modification to any material contracts to which the City is party (including, but not limited to, collective bargaining agreements, pension agreements and any other contracts requiring the payment of retiree benefits), provided that, consistent with Section 14a(9) of Public Act 4, neither the Financial Advisory Board, the Mayor nor any entity appointed thereby (including, but not limited to, the Advisory Board Liaison), shall be authorized to exercise the powers prescribed for emergency managers in Section 19(1)(k) of Public Act 4,
- (m) Assist in the creation of a new fiscal authority for the City as appropriate to implement the Restructuring.
- (n) Receive from the Mayor, and review and make recommendations regarding any plan or proposed transaction related to the consolidation, disposition or elimination of City departments, including with respect to the impact of such transactions on the Budget.
- (o) Receive from the Mayor, and review and make recommendations regarding proposed changes to the organizational structure of the City involving (i) any positions appointed by or that report directly to the Mayor or Council, or (ii) any positions that are appointed by the Financial Advisory Board.
- (p) Receive from the Mayor, and review and comment on proposed judgment levies before submission to a court pursuant to Public Act 236 of 1961, the Revised Judicature Act of 1961.
- (q) Appoint the Advisory Board Liaison.

1.5 Advisory Board Liaison; Qualifications. The Advisory Board Liaison shall have such skills and experience as are determined by the Financial Advisory Board to be necessary for the performance of their respective positions.

1.6. Term of Appointment; Insurance. The Financial Advisory Board shall appoint the Advisory Board Liaison upon consideration of the recommendation of the

Governor. Any retention agreement between the Financial Advisory Board and an Advisory Board Liaison (any such agreement, a "Retention Agreement") shall be on terms acceptable to and approved by the Financial Advisory Board. The Advisory Board Liaison shall be provided insurance coverage that is at least the equivalent as such coverage as may be provided to Members of the Financial Advisory Board in accordance with Section 1.4(l) above.

1.7. Responsibility for Compensation. The Treasury Department shall be responsible for the payment of any compensation of the Advisory Board Liaison, the reimbursement of reasonable, actual and documented expenses and/or any other payment to which the Advisory Board Liaison shall be entitled pursuant to a Retention Agreement, provided that any Retention Agreement shall provide that neither the State, the City, the Treasury Department nor any other entity shall be responsible for the payment of any reimbursable expense that is not evidenced by a copy of the corresponding receipt.

1.8 Voting. The Financial Advisory Board shall act by a majority vote of its Members, provided that the State Treasurer may exercise a veto over any matter with respect to which specific authority is granted to the State Treasurer or the Treasury Department pursuant to Act 4 or any other applicable State law.

1.9 Meetings. The Financial Advisory Board shall be subject to the Open Meetings Act (the "Open Meetings Act").

1.95 Procurement. The Financial Advisory Board shall adopt rules and/or regulations governing its procurement practices. The Financial Advisory Board shall be exempt from City rules and/or regulations governing procurement activities.

2. THE MAYOR AND CITY COUNCIL

2.1 Appointment of Officials. The Mayor shall designate the executive positions within the executive staff to the extent required by the Charter or law. The Mayor shall continue to appoint the Chief Operating Officer, Chief Financial Officer and Human Resources Director and shall make all other executive appointments which are within the Mayor's authority under the Charter and law.

2.2 Grant of Emergency Manager Authority. Pursuant to Section 14a(9) of Act 4, this Agreement grants to the Mayor the powers prescribed for emergency managers in Section 19 thereof, provided that: (a) the Mayor is not granted the powers prescribed in Section 19(1)(k) of Public Act 4; (b) such powers are granted only for such period of time and upon such terms and conditions as the State Treasurer, in his sole discretion, considers necessary or convenient to enable the City to achieve the goals and objectives of this Agreement; (c) the grant of power pursuant to this Section 2.5 shall be limited insofar as this Agreement requires the Mayor to condition the taking of certain actions upon the prior approval of the Financial Advisory Board as set forth in this Agreement. The State Treasurer may, pursuant to this Agreement, grant the powers contemplated by this section to one or more other officers of the City.

2.3 Implementation of Restructuring. The City expects to implement a number of actions at the outset of the Restructuring, including, but not limited to, the development and implementation of plans related to the implementation of the Mayor's 2012-2013 "Operational Restructuring Plan:"

- (a) a reduction in the "head count" for City employees;

- (b) a reduction in the number of vendors presently serving the City;
- (c) the outsourcing of certain City departments and functions;
- (d) necessary improvements within the Detroit Department of Transportation;
- (e) disposition of the Public Lighting Department;
- (f) potential tax amnesties;
- (g) the modification of the City's corporate tax rate and state statute pertaining to City taxes;
- (h) the enhancement of the City's revenue collection capabilities;
- (i) necessary improvements to the City's procedures for managing real estate;
- (j) review and analysis of the various collective bargaining agreements to which the City is a party;
- (k) an analysis of "best practices" related to healthcare benefits and administration;
- (l) potential sales of City assets; and

2.4 Implementation of Restructuring — Potential Future Actions. The City expects to implement a number of additional actions during the course of the Restructuring, including, but not limited to, the development and implementation of plans related to (a) the further consolidation, disposition or elimination of City departments and (b) the implementation of "best practices" with respect to the City's pension and other post-employment benefits in consultation with the Financial Advisory Board.

2.5 Reporting Requirements. In addition to any other reporting requirements herein, the Chief Operating Officer, in consultation with Advisory Board Liaison, shall

periodically (and not less than every 90 days) update Mayor and the Financial Advisory Board regarding the progress of the Restructuring in respect of the financial and operational metrics established under Sec. 1.4(d) and any modifications to the implementation of the Restructuring as are necessary or appropriate to achieve Financial Stability and promote the Restructuring. Any such updates shall be reported in writing to the Financial Advisory Board.

3. REVENUE ESTIMATION/REVENUE CONFERENCES

3.1 Conduct of Revenue Conference. Consistent with Section 8-213 of the Charter, the Chairman of the Financial Advisory Board shall chair a revenue estimating conference two times per year for the purpose of arriving at a consensus estimate of revenues to be available for the fiscal year of the City beginning that July 1st. At or in connection with a Revenue Conference, the Conference may (a) take testimony from persons with municipal finance, budgetary, economic or related expertise and (b) request and receive from all public officers, departments, agencies and authorities of the City any assistance and information necessary to arrive at a Revenue Estimation (such testimony, assistance and information, the "Revenue Estimation Evidence").

3.2 Limitation Upon Adjournment of Revenue Conferences and Budget Adoption. A Revenue Conference shall not be adjourned until the Board Chairman determines that either (a) a consensus regarding the Revenue Estimation based upon reasonable assumptions (economic or otherwise) has been reached or (b) sufficient Revenue Estimation Evidence exists to allow for a Revenue Estimation, despite any inability to reach a consensus with respect to such Revenue Estimation. The Mayor shall not develop or propose a Budget that (a) reflects revenues in excess of the

Revenue Estimation for that year, (b) reflects the collection of revenue from sources not approved by the Financial Advisory Board or (c) incorporates payments not approved by the Financial Advisory Board as part of the Budget. A Revenue Estimation shall set forth discrete revenue estimates from each of the City's major revenue sources, in a form consistent with Treasury Department pronouncements, including all of the following: (a) property taxes; (b) income taxes; (c) State revenue sharing and other State grants; (d) federal grants; (e) licenses, fees, and permits; (f) interest income; (g) proceeds from the sale of any City-owned assets; (h) operating transfers or reimbursements from other funds; and (i) other funds if required by the Charter.

4. BUDGET ADOPTION

4.1 Continuing Operations Plan. Within ___ days of the effective date of this Agreement, the City shall prepare and submit to the Treasury Department the Continuing Operations Plan which shall conform to the requirements of Sec. 14a(3) of Act 4. The Continuing Operations Plan as approved by the State Treasury shall be made part of this Agreement as Annex A. The Mayor shall annually update the Continuing Operations Plan, which update shall be subject to prior approval by the Financial Advisory Board. The City thereafter shall approve of and amend the Budget from time to time as necessary to give full effect to the Continuing Operations Plan.

4.2 Budget Proceedings. The Budget adopted for each fiscal year shall comply with the following requirements:

- (a) Subject to the Continuing Operations Plan, the requirements of Sec. 14a(4) of Act 4, and Sec. 4.1 of this Agreement, each Budget shall be prepared and presented, and each appropriations act proposed by the City shall be adopted, in accordance with the provisions of Act 2, Public Acts of Michigan, 1968, as amended, the Uniform Budgeting and Accounting Act ("Act 2") and applicable provisions of the City Charter.

- (b) Beginning with the first Budget adopted after the execution of this Agreement, the proposed Budget for each fiscal year shall be transmitted by the Mayor to the Financial Advisory Board at least 45 calendar days in advance of the beginning of such fiscal year. The adopted Budget shall incorporate a second-year planning budget.
- (c) In the event that the Mayor and City Council do not adopt a budget at least 45 days prior to the beginning of a fiscal year, the Advisory Board Liaison, in consultation with the Mayor and Council, may prepare and present to the Financial Advisory Board an interim budget for the following fiscal year consistent with the Continuing Operations Plan. Such an interim budget shall not take effect unless approved by the Financial Advisory Board.
- (d) During the period covered by any Budget, the Mayor shall propose such amendments to the existing Budget as are necessary (e.g., the reduction of budgeted expenditures; the adjustment of quarterly allotments) on a timely basis so as to prevent an expenditure from being made for which adequate revenues are unavailable or are projected to be unavailable (e.g., on account of a shortfall in actual revenue, or unusual or extraordinary expenditures) or otherwise to support the initiatives in the Continuing Operations Plan. No amendments or modifications proposed by the Mayor to any proposed or approved Budget or approved by City Council shall become effective unless such amendments are consistent with the Continuing Operations Plan.
- (e) Each Budget shall be designed to ensure that the City shall not end the relevant fiscal year with an operating deficit in any fund (any such deficit, an "Operating Deficit"), provided that, upon the recommendation of the Financial Advisory Board, the City Council shall have the authority to approve Operating Deficits proposed in initial Budgets or amendments thereto in its sole discretion.
- (f) During the term of this Agreement, no officer or employee of the City shall make or authorize any obligation or other liability (i) not authorized by the Budget or (ii) in excess of any amount authorized in the Budget unless approved by the Mayor.

5. COLLECTIVE BARGAINING AGREEMENTS

5.1 Authority. The Mayor shall have the authority to negotiate, renegotiate, execute, amend, modify, reject or terminate collective bargaining agreements to the extent consistent with applicable law.

5.2 Duty to Bargain. Consistent with Section 14a(10) of Act 4, it is the State Treasurer's determination that the duty of the City to bargain pursuant to Sec. 15 of Act

336, Public Acts of Michigan, 1947, as amended, the Public Employment Relations Act, codified at Chapter 423 of the Michigan Compiled Laws, shall cease beginning 30 days after the effective date of this Agreement.

5.3 Shared Sacrifice. The parties hereto agree that, in the event any agreement (including, but not limited to, any collective bargaining agreement) between the City and a union representing City employees (any such agreement, a "Union Agreement") or any amendment to an existing Union Agreement provides for a lower wage rate, reduced benefits or altered work rules as compared to the existing agreement between the City and such union, the City shall take into account and endeavor to obtain concessions from all other unions representing City employees and other stakeholders with the aim of ensuring that all such parties contribute fairly and equitably to the Restructuring.

6. PENDING LITIGATION REPORT

6.1 Report; Filing. Beginning on July 15, 2012 and continuing thereafter on a quarterly basis, the City's Legal Department shall submit to the Financial Advisory Board a report (the "Pending Litigation Report") identifying all pending lawsuits or other legal actions or proceedings (including, but not limited to, lawsuits, actions or proceedings related to workers' compensation claims) to which the City is a party (any such lawsuit, action or proceeding, a "Pending Action"). Each Pending Litigation Report shall identify, with respect to each Pending Action: (a) all plaintiffs; (b) all defendants; (c) the court and judge before which the Pending Action is pending; (d) legal counsel representing the City (if other than the City Legal Department); (e) the specific cause(s) of action; (f) the length of time the Pending Action has been pending; (g) an estimate as to the budgetary impact upon the City (if any) from a disposition of the Pending Action

unfavorable to the City; (h) the applicability of any liability insurance maintained by the City; and (i) an assessment of the likely outcome of such Pending Action (which section of the Pending Litigation Report shall remain subject to any and all applicable privileges).

7. OBLIGATION OF CITY TO COMPLY WITH AGREEMENT

7.1 Adherence. The City, through its officers and the City Council, is bound by, and shall adhere to, this Agreement. The City and the City Council (and all departments, agencies and other entities organized within, and all officers acting on behalf of, the City and the City Council) shall provide the Financial Advisory Board with access to all information, documentation and personnel as may be reasonably requested by the Financial Advisory Board from time to time, with respect to all matters related to the Restructuring and/or addressed in this Agreement (including, but not limited to, the management, refinement, implementation and execution of the Continuing Operations Plan). During the term of this Agreement, no officer or employee of the City shall (a) take any action in violation of the terms of, or shall fail or refuse to take any action required by, this Agreement; or (b) prepare, present or certify any information (including any projections or estimates) or report for the Financial Advisory Board that is false or misleading in any material respect, or, upon learning that any such information is false or misleading in a material respect, shall fail promptly to advise the Financial Advisory Board or the Mayor thereof.

7.2 Effect of City's Failure to Adhere. Any (a) action by the City or the City Council (or any department, agency or other entity organized within, or officer, agent, representative or employee acting on behalf of, the City and the City Council) to contest, through legal proceedings or otherwise, the constitutionality, validity or enforceability of

Act 4 or this Agreement or (b) material breach of this Agreement, after notice by the Financial Advisory Board and a reasonable opportunity to cure, may, among other things, (x) be considered sufficient cause by the Financial Advisory Board to recommend to the Governor (i) the immediate appointment of an emergency manager pursuant to Section 15 of Act 4 or any other applicable or successor law, any provisions of Section 15(2) of Act 4 to the contrary notwithstanding, and (ii) the commencement of proceedings under chapter 9 of title 11 of the United States Code pursuant to Section 23 of Act 4 or any other applicable law and/or (y) result in the suspension of (i) discretionary state revenue sharing initiatives and agreements between the State and the City pursuant to Act 140 and/or (ii) other financial initiatives and agreements between the State and the City, in each case to the extent permitted by law.

7.3 Material Breach. In the event of a material uncured breach of this Agreement by the City, the State Treasurer is authorized to place the City in receivership (or similar process) as provided under Sections 13(1)(c) and 15 of Act 4 or under any other applicable law.

7.4 Additional Forbearance by State. Provided that this Agreement remains in effect and there is no material failure to comply with, or adhere to, this Agreement on the part of the City, the State Treasurer shall forbear from (a) terminating any existing discretionary revenue sharing initiatives and agreements between the State and the City pursuant to Act 140 except as such measures are generally applicable throughout the State; (b) accelerating or exercising other rights and remedies for collection of any existing loans from the State to the City under, e.g., Act 243 or other applicable law; or (c) denying the City access to revenue sharing or loan programs and initiatives

generally available in the State, where the City otherwise qualifies to participate in such programs.

7.5 Obligation Not Discharged by Contingencies. The obligations of the City as expressed and agreed to herein are not subject to release or discharge due to any contingencies within the City's reasonable control, including, but not limited to, clerical errors, computer failures, late mailings or the failure to comply with reporting due dates or other scheduled due dates excepting due to adverse weather, acts of God, acts of third parties or compliance with court orders. If the due date for a report, listing or other document falls on a weekend or legal holiday, then the report, listing, or other document shall be due on the first day thereafter that is not a weekend or legal holiday.

8. AMENDMENT; WAIVER OF PROVISIONS

8.1 Amendment; Waiver. This Agreement may be amended only in writing by the mutual consent of the Financial Advisory Board, the State Treasurer and the City (or their respective successors or permitted assigns), evidenced by all necessary and proper authority. The Financial Advisory Board may waive or forbear from any provision of this Agreement that requires an act by the City in their respective sole discretion, provided that, for the avoidance of doubt, no entity other than the Financial Advisory Board shall be permitted to waive or forbear from any provision hereof that otherwise relates to a power reserved for the Financial Advisory Board. No waiver of or forbearance from any provision of this Agreement shall arise from any action or inaction of the Financial Advisory Board, except pursuant to an instrument in writing expressly waiving or forbearing from the provision executed by the party entitled to the benefit of the provision.

9. TERM OF AGREEMENT

9.1 Term. This Agreement shall remain in effect until (a) the earlier of (i) the end of the third consecutive fiscal year of the City in which each of the following conditions have been satisfied: (A) the City's financial statements indicate, on the basis of accounting principles generally accepted in the United States, that the City general fund is not in a deficit condition; and (B) no structural imbalance of recurring operating expenditures in excess of recurring operating revenues exists; and (ii) the City has achieved and maintained for at least two calendar years a credit rating by two or more nationally recognized securities rating agencies (without regard to any third party credit enhancement) on the City's outstanding long-term unsubordinated debt in either of the four highest long-term debt rating categories of such rating agency, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise; and (b) the State Treasurer certifies to the Governor that no material condition exists within the City, and that no action has been taken, or is being contemplated, by City officials, that would (A) initiate, or cause the initiation of, a preliminary review under Section 12(1) of Act 4 or any similar or relevant law; (B) implicate the need for a deficit elimination plan under Section 21 of Act 140, excepting for fund deficits of an immaterial nature; or (C) require implementation of the Treasury Department's authority under Section 802 of Act 34. The achievement by the City of the financial conditions allowing for the termination of this Agreement shall be referred to herein as "Financial Stability".

10. CONTINUING EFFECT; SEVERABILITY

10.1 Continuing Effect. If Act 4 is repealed, amended, modified or otherwise rendered not effective, this Agreement shall continue in full force and effect (including pursuant to any successor statute providing for consent agreements or similar forms of

agreement). A "successor statute" would include, but not be limited to, Section 15 of former Act 72 of 1990, the Local Government Fiscal Responsibility Act, in the event such act is reenacted or otherwise again placed in effect or rendered applicable. If, for any reason, the provisions of Act 4 should be suspended or determined to be invalid, the City remains obligated to comply with the provisions of this Agreement consistent with Act 140 and Act 34, as referenced in this Agreement. The City agrees to work in good faith, as requested by the State Treasurer, to modify this Agreement as necessary or appropriate to conform to any successor statute to Act 4 for the purposes of achieving Financial Stability and completing the Restructuring.

10.2 Interlocal Agreement. In addition to the provisions of Sec. 10.1, as separate and independent authority, if Act 4 is repealed, amended, modified or otherwise rendered not effective, it is the intent that this Agreement will continue in full force and effect as an "interlocal agreement" between the City and the Treasury Department authorized under Act 7, Public Acts of Michigan, 1967 (Ex. Sess.), as amended, the Urban Cooperation Act of 1967 ("Act 7") authorizing the joint exercise of power contemplated by this Agreement. For purposes of Act 7, the effective date ("Effective Date") for this agreement shall be the date on which the last of all of the following have occurred: (a) the Agreement is approved and executed by the City; (b) the Agreement is approved by the Governor; (c) the Agreement is approved and executed by the State Treasurer; (d) the Agreement is filed with the Clerk for the County of Wayne, Michigan, (e) the Agreement is filed with the Clerk for the County of Ingham, Michigan; and (f) the Agreement is filed in the Office of the Great Seal, Michigan Department of State. Any joint function of power under Act 7 is effective 180 days after the Effective Date, unless Michigan law authorizes an earlier effective date for the joint exercise of power. In

addition to powers, duties, and functions under Act 4 and other applicable law, if the parties implement this Agreement as an agreement under Act 7, the Financial Advisory Board may exercise any power, duty, or function authorized under Section 5 of Act 7.

The Financial Advisory Board shall be a separate legal or administrative entity created by an interlocal agreement and shall possess the common power of the City and the Treasury Department and exercise the common power as provided in this Agreement and also may exercise powers, duties, and functions authorized under Sec. 7 of Act 7.

10.3 Severability. If any provision of this Agreement, or its application to any person, party or circumstance, is determined to be invalid or unenforceable for any reason, including specifically, but not limited to, the repeal, amendment, modification or otherwise ineffectiveness of Act 4, the remainder of this Agreement and its application to other persons, parties or circumstances shall not be affected and shall remain enforceable to the full extent permitted by law. It is the intent of the parties to continue to implement the provisions of this Agreement to the fullest extent possible under applicable law.

11. COUNTERPARTS

11.1 Counterparts; Signatures. This Agreement may be executed in one or more counterparts, and by the parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. Execution may be accomplished by delivery of original or electronic copies of the signature page hereto (e.g., by facsimile or email).

12. EFFECTIVE DATE

12.1 Agreement Effective Immediately. This Agreement shall be effective immediately upon its full execution by all of the parties hereto.

IN WITNESS WHEREOF, the parties, by their designated representatives, have signed and executed this Agreement on this ___ day of _____, 2012.

ON BEHALF OF THE CITY OF DETROIT:

Dave Bing, Mayor

Janice M. Winfrey, City Clerk

BY THE REVIEW TEAM:

Andy Dillon

Glenda D. Price

Frederick Headen

Irving D. Reid

Jack Martin

Doug Ringler

Conrad Mallett, Jr.

Shirley R. Stancato

Isaiah McKinnon

Brom Stibitz

**BY THE STATE TREASURER OF MICHIGAN
(FOR HIMSELF AND THE MICHIGAN
DEPARTMENT OF THE TREASURY):**

Andy Dillon

CERTIFICATION

I, Janice M. Winfrey, City Clerk for the City of Detroit, hereby certify that the foregoing Agreement has been duly authorized by resolution adopted by the City Council of the City of Detroit, County of Wayne, State of Michigan, at a _____ meeting held on _____, 2012, that said resolution remains in effect, and that the foregoing meeting was conducted and public notice of said meeting was given pursuant to and in full compliance with the Open Meetings Act, being Act 267, Public Acts of Michigan, 1976, and that the minutes of said meeting were kept and will be or have been made available as required by said Act.

Date of Certification: _____
Janice M. Winfrey, City Clerk

ANNEX A

[Initial Continuing Operations Plan]

[To come]

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