

**CITY OF DETROIT TERM SHEET FOR SETTLEMENT WITH RETIRED DETROIT
POLICE & FIREFIGHTERS ASSOCIATION ("RDPFFA")**

This Term Sheet memorializes the material terms of the agreement between the RDPFFA and the City of Detroit. Except for Paragraphs 5-7, below, which relate to support for the City's Plan of Adjustment, as amended ("POA"), the terms herein either shall be incorporated in the POA or the POA shall contain terms consistent with those below. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the POA:

1. PFRS will freeze all accrued benefits as of June 30, 2014. Holders of PFRS Pension Claims who are retirees, surviving spouses, or dependents thereof will continue to receive their Current Accrued Annual Pension. Holders of PFRS Pension Claims who are retirees, surviving spouses, or dependents thereof, will receive future cost of living adjustments ("Future COLA Payments") (which are sometimes called escalators in the police and firefighter bargaining agreements) from and after June 30, 2014 consistent with the agreements to which such holders were a party, but equal in aggregate value to 45% of the value of such Future COLA Payments. For the sake of clarity, the reduced Future COLA Payments will be applied prospectively and will not impair or reduce already accrued COLA enhancements included in retirees', surviving spouses', or dependents' Current Accrued Annual Pensions.
2. The governance of PFRS will be restructured in a manner acceptable to the State and Foundations providing aid. Resulting from that restructuring, there will be two retiree representatives on the PFRS Board of Trustees, one democratically elected by police retirees, and the second democratically elected by firefighter retirees. Each such trustee will be able to cast a one-half vote on all Board of Trustees issues subject to a vote. With the exception of a one-half vote for each of the two retiree representatives, the retiree representatives on the PFRS Board of Trustees will otherwise be entitled to the same rights and benefits as all other members of the PFRS Board of Trustees. Elections for these retiree representatives will be held as soon as practicable following Bankruptcy Court confirmation of the POA.
3. Future COLA Payments that are reduced as described herein and in the POA will be restored in accordance with a variable COLA restoration program. The variable restoration program will generally work as follows: (1) a restoration reserve will be established as a book-keeping account in PFRS; (2) if the projected funding level of PFRS as of June 30, 2023 exceeds 78%, certain assets above the amount needed to achieve

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the projected 78% funding will be allocated to the restoration reserve account; (3) additional amounts will be allocated to the restoration reserve account each year based on investment performance; (4) if the amounts in the restoration reserve account equal the projected cost to provide a COLA restoration payment for a category of recipients over the remainder of their actuarially projected lives (see the allocation and restoration categories described below), then a COLA restoration payment will be made in the next following year and the restoration account will be debited by the value of that year's payment. Restoration payments will not be made if the projected funding level of the PFRS on June 30, 2023 is below 76%, and assets allocated to the restoration reserve account will be debited from that account in the event that the projected funding level of the PFRS falls below 75%. The allocation and restoration payments will be made in the following manner:

- a. Before any assets are allocated for accounting purposes to fund COLA restoration for active employees, restoration amounts will be used to fund and make an annual payment to retirees, surviving spouses, and beneficiaries in pay status as of June 30, 2014, until an annual restoration payment for such group can be made that equals in the aggregate 66% of the value of their Future COLA Payments (e.g., if 45% of the value of John Smith's Future COLA Payment in 2017 is \$45.00, and John Smith is eligible for a COLA restoration payment under this subsection, he would receive a \$66.00 Future COLA Payment in 2017);
- b. Before any assets are allocated for accounting purposes to fund COLA restoration for active employees, restoration amounts will be used to fund and make an annual payment to retirees, surviving spouses, and beneficiaries in pay status as of the date that restoration is determined but who were not in pay status as of June 30, 2014, until an annual restoration payment for such group can be made that equals in the aggregate 66% of the value of their Future COLA Payments;
- c. Once restoration payments for COLA benefits to groups (a) and (b) have been funded in the restoration reserve account equal to 66% of their Future COLA Payments, then assets in such account will be allocated to fund COLA restoration equally to retirees, surviving spouses, beneficiaries and all other PFRS participants not in pay status (that is, active employees in connection with their frozen 2014 benefits). Once restoration payments for Future COLA Payments to all retirees, surviving spouses and beneficiaries in pay status have been funded so as to allow 100% COLA restoration for such retirees, surviving spouses, and beneficiaries in pay status, then any additional

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amounts in the restoration reserve account may be allocated to active employees in connection with their frozen June 30, 2014 benefits.

COLA restoration payments granted and funded as of June 30, 2023 will become permanent as of that date, provided that the funding target level as of that date of at least 78% has been satisfied. COLA restoration will otherwise operate as described in the POA, provided that COLA restoration for the period after June 30, 2023 shall be consistent with the priorities set forth in this Paragraph 3.

4. In connection with retiree health (OPEB) claims – Class 12 -- there will be a separate VEBA established for retired police and firefighters (“P&F VEBA”) in the POA. The RDPFFA and Retiree Committee will each be able to appoint P&F VEBA Board members in equal numbers, and such appointees will constitute a majority of the P&F VEBA Board ; the City will appoint the remaining members. Replacement Board members will be appointed by the RDPFFA for retiree representatives and by the City for City representatives. The City will issue a note to the P&F VEBA, or a share of a note, all as otherwise described in the POA, and the value of the note will be equal to the aggregate value of each and every retired police officer’s and firefighter’s pro rata recovery on the amount of his or her individual OPEB claim.
5. The RDPFFA’s support of the POA is expressly conditioned on the PFRS pension treatment set forth in Paragraphs 1-3 above and on the OPEB treatment set forth in Paragraph 4 above (including the bankruptcy court determining that all such treatment is feasible), and the City’s agreement herein respecting Paragraphs 1-4 is contingent on the Outside Funding. *EM BDD*
6. All other terms not provided for herein will be consistent with the next iteration of the POA relating to claims under Classes 10 (PFRS Pension) and 12(OPEB) to be filed approximately on April 25, 2014 and no terms in the POA will be materially inconsistent with the terms of this Term Sheet.
7. The RDPFFA will timely prepare a letter executed by the President of the Board advising all RDPFFA members that the Board unanimously recommends that they vote in favor of the POA so long as it incorporates, and is otherwise consistent with, all of the terms set forth herein. Further, the RDPFFA will engage in such other activities supporting the POA as may be mutually agreed by RDPFFA and the City. The letter of support will be included in the POA solicitation materials.
8. Police and firefighter retirees are entitled to the benefits of any other agreement entered into by the City of Detroit that covers such retired police and fire fighters and which is more advantageous to them than the

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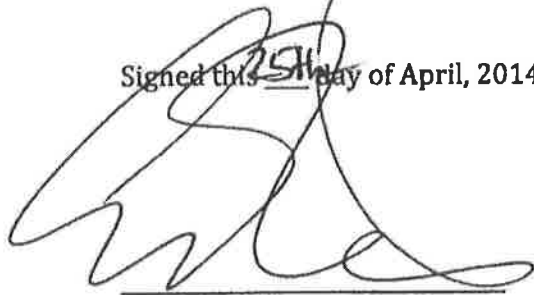
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terms of this agreement as it relates to Classes 10 (PFRS Pensions) and 12 (OPEB).

9. The POA and/or Confirmation Order will exculpate officer and Board members of RDPFFA, RDPFFA counsel and its professional financial advisor hired by the RDPFFA for the purposes of this bankruptcy proceeding from liability in connection with their negotiation of a settlement and support of the POA, and will enjoin any litigation against them in connection with their officer or Board or counsel or financial advisor status with respect to such efforts to settle and support the POA.

Signed this 29th day of April, 2014



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