

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

	X	
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
	:	
	:	
	X	
	:	
CITY OF DETROIT, MICHIGAN,	:	Chapter 9
	:	
Plaintiff,	:	Adversary Proceeding No. 14-_____
	:	
vs.	:	Hon. Steven W. Rhodes
	:	
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION, DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION, DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2005, and DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2006	:	
	:	
Defendants.	:	
	X	

**COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF**

Plaintiff, the City of Detroit, for its complaint seeking declaratory and injunctive relief, says:

## **PARTIES**

1. The City of Detroit (“the City”) is a Michigan municipal corporation located in Wayne County. The City is a home rule city organized under PA 279 of 1909, as amended, the Home Rule City Act, MCL 117.1, *et seq.* The City has home rule power under the State Constitution of 1963, PA 279, and the 2012 Charter of the City of Detroit, subject to the limitations on the exercise of that power contained in the State Constitution, City Charter, or imposed by statute.

2. Defendant Detroit General Retirement System Service Corporation is a non-profit Michigan corporation created by the City in April 2005 for the ostensible purpose of providing financial assistance to the City in meeting its unfunded accrued actuarial liabilities to defendant Detroit General Retirement System.

3. Defendant Detroit Police and Fire Retirement System Service Corporation is a non-profit Michigan corporation created by the City in April 2005 for the ostensible purpose of providing financial assistance to the City in meeting its unfunded accrued actuarial liabilities to defendant Detroit Police and Fire Retirement System.

4. Defendant Detroit Retirement Systems Funding Trust 2005 is a trust created and existing under Michigan law for the purpose of issuing Certificates of Participation in 2005 to provide funding for the unfunded accrued actuarial

liabilities of the Detroit General Retirement System and the Detroit Police and Fire Retirement System (collectively, the “Retirement Systems”).

5. Defendant Detroit Retirement Systems Funding Trust 2006 is a trust created and existing under Michigan law for the purpose of issuing Certificates of Participation in 2006 to provide funding for the refinancing of certain 2005 Certificates of Participation.

### **VENUE AND JURISDICTION**

6. This Court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§ 1334 and 157(b). This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). As described more fully herein, an actual case and controversy under 28 U.S.C. § 2201(a) exists between the parties. Venue is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

### **BACKGROUND**

7. The City of Detroit has established two pension plans for its employees. The first, for the benefit of its uniformed police and fire fighters, is the Detroit Police and Fire Retirement System (“PFRS”). The second, for the benefit of other City employees, is the Detroit General Retirement System (“GRS”). At all relevant times, Article 9, Section 24, of the Michigan Constitution required that, outside of bankruptcy, the City’s obligations to the PFRS and GRS be fully funded and paid down, in part, on an annual basis.

8. By 2005, the City had fallen behind in making its contributions to the Retirement Systems. As a result, according to the City's 2005 Comprehensive Annual Financial Report, the PFRS had unfunded accrued actuarial liabilities ("UAAL") of \$783 million and the GRS had UAAL of \$914 million, for a total of almost \$1.70 billion, at the end of the 2004 fiscal year. Facing lawsuits from the Retirement Systems to enforce its payment obligations, the City decided to raise the necessary funds by borrowing them.

9. Like all other municipalities in Michigan, the City was subject to a strict limitation on the amount of indebtedness it could incur. In particular, Section 4a of the Home Rule City Act ("HRCA"), MCL 117.4a, set maximum limits on a city's net indebtedness at the greater of: (1) ten percent of the assessed value of all the real and personal property in the city; or (2) fifteen percent of the assessed value of all the real and personal property in the city if that portion of the total amount of indebtedness incurred which exceeded ten percent was or had been used solely for the construction or renovation of hospital facilities. According to a calculation prepared by the City's Finance Department, the City had only \$660 million remaining under its debt limit as of May 2, 2005. *See* Offering Circular for \$1,440,000,000 Taxable Certificates of Participation Series 2005, at B-44 (May 25, 2005) ("2005 Offering Circular"), attached hereto as Exhibit A.

10. In 2005 and at all times since then, the sums the City of Detroit needed to borrow to satisfy its obligations to the PFRS and the GRS would have exceeded the debt limits set by Section 4a of the HRCA. The City was therefore unable to fund its UAAL shortfall through the issuance of debt, such as the sale of bonds to the public. Instead, the City began searching for a means of borrowing money by structuring a transaction that would evade the HRCA's debt limit. In the end, the City—at the prompting of investment banks that would profit handsomely from the transaction—decided to embark upon transactions to sell so-called “Certificates of Participation” (“COPs”) to investors.

#### **Structure of the COPs**

11. Because the HRCA's debt limit prohibited the City from borrowing the amounts it needed to satisfy the UAAL of the PFRS and the GRS, the City's investment bankers convinced the City to enter into a transaction calculated to allow the City to avoid calling its new borrowings “debt.” At the investment bankers' suggestion, the City did this by (a) creating two shell entities called “Service Corporations,” (b) having the Service Corporations create a trust to sell the COPs to investors, (c) requiring the Service Corporations and the trust to remit the proceeds of the COPs sale to the Retirement Systems, (d) arranging to have the Service Corporations pay the trust the monies required to service the interest upon and retire the principal of the COPs, and (e) agreeing to pay the Service

Corporations the monies they would need to satisfy their obligations to the trust. *See* 2005 Offering Circular at 1(Ex. A). The City was advised that, by characterizing its payments to the Service Corporations as contractual obligations, the funds it borrowed by issuance of the COPs would somehow not amount to debt. Four series of these COPs were sold to the public in this way, two in 2005 and two in 2006.

### **Service Corporations**

12. As the first step, in April 2005, City officials incorporated two non-profit corporations—defendants Detroit General Retirement System Service Corporation and Detroit Police and Fire Retirement System Service Corporation. The stated purpose of these Service Corporations was to provide assistance to the City in funding its UAAL to the two retirement systems. City of Detroit Ordinance No. 05-05 (Feb. 4, 2005), attached hereto as Exhibit B.

13. The board of each Service Corporation consisted of five *ex officio* directors, all of whom were members of the City government—the City’s Finance Director, Budget Director, and Corporation Counsel, plus two members of the City Council. The City ordinance establishing the Service Corporations explained that the Service Corporations were “acting as an instrumentality and enterprise of the City and performing an important public purpose by assisting the City to meet its constitutional obligations with respect to the particular Retirement System.” *Id.*

But, in truth, the Service Corporations were simply pass-through entities that were created to enable the City to circumvent legal prohibitions against further borrowing. The Service Corporations' sole purpose in the COPs transaction was to make a one-time payment to the Retirement Systems to reduce the City's UAAL obligations. *See* GRS Service Contract 2005, General Terms and Conditions §§ 4.01, 4.03(a), 4.04 (May 25, 2005), attached hereto as Exhibit C. However, even this obligation was expressly conditioned upon the Service Corporations receiving sufficient funds from the next shell entity—the “Funding Trust”—that would sell the COPs to investors. *Id.* § 4.03(a). The Service Corporations, in other words, were without independent economic substance.

14. The Service Corporations also existed only on paper. Upon information and belief, after their initial organizational meetings, the boards of the two Service Corporations never regularly met, never maintained minutes of any meetings, did not keep books and records, and observed no other formalities of corporate existence.

### **The Service Contracts**

15. On May 25, 2005, the City entered into a “Service Contract” with each Service Corporation. *See, e.g.,* GRS Service Contract 2005 (Ex. C). In the Service Contracts, the City promised to make a series of periodic payments (the “City Payments”) to the Service Corporations in an amount sufficient to pay the

interest and principal due on the COPs. However, on the closing date of the transaction (less than ten days after they entered into the Service Contracts with the City), the Service Corporations irrevocably transferred their entire right to receive the City Payments to defendant Detroit Retirement Systems Funding Trust 2005. *See* Trust Agreement § 201 (June 2, 2005) (“2005 Trust Agreement”), attached hereto as Exhibit D. Thus, the sole ongoing function of the Service Corporations disappeared almost as soon as it was created.

16. The purpose, design, and effect of the 2005 Service Contracts was to allow the City to borrow money in violation of the HRCA and other state laws by characterizing the City Payments as “contractual obligations,” rather than debt service. At the time the \$1.44 billion of Certificates of Participation were issued in 2005, the City had only approximately \$660 million remaining under its HRCA debt limit, and thus could not issue traditional debt to cover the \$1.70 billion pension shortfall. The 2005 COPs transaction was intended to allow the City to borrow about \$780 million that it was not permitted to borrow under the HRCA.

17. In addition, the Service Contracts created in the 2005 COPs transaction and the COPs themselves did not comply with the Revised Municipal Finance Act, PA 34 of 2001, MCL 141.2101, *et seq.* (“RMFA”). For example, under the RMFA, the City was required to obtain approval of the Michigan Department of Treasury before undertaking a debt financing of the magnitude and



character of the COPs. *See* MCL 141.2303(7). However, upon information and belief, the City did not obtain this approval before entering into the Service Contracts or causing the 2005 Funding Trust to issue the COPs. Nor were the Service Contracts or the COPs transaction an authorized method for financing unfunded pension obligations under the RMFA or any other state law.

### **Funding Trusts**

18. As part of their plan to circumvent the HRCA's debt limit and the RMFA's requirements, the City and its bankers interposed yet another layer between the City and the COPs. Accordingly, the Service Contracts required the Service Corporations to create a so-called "funding trust" as a conduit to actually issue, sell, and service the COPs. *See* GRS Service Contract 2005 § 4 (Ex. C).

19. On or about June 2, 2005, the Service Corporations entered into a Trust Agreement with U.S. Bank, N.A., as Trustee, to create defendant Detroit Retirement Systems Funding Trust 2005 ("2005 Funding Trust"). *See* 2005 Trust Agreement (Ex. D).<sup>1</sup> In the Trust Agreement, the Service Corporations made an absolute transfer to the 2005 Funding Trust of all their rights to receive the City

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<sup>1</sup> Under a separate document called the Contract Administration Agreement, U.S. Bank was also engaged as the Contract Administrator to administer provisions of the Service Contracts and Trust Agreement. *See* Contract Administration Agreement 2005 (June 2, 2005), attached hereto as Exhibit E; Contract Administration Agreement 2006 (June 12, 2006), attached hereto as Exhibit F. Wilmington Trust Company, N.A., has since succeeded U.S. Bank as both Trustee and Contract Administrator.

Payments and directed that the Trust could not transfer or assign these rights to another party. *Id.* § 201.<sup>2</sup>

20. Each COPs certificate represented a proportional interest in the stream of City Payments the 2005 Funding Trust was to receive. The 2005 Funding Trust was obligated to sell the COPs to investors, and to remit the proceeds from the sale of the COPs to the Service Corporations for onward payment to the Retirement Systems in satisfaction of the City's UAAL. Thereafter, the role of the 2005 Funding Trust was to receive the City Payments and pay the holders of the COPs the interest and principal they were due.

#### **Issuance of the COPs**

21. The 2005 Trust Agreement provided for the issuance of two series of these COPs. The first was COPs Series 2005-A, which totaled \$640 million and paid a fixed rate of interest. The second was COPs Series 2005-B, which totaled \$800 million and paid a variable rate of interest. Each of the two series of COPs represented an undivided proportionate interest in the 2005 Funding Trust's right to receive the City Payments under the 2005 Service Contracts.

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<sup>2</sup> The City was not a party to the Trust Agreements and has no direct contractual relationship with the 2005 Funding Trust or the 2006 Funding Trust. However, the 2005 and 2006 Funding Trusts are express third party beneficiaries of the 2005 and 2006 Service Contracts and have the right to enforce the City's promises under the Service Contracts. *See, e.g.*, GRS Service Contract 2005, General Terms and Conditions §§ 9.12(a)(4), (b).

22. The two series of the 2005 COPs were sold to the public in May and June of 2005, raising \$1.44 billion, and the 2005 Funding Trust, after accounting for the costs of the transaction and the generous fees paid to bankers and others, turned over \$1.37 billion of the proceeds to the Service Corporations, who in turn distributed them to the PFRS and the GRS. Shortly thereafter, the City began making its City Payments to service the obligations of the 2005 Funding Trust under the COPs.

23. At the time the 2005 COPs were issued, the City's advisors justified the COPs structure on the ground that the Service Contracts did not create indebtedness for the City because the City Payments were being made in exchange for future services by the Service Corporations. However, the Service Corporations provided no significant services to the City in the years following the COPs transactions, and none are expected in the future. Indeed, the Service Contracts themselves make clear that the Service Corporations' only services to the City consisted in acting as a conduit for paying over the proceeds of the COPs sales to the Retirement Systems. *See, e.g.*, GRS Service Contract 2005, General Terms and Conditions §§ 4.01, 4.02, 4.03 (Ex. C). The periodic City Payments were thus not being made to compensate the Service Corporations for any ongoing services, but rather solely to pay the principal and interest due on the COPs.

24. City officials turned a blind eye to the requirements of state law and to the City's desperate financial condition. The 2005 Trust Agreement was executed on behalf of both Service Corporations by Sean K. Werdlow, who was at that time the Finance Director of the City, as well as the President of both the GRS Service Corporation and the PFRS Service Corporation. Upon information and belief, shortly after closing the 2005 COPs transaction, Mr. Werdlow left employment of the City and joined SBS Financial Products Company, LLC, one of the investment banks that engineered the 2005 COPs deal.

25. Among investment banks, the COPs transaction was celebrated as a clever circumvention of the law. In fact, a leading industry publication—*The Bond Buyer*—named the 2005 COPs transaction as one of the most innovative financings of the year. See Elizabeth Carvlin, *Detroit Uses COPs to Shift Pension Burden and Set a Few Records*, *The Bond Buyer*, Dec. 29, 2005, at 28A, attached hereto as Exhibit G. That publication explained that the City had to rely on “a unique combination of legal precedents . . . dating back to the 19th century” because it lacked the legal authority to issue the COPs without having them count against its debt limit. *Id.* Although these 19th century cases involved nothing like the exotic financial instruments making up the COPs transaction, the transaction was extolled within the investment banking community for its creativity in evading the state-imposed debt limits by taking the concept of a contract for future services further

than ever before. The 2005 COPs transaction was the largest municipal financing ever offered in Michigan. *Id.*

### **2006 COPs Transaction**

26. When the 2005 COPs were issued, the PFRS and the GRS required that the City fund any UAAL over 13 years and 20 years, respectively. On or about February 8, 2006, and March 30, 2006, however, the governing boards of both Retirement Systems increased the amortization period of the UAAL to 30 years. To take advantage of this longer amortization schedule, the City determined to have additional COPs issued to replace certain of the 2005 COPs.

27. In a resolution dated April 26, 2006, the City provided for execution of new Service Contracts with the Service Corporations and approved the form of a Trust Agreement for a new funding trust, defendant Detroit Retirement Systems Funding Trust 2006 (“2006 Funding Trust”). *See, e.g.*, GRS Service Contract 2006 (June 7, 2006), attached hereto as Exhibit H; Trust Agreement (June 12, 2006), attached hereto as Exhibit I (“2006 Trust Agreement”). The function of the 2006 Funding Trust was to float a \$949 million issue of two new series of 2006 COPs to fund a replacement of the full \$800 million of variable rate Series 2005-B COPs and \$104 million of fixed rate Series 2005-A COPs, plus the fees and costs of the transaction.

28. As in the earlier transaction, the City entered into Service Contracts with the Service Corporations; the Service Corporations irrevocably transferred all their rights to receive payments from the City to the 2006 Funding Trust; and the Trust issued and sold new COPs to the public in two series—COPs Series 2006-A totaling \$149 million and carrying a fixed rate of interest and COPs Series 2006-B totaling \$800 million and carrying a variable rate of interest. The Service Corporations used the proceeds of the sale of the 2006 COPs to refund all of the variable rate 2005 COPs, to refund a portion of the fixed rate 2005 COPs, to pay the costs of issuing the new COPs, and to pay even more fees to its lawyers and bankers.

29. At the time the \$949 million of 2006 COPs were issued, the City was already approximately \$803 million over its debt limit. *See* Offering Circular for \$948,500,000 Taxable Certificates of Participation Series 2006, at B-38 (June 7, 2006), attached hereto as Exhibit J (identifying the amount available under the City's debt limit as of May 2, 2006, to be \$637 million, without including the 2005 COPs). Thus, the HRCA did not permit the City to borrow *any* of the \$949 million it raised through the sale of the 2006 COPs. In fact, even after proceeds of the 2006 COPs were used to retire the \$800 million of principal outstanding on the Series 2005-B COPs and \$104 million of the principal outstanding on the Series 2005-A COPs, the City was still about \$848 million over its debt limit. Moreover,

as with the 2005 COPs, the City failed to satisfy the requirements of the RMFA for the issuance of debt and was not authorized by any other state law to incur the debt.

### **Effect Of The COPs Transaction Upon The City Of Detroit**

30. As of today, there is approximately \$503 million in principal outstanding on the Series 2005-A COPs, which have fixed interest rates of between 4.848 and 4.948 percent and maturity dates that range between 2013 and 2025. Another \$149 million in principal is outstanding on the Series 2006-A COPs, which have fixed interest rates of 5.989 percent and maturity dates that range between 2034 and 2035. Finally, about \$800 million in principal is outstanding on the Series 2006-B COPs, which carry variable interest rates of 3M LIBOR plus 0.30 to 0.34 percent and maturity dates that range between 2019 and 2034. Thus, the total amount of the outstanding COPs is approximately \$1.45 billion.

31. The economic reality of the COPs transactions was that they were municipal bond offerings by the City, with the Service Corporations and the Service Contracts serving as the instrumentalities by which the City hoped to evade the requirements of state law for the issuance of that debt. The COPs sale provided the City with an immediate benefit of approximately \$1.44 billion, which was used to pay the City's obligations to the two Retirement Systems and the costs of the transaction. The City, in turn, promised—by its City Payments to the

Funding Trusts through the Service Corporations—to make payments, over time, in an amount exactly sufficient to cover the interest on and principal of the COPs. There was no reason or purpose behind the convoluted structure of the COPs deals other than to avoid the HRCA’s debt limit and the strictures of the RMFA.

32. The debt burden created by the Service Contracts in the COPs transaction has put the very, fatal strains upon the City’s finances that the HRCA’s debt limit and the RMFA’s review requirements were imposed to prevent. In addition, to hedge the City’s exposure to the floating interest rates on the 2006 COPs, the Service Corporations entered into interest rate swap contracts with some of the banks that also helped to engineer the COPs transaction. In 2009, the City was required to directly assume the Service Corporations’ obligations to the banks under the swaps, with further, disastrous financial consequences.

### **Detroit’s Bankruptcy**

33. On December 6, 2011, the Michigan Department of the Treasury began a preliminary review of the City’s financial condition pursuant to state law. On December 21, 2011, the State Treasurer informed the Governor that “probable financial stress” existed in the City, due to, among other things, cash-flow shortages, repeated deficit spending, and an improper reliance on borrowing. In response, the Governor appointed a financial review team to examine the City’s financial condition, which reported to the Governor on March 26, 2012, that the



City was “in a condition of severe financial stress.” This finding led to the establishment of a consent agreement between the City and State of Michigan that gave certain oversight powers to a financial advisory board created for the City and placed conditions on the City’s ability to borrow more funds.

34. On February 19, 2013, a second financial review team determined that the City was in a “local government financial emergency” due to its critical cash position, its repeated deficits, and its more than \$14 billion in long-term liabilities. After reviewing the report, the Governor agreed with this determination, and requested that the Local Emergency Financial Assistance Loan Board appoint an Emergency Financial Manager for the City. Kevyn D. Orr was appointed to this position on March 15, 2013.<sup>3</sup>

35. Consistent with his duties under state law, Mr. Orr began a detailed review of the City’s financings after being appointed. By early June 2013, it became clear to Mr. Orr that the City could not maintain adequate cash liquidity if it made the June 14 COPs payment of almost \$40 million. As a result, Mr. Orr instructed that payments on the COPs be suspended along with payments on most other unsecured liabilities. The impending cash crisis and the need to

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<sup>3</sup> On March 28, 2013, Kevyn D. Orr became the emergency manager (the “Emergency Manager”) with respect to the City pursuant to Section 9(10) of Public Act 436 of 2012, the Local Financial Stability and Choice Act, MCL 141.1541, *et seq.* (“PA 436”). Under Section 18(1) of PA 436, the Emergency Manager acts exclusively on behalf of the City in the Bankruptcy Case. MCL 141.1558.

comprehensively restructure \$18 billion in debt led the City to file a petition for bankruptcy under chapter 9 of the Bankruptcy Code, 11 U.S.C. § 901, *et seq.*, on July 18, 2013.

### **COUNT I – DECLARATORY JUDGMENT**

36. The City of Detroit adopts by reference the allegations of paragraphs 1 through 35.

37. The 2005 and 2006 COPs transactions were nothing more than borrowings by the City of Detroit, thinly disguised as a back-to-back series of contract payments.

38. The Service Corporations are a sham. The City has received no material services from the Service Corporations since the COPs transactions were completed and does not expect to receive any such services in the future. Similarly, the Funding Trusts were, and are, simply conduits for selling and servicing the City's debt.

39. The 2005 and 2006 COPs transactions as a whole and the 2005 and 2006 Service Contracts in particular resulted in the City incurring net indebtedness that exceeded the municipal debt ceiling established by Section 4a(2) of the HRCA. There is no judicial or statutory exception exempting the City from the limits set by Section 4a(2).

40. The COPs transactions and the Service Contracts also resulted in the creation of City debt that was not authorized by the RMFA or any other state law.

41. The 2005 and 2006 Service Contracts are thus illegal under Michigan law, and the Service Contracts and all other contractual or other obligations incurred by the City in connection with the COPs transactions are unenforceable and void *ab initio*.

42. An actual and existing controversy has arisen between the parties as to their respective rights and obligations under the Service Contracts. A declaratory judgment is necessary to guide the City of Detroit's future conduct and to preserve its legal rights.

43. Plaintiff seeks a declaratory judgment that the Service Contracts are illegal, void, and of no effect whatsoever, and that the City has no enforceable obligation to continue making the City Payments to the Service Corporations or to the Funding Trusts.

## **COUNT II – DECLARATORY JUDGMENT**

44. The City of Detroit adopts by reference the allegations of paragraphs 1 through 43.

45. The City of Detroit filed a petition for chapter 9 bankruptcy on July 18, 2013. The City was determined to be eligible to become a debtor under chapter 9 by an order of this Court dated December 5, 2013.

46. On June 14, 2013, the City failed to make a payment due on the COPs, and has paid no amounts under the Service Contracts on account of the COPs since that date. The City currently owes approximately \$1.45 billion in principal on the 2005 and 2006 COPs.

47. The Trustee of the Funding Trusts and the Contract Administrator for the 2005 and 2006 COPs transactions have appeared and participated in the City's bankruptcy case. The transactional documents created in the 2005 and 2006 COPs transactions give the Contract Administrator the power to file a proof of claim in the City's bankruptcy case for the whole amount of the City Payments owed to the Funding Trusts. *See Contract Administration Agreement 2005 § 6.4.1 (Ex. E); Contract Administration Agreement 2006 § 6.4.1 (Ex. F).*

48. An actual case or controversy has arisen between the City and the Defendants regarding whether a valid and enforceable right to payment by the City exists under the Service Contracts. A declaratory judgment is necessary to guide the City of Detroit's future conduct with regard to its chapter 9 plan of adjustment, and to preserve its legal rights in connection with demands thereunder.

49. Plaintiff seeks a declaratory judgment that any claims based on the City's obligations to make the City Payments under the Service Contracts on account of the COPs should be disallowed pursuant to 11 U.S.C. § 502(b)(1)

because the agreements creating those obligations are unenforceable, void, and of no effect whatsoever, or other such relief as the Court deems just and appropriate.

### **COUNT III – INJUNCTIVE RELIEF**

50. The City of Detroit adopts by reference the allegations of paragraphs 1 through 49.

51. In order to ensure that complete and effective relief is afforded to the plaintiff, the City of Detroit seeks preliminary, temporary and permanent injunctive relief enjoining defendants, and each of them, from taking any act that (a) would require, or purport to require, the City to make City Payments or provide distributions under a plan of adjustment to either of the Service Corporations or either of the Funding Trusts or (b) deprive the City of any benefit it is due.

**Wherefore**, the Plaintiff prays that the Court:

A. Enter judgment declaring the Service Contracts illegal, unenforceable, and void *ab initio* because they contemplated and effectuated the accrual of further indebtedness by the City of Detroit in violation of Section 4a(2) of the HRCA and the creation of debt not authorized by the RMFA or any other state law; and

B. Enter orders preliminarily, temporarily, and permanently enjoining defendants, or any of them, from taking any actions to enforce or pursue any terms, claims, rights, or other obligations under the Service Contracts relating to the

COPs transactions or taking any action to interfere with any benefit that is due to the City.

Respectfully submitted,

Dated: January 31, 2014

/s/ Robert S. Hertzberg

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ATTORNEYS FOR THE CITY OF DETROIT

This Offering Circular provides information about the Certificates. Information on this cover page is for ready reference. A prospective investor should read the entire Offering Circular to make an informed investment decision.

**\$1,440,000,000**  
**TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2005**  
 issued by the **DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2005**  
 evidencing undivided proportionate interests  
 in the rights to receive certain payments  
 pursuant to two Service Contracts between  
**CITY OF DETROIT, MICHIGAN**  
 and  
**DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION**  
 and  
**DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**  
**\$640,000,000 SERIES 2005-A (FIXED RATE)**  
**\$800,000,000 SERIES 2005-B (FLOATING RATE)**

**Dated:** Date of Delivery **Due:** June 15 as shown on the inside cover

**Ratings** *See page 20*

**Interest Payment Dates** *Series 2005-A:* December 15, 2005 and each June 15 and December 15 thereafter  
*Series 2005-B:* September 15, 2005 and the 15th day of each December, March, June and September thereafter

**Redemption** *Series 2005-A* Certificates maturing in 2020 and 2025 are subject to *pro rata* mandatory sinking fund redemption at par.—*See page 9*  
*Series 2005-A* Certificates are subject to optional redemption on any date with a make-whole premium.—*See pages 9-10*  
*Series 2005-B* Certificates maturing in 2014 and 2025 are subject to *pro rata* mandatory sinking fund redemption at par.—*See pages 12-13*  
*Series 2005-B* Certificates are subject to optional redemption on any Interest Payment Date at par, beginning June 15, 2007.—*See page 13*

**Source of Payment** Principal of and interest on the Certificates are payable, when due, solely from COP Service Payments to be paid by the City under the Service Contracts.—*See pages 7-8*

**Insurance** The scheduled payment of principal of and interest on the Certificates will be guaranteed under the insurance policies (as specifically indicated on the inside cover of this Offering Circular with respect to particular Certificates) to be issued concurrently with the delivery of the Certificates by Financial Guaranty Insurance Company and XL Capital Assurance Inc.

**FGIC** Financial Guaranty Insurance Company **XL** CAPITAL ASSURANCE

**Tax Matters** Interest on the Certificates is subject to U.S. federal income tax and State of Michigan income tax.

**Purpose** The Certificates are being issued to provide moneys to fund certain unfunded accrued actuarial liabilities of each Retirement System of the City.—*See pages 5-7*

**Denominations** *Series 2005-A:* Multiples of \$5,000  
*Series 2005-B:* \$25,000 and multiples of \$1,000 in excess thereof

**Closing** On or about June 2, 2005

**Global Book-Entry System** Clearance is expected to be available through The Depository Trust Company (the depository for the Certificates), Clearstream, and Euroclear.

**Global Offering** The Certificates are offered globally for sale in jurisdictions where it is lawful to make such offers.—*See page 19*

**Stock Exchange Listing** Application will be made for the Certificates to be listed on the Luxembourg Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the Certificates is not conditioned on the listing of the Certificates on the Luxembourg Stock Exchange.

**Certificate Counsel** Lewis & Munday, A Professional Corporation—*See page 21*

**Trustee** U.S. Bank National Association

*Book-Running Manager*

**UBS Financial Services Inc.**

*Co-Senior Managers*

**Citigroup Global Markets** *(Series A only)*

**Loop Capital Markets, LLC** *(Series A & B)*

**Merrill Lynch & Co.** *(Series A & B)*

**Morgan Stanley** *(Series A & B)*

**Siebert, Bradford, Shank & Co., LLC** *(Series A only)*

*Co-Managers for Series 2005-A Certificates Only*

ABN AMRO Financial Services, Inc. A.G. Edwards & Sons Inc. Bear, Stearns & Co. Inc. Capital Management Group Securities, LLC  
 Comerica Securities First Albany Capital JPMorgan Lehman Brothers M.R. Beal & Company  
 Oppenheimer & Co., Inc. Popular Securities, Inc. Raymond James & Associates, Inc.

This Offering Circular is dated: May 25, 2005



MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND PRICES

\$1,440,000,000

**TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2005**

issued by the DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2005

evidencing undivided proportionate interests  
in the rights to receive certain payments  
pursuant to two Service Contracts between

**CITY OF DETROIT, MICHIGAN**

and

**DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION**

and

**DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

\$640,000,000 SERIES 2005-A (FIXED RATE)

\$800,000,000 SERIES 2005-B (FLOATING RATE)

**\$640,000,000 Series 2005-A Certificates**

<u>CUSIP†</u>	<u>ISIN†</u>	<u>Euroclear and Clearstream Common Code†</u>	<u>Maturing (June 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield at Issuance</u>	<u>Price at Issuance</u>
25113PAC9	US25113PAC95	022114417	2007*	\$10,845,000	4.004%	4.004%	100%
25113PAD7	US25113PAD78	022114492	2008*	13,905,000	4.154%	4.154%	100%
25113PAE5	US25113PAE51	022114549	2009*	17,310,000	4.234%	4.234%	100%
25113PAF2	US25113PAF27	022114565	2010*	20,950,000	4.314%	4.314%	100%
25113PAG0	US25113PAG00	022114638	2011*	24,880,000	4.404%	4.404%	100%
25113PAH8	US25113PAH82	022114735	2012*	29,095,000	4.453%	4.453%	100%
25113PAJ4	US25113PAJ49	022114859	2013*	33,720,000	4.503%	4.503%	100%
25113PAK1	US25113PAK12	022114891	2014*	38,680,000	4.563%	4.563%	100%
25113PAL9	US25113PAL94	022115324	2015**	33,275,000	4.613%	4.613%	100%
25113PAM7	US25113PAM77	022115669	2020**	188,485,000	4.813%	4.813%	100%
25113PAN5	US25113PAN50	022115774	2025**	228,855,000	4.948%	4.948%	100%

**\$800,000,000 Series 2005-B Certificates**

<u>CUSIP†</u>	<u>ISIN†</u>	<u>Euroclear and Clearstream Common Code†</u>	<u>Maturing (June 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price at Issuance</u>
25113PAA3	US25113PAA30	022114077	2014*	\$250,615,000	Three-month LIBOR plus 0.18%	100%
25113PAB1	US25113PAB13	022114174	2025**	549,385,000	Three-month LIBOR plus 0.28%	100%

The Series 2005-A Certificates maturing in 2020 and 2025 are subject to *pro rata* mandatory sinking fund redemption. For a schedule of the mandatory sinking fund redemption payments, see "THE CERTIFICATES – The Series A Certificates (Fixed Rate) - Mandatory Sinking Fund Redemption."

The Series 2005-B Certificates maturing in 2014 and 2025 are subject to *pro rata* mandatory sinking fund redemption. For a schedule of the mandatory sinking fund redemption payments, see "THE CERTIFICATES – The Series B Certificates (Floating Rate) - Mandatory Sinking Fund Redemption."

\* Insured by XL Capital Assurance Inc.

\*\* Insured by Financial Guaranty Insurance Company.

† CUSIP, ISIN and Euroclear and Clearstream Common Code data herein are set forth herein for convenience of reference only. Neither the Funding Trust, the Service Corporations, the City nor the Underwriters assume responsibility for the accuracy of such information.

This document, the Offering Circular, contains the only authorized information about the offering of the Certificates. This document is not an offer or solicitation for the Certificates, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document is not a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the Certificates, and anything else related to the offering.

This document provides prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the City's permission. The City is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under the securities laws of the United States of America, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document are not hard facts, and no one guarantees them. Some of the people who prepared, compiled or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the Certificates other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the Certificates implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

Other than information concerning Financial Guaranty Insurance Company contained in APPENDIX E, none of the information in this Offering Circular has been supplied or verified by Financial Guaranty Insurance Company, and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the Certificates.

Other than information concerning XL Capital Assurance Inc. contained in the APPENDIX F, none of the information in this Offering Circular has been supplied or verified by XL Capital Assurance Inc., and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the Certificates.

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## OFFERING CIRCULAR

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### INTRODUCTION

This Offering Circular sets forth information concerning the Certificates of Participation Series 2005-A in the original aggregate principal amount of \$640,000,000 (**Series A Certificates**) and the Certificates of Participation Series 2005-B in the original aggregate principal amount of \$800,000,000 (**Series B Certificates**, and collectively with the Series A Certificates, **Certificates**) issued by the Detroit Retirement Systems Funding Trust 2005 (**Funding Trust**) to be formed under the Trust Agreement described below.

The Certificates evidence individual undivided proportionate interests in the rights to receive certain payments (**COP Service Payments**) to be made by the City of Detroit, Michigan (**City**) under two Service Contracts of the City, namely, its (i) Detroit General Retirement System Service Contract 2005 (**GRS Service Contract**) with the Detroit General Retirement System Service Corporation, and (ii) Detroit Police and Fire Retirement System Service Contract 2005 with the Detroit Police and Fire Retirement System Service Corporation (**PFRS Service Contract**, and together with the GRS Service Contract, **Service Contracts**).

The Certificates are being issued to provide moneys to fund on the date of original delivery of the Certificates (**Closing Date**) specific amounts of the unfunded accrued actuarial liabilities (**Subject UAAL**) of the City's General Retirement System (**GRS**) and Police and Fire Retirement System (**PFRS**, and collectively with the GRS, **Retirement Systems**), and to pay certain related ancillary amounts set forth in the Service Contracts (**Ancillary Amounts**), including the costs of issuance of the Certificates and capitalized interest. The Certificates are issued pursuant to Ordinance No. 05-05 of the City (**Funding Ordinance**), the Service Contracts and the Trust Agreement dated the Closing Date among Detroit General Retirement System Service Corporation and Detroit Police and Fire Retirement System Service Corporation (each a **Service Corporation**) and U.S. Bank National Association, as Trustee (**Trust Agreement**). U.S. Bank National Association will also serve as the Contract Administrator under the Contract Administration Agreement described below.

In their respective Service Contracts, the Service Corporations have agreed to perform the service in the current year and in future years of reducing the financial burden of the Subject UAAL of the GRS or PFRS, as applicable, by funding a specified amount of such Subject UAAL and related Ancillary Amounts on the Closing Date. In return for such present and future services, the City has agreed in the Service Contracts to make the COP Service Payments and certain additional payments (collectively, **Contract Payments**). On the Closing Date, the Service Corporations, severally and not jointly, will enter into the Trust Agreement with the Trustee, establishing the Funding Trust and irrevocably assigning to it all of their rights under the Service Contracts to receive, collect and enforce all COP Service Payments to become due thereunder. On the Closing Date, the Funding Trust will issue and sell the Certificates and irrevocably fund the Subject UAAL on behalf of the City by depositing Certificate proceeds with the GRS and the PFRS in amounts equal to their specified portions of the Subject UAAL.

THE PAYMENT OBLIGATIONS OF THE CITY UNDER THE SERVICE CONTRACTS ARE UNSECURED CONTRACTUAL OBLIGATIONS OF THE CITY. NEITHER THE FAITH AND CREDIT, THE TAXING POWER NOR ANY SPECIAL REVENUES OF THE CITY ARE PLEDGED TO THE COP SERVICE PAYMENTS COMING DUE UNDER THE SERVICE CONTRACTS. THE SERVICE CONTRACTS AND THE PAYMENT OBLIGATIONS OF THE CITY UNDER THE SERVICE CONTRACTS DO NOT CONSTITUTE "INDEBTEDNESS" WITHIN THE MEANING OF ANY LIMITATION CONTAINED IN THE CONSTITUTION AND NON-TAX STATUTES OF THE STATE OF MICHIGAN OR IN THE CITY CHARTER.

#### **No Pledge of Retirement System Assets or of Proceeds of the Certificates**

Although the proceeds of the Certificates will be used to fund the Subject UAAL, no Retirement System assets and no proceeds of the Certificates will either secure or be available to pay the Certificates (except capitalized interest payable from such proceeds). See "PLAN OF FINANCE" and "SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES."

#### **Investment Considerations**

This is a new financing structure which is being used for the first time in the State of Michigan. The City's unconditional contractual obligation to make COP Service Payments is not "subject to appropriation" (*i.e.*, the contractual obligation is not subject to termination if the City were to fail to appropriate sufficient amounts for the required payments in any single year). The City is legally bound to make all COP Service Payments for the full term of both Service Contracts, and statutory remedies exist to enforce the City's obligations. See "PLAN OF FINANCE" and its first subheading "Constitutional, Statutory and Ordinance Authority for Payment of Unfunded Accrued Actuarial Liabilities and Issuance of the Certificates."

#### **Defined Terms**

All capitalized terms used in this Offering Circular, unless otherwise defined or the context otherwise indicates, have the same meaning as in the Service Contracts, the Trust Agreement and the Contract Administration Agreement. See "DEFINITIONS OF CERTAIN TERMS" in APPENDIX A.

#### **Underlying Documents**

The descriptions and summaries of various documents set forth below do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the Service Contracts, the Trust Agreement and the Contract Administration Agreement are available in reasonable quantities upon request to the Contract Administrator.

### **THE CITY**

#### **Governmental Structure**

Pursuant to the Michigan Constitution of 1963, as amended (**State Constitution**), and the Home Rule City Act (Act No. 279 of the Michigan Public Acts of 1909, as amended), the City is a home rule city with significant independent powers. The City provides the following services: public protection, public works, cultural and recreational, civic center, health, physical and economic development, public lighting, transportation, water supply and sewage disposal, human services, airport, and parking. In accordance with the City Charter, the governance of the City is organized into two branches: an Executive Branch, which is headed by the Mayor, and the Legislative Branch, which is comprised of the City Council and its agencies. The Mayor and the members of the City Council are elected every four years. The last regular election for these positions was on November 6, 2001, in which Kwame M. Kilpatrick was elected as Mayor, and six incumbent members and three new members of the City Council were elected. JoAnn Watson was subsequently elected in a special election held as a result of the death of City Council member Brenda Scott. A City Council vacancy currently exists due to the death of Council member Kay Everett in November 2004. There are no

limits as to the number of terms that may be served by City elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the judicial branch of State government.

The City Charter provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify certain ordinances enacted by the City by referendum. The period within which voters of the City could, under the City Charter, petition for a referendum to nullify the Funding Ordinance or either of the Alternative Funding Mechanism Ordinances (referred to below under "PLAN OF FINANCE - Constitutional, Statutory and Ordinance Authority for Payment of Unfunded Accrued Actuarial Liabilities and Issuance of the Certificates") has lapsed without any such petitions being filed.

### **Economic Characteristics**

Detroit is located in Wayne County, which is in the southeastern section of the lower peninsula of Michigan. The City covers approximately 138 square miles and is the largest city in Michigan, accounting for nearly half of the population of the County. According to the U.S. Census Bureau, the City is now the nation's tenth largest city and is the center of the nation's eighth largest consolidated metropolitan statistical area. The City is internationally known for its automobile manufacturing and trade. The southeastern border of the City is on the Detroit River, an international waterway, which is linked via the St. Lawrence Seaway to seaports around the world. The City is the commercial capital of Michigan and a major economic and industrial center of the nation. The City has eight diverse industrial parks, and more than 50 firms have world headquarters within the confines of the City. See APPENDIX B - "Information Concerning the City of Detroit, Michigan" for information about the City's economic condition and outlook.

### **Current Fiscal Situation**

Similar to many large urban governmental units, the City has faced and continues to face fiscal challenges. In the past three years, the five major revenue categories of the City's General Fund decreased 6.35% from \$992 million to \$929 million while the five major expenditure categories of the General Fund increased 8.03% from \$859 million to \$928 million (fiscal 2002 compared to fiscal 2004). This contributed to the City reporting year-end General Fund deficits for fiscal years 2001, 2003 and 2004. The primary causes for these past results include a declining population base and its adverse effects on tax revenues, increases in health care and pension benefit costs, and a disproportionate number of City employees compared to the population served. The City has consistently sought to reduce expenditures and increase revenues in any fiscal year in which estimates and actual results may not coincide with budgeted assumptions. The City has in the past utilized various one-time revenue enhancement strategies in an attempt to balance year-end deficits (e.g., issuance of fiscal stabilization bonds and exhausting the remaining balance in the Budget Stabilization Fund). The City has also taken steps to significantly reduce budgeted positions by over 4,000 employees since fiscal 2002 to reverse the disproportion of the number of employees to resident population.

For the year ended June 30, 2004, the City recorded an unexpected unreserved General Fund deficit of \$95 million that carried into the current fiscal year. The fiscal 2004 deficit was primarily attributable to below budgeted income tax and utility users tax collections, tax penalties and interest for remitting payroll withholding taxes late to the Internal Revenue Service, cash-funding capital costs for an 800 MHz communication system, and loss of a lawsuit to the Police and Fire Retirement System (currently under appeal; see "LITIGATION" and also "RETIREMENT SYSTEMS - Pending Pension Litigation" in APPENDIX B). In March 2005, the City administration implemented additional mid-year layoffs, salary reductions for certain employees and other expenditure reductions. Based on these initiatives, the expected reimbursement of the cash-funded capital costs from an upcoming bond issue and the City's current projections of revenues and expenditures, the 2006 Executive Budget estimates a lower year-end deficit of approximately \$67 million for the current fiscal year ending June 30, 2005.

The City administration, in presenting on April 12, 2005 its proposed balanced fiscal 2006 Executive Budget, addressed many of the fiscal realities resulting from the sluggish State and local economies and higher costs for items such as health care and pensions that have resulted in deficits. The City Council adopted

amendments to the fiscal 2006 Executive Budget on May 24, 2005, based on certain different assumptions and approaches as to various revenue sources and expenditure reductions. There is the possibility of a Mayoral veto of the amendments by June 2, 2005 and of a City Council vote to override any such veto. See "FINANCIAL PROCEDURES - Budget Process" in APPENDIX B. Regardless of these possibilities, a definitive balanced budget is required to be adopted by June 6, 2005.

The proposed fiscal 2006 Executive Budget and the City Council amendments are both designed to halt the decline in the General Fund balance over the past four years. See "Components of Fund Balance" under "FINANCIAL OPERATIONS" in APPENDIX B. Both result in a fiscal 2006 budget of approximately \$1.4 billion, representing a 10.6% decrease from the City's fiscal 2005 Budget. The fiscal 2006 Executive Budget includes proposed new tax revenue sources, expenditure reductions, further employee reductions and re-engineering of several large departments. The City Council amendments increase the estimated carryover deficit from fiscal 2005 to approximately \$101 million, remove new tax revenue sources, and restore subsidies for certain non-General Fund operations. The City Council amendments balance the fiscal 2006 budget primarily by instituting additional expenditure reductions and wage cuts in the Police and Fire Departments. If the Executive Budget is finally adopted, several of the fiscal 2006 Executive Budget initiatives will require State legislative and local electorate approval. For both the Executive Budget and the City Council amendments, certain expenditure reductions will require labor union support. If some or all of these initiatives are not realized, the City administration has power under the City Charter and state law to take required actions and believes it would achieve a balanced budget predominantly through additional employee reductions. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund-Proposed Fiscal 2006 Budget" in APPENDIX B for more detail and assumptions associated with the budgeted figures.

To prevent recurring fiscal challenges in future years, the City administration believes that the City must continue taking steps to correct a structural imbalance between its current level of revenues and expenditures. This may involve gaining additional permanent revenue sources, such as those discussed in "Proposed Fiscal 2006 Executive Budget" under "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund" in APPENDIX B. In addition, the City administration believes that the City must continue to address and reduce its basic level of ongoing General Fund expenditures. Any such reductions would most likely be accomplished primarily through further reductions in the number of employees and their employee benefits as well as reducing or terminating certain services.

### **Financial Controls and Accounting**

Prior to the start of each fiscal year the City prepares an annual budget which constitutes the financial plan for such fiscal year. Reference to a fiscal year refers to the fiscal year ended or ending on June 30 of the year indicated. The budget is required to set forth estimated revenues from all sources and all appropriations. The appropriation for every function of each City department is a fixed expenditure and may not exceed the original appropriation without City Council approval. The City estimates a prior year surplus or deficit for the General Fund that reflects the ending financial position for the prior year. Subject to certain limitations, one half of any surplus realized at the end of any fiscal year is credited to a Budget Stabilization Fund with the remainder being included as revenue available for appropriation in the budget for the next succeeding fiscal year. Any deficit realized at the end of any fiscal year is entered into the budget for the next succeeding fiscal year as an appropriation in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues so that the budget as submitted by the Mayor and adopted by City Council is a balanced budget. See "FINANCIAL PROCEDURES - Budget Process" and "Budget Stabilization Fund" in APPENDIX B.

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, except for entity-wide statements and the enterprise and pension funds, reflect the modified accrual basis of accounting. See "FINANCIAL PROCEDURES - Accounting System" and "Accounting Methods" in APPENDIX B. The audited basic financial statements of the City as of and for the year ended June 30, 2004, are included in APPENDIX C.

## PLAN OF FINANCE

The Certificates will be issued as part of the City's first use of its recently authorized alternative funding mechanism for meeting its constitutional and statutory obligation to fund an approximately \$1.37 billion portion of outstanding unfunded accrued actuarial liabilities (**Subject UAAL**) of its two Retirement Systems. Rather than paying the Subject UAAL in annual installments, with interest, directly to the Retirement Systems over the next 13-20 years, the City instead has entered into a separate Service Contract with each of two Michigan nonprofit corporations it has caused to be formed for this purpose (**Service Corporations**) and has contractually obligated itself to make periodic COP Service Payments to them in return for their agreeing to perform the service in the current year and in future years of reducing the financial burden of the Subject UAAL.

The Service Corporations will form the Funding Trust under the Trust Agreement on the Closing Date and irrevocably sell, assign and convey to the Funding Trust all of their rights to receive, collect and enforce all COP Service Payments to become due under the Service Contracts. The Funding Trust and the Service Corporations will also enter into the Contract Administration Agreement with U.S. Bank National Association, as Contract Administrator (in such capacity, **Contract Administrator**), along with certain other parties. See "SERVICE CONTRACT ADMINISTRATION." The Service Corporations are not expected to have a significant active role with regard to any outstanding Certificates after the Closing Date.

The Funding Trust in turn will issue and sell the Certificates on the Closing Date and irrevocably deposit Certificate proceeds with the Retirement Systems in amounts equal to their respective outstanding portions of the Subject UAAL. Upon such deposit with the Retirement Systems, those Certificate proceeds will irrevocably fund the Subject UAAL and become assets solely of the Retirement Systems. Those proceeds will never be available to pay, nor serve as security for payment of, COP Service Payments due from the City under the Service Contracts or the Certificateholders' undivided proportionate interests in the right to receive the principal and interest portions of those COP Service Payments. The Retirement Systems will have nothing to do with the Certificates except to receive those proceeds on the Closing Date; they are not a party to the Service Contracts or the Trust Agreement.

### *Constitutional, Statutory and Ordinance Authority for Payment of Unfunded Accrued Actuarial Liabilities and Issuance of the Certificates*

The Home Rule City Act permits the City to provide in its Charter for the establishment and maintenance of a pension plan for its employees. Pursuant to that authority, the City has established by Charter and maintains pursuant to ordinances two employee pension systems – its General Retirement System (**GRS**) and Police and Fire Retirement System (**PFRS**). The two Retirement Systems were established in 1938 and 1941, respectively, by amendments to the Detroit City Charter of 1918, and exist for the purpose of providing retirement allowances and death and survivor benefits for eligible City employees and their beneficiaries. Each Retirement System is governed by its own Retirement Board, which invests and administers the System's assets as trust funds solely for the benefit of its participants, retirees and their beneficiaries. The assets of each Retirement System are separate and distinct from assets of the City, are outside the City's control and are not available to pay any obligation or expense of the City. See "RETIREMENT SYSTEMS" in APPENDIX B.

Article 9, Section 24 of the State Constitution obligates the City to contribute sufficient funds to the GRS and PFRS to maintain their actuarial integrity. The Michigan Supreme Court has held that this constitutionally obligates a Michigan municipality to fund its employee retirement systems to a level which includes pension benefit liabilities incurred in the current year and any existing unfunded accrued actuarial liabilities (**UAAL**). *Shelby Township Police and Fire Retirement Board v. Shelby Township*, 438 Mich. 247 (1991). The Court noted that the State Constitution does not provide specifics for how a municipality must meet its constitutionally-imposed UAAL funding obligations.



Michigan's Public Employees Retirement System Investment Act provides more specificity. That statute, which applies to both the GRS and PFRS, prescribes (in MCL §38.1140m) that a Michigan municipality's required annual contribution to its employee retirement system must be an actuarially determined contribution amount, consisting of (1) a current service cost payment, (2) a payment of at least the annual accrued amortized interest on any UAAL and (3) a payment of the annual accrued amortized portion of the unfunded principal liability.

It is customary for Michigan cities to provide detailed specifics for meeting their UAAL funding obligations in their city ordinances. The City's GRS and PFRS ordinances have long specified a traditional funding mechanism for the City to meet its constitutional and statutory obligation to provide funding for each System's UAAL through required annual payments. The City recently authorized an alternative funding mechanism for such UAAL through new enabling legislation duly enacted by the Detroit City Council, Ordinances No. 03-05 and 04-05 (**Alternative Funding Mechanism Ordinances**) amending the City's GRS and PFRS ordinances. The Alternative Funding Mechanism Ordinances, together with the Funding Ordinance (No. 05-05), enable the City, the Service Corporations and the Trustee to provide for the issuance and sale of the Certificates and the use of the Certificate proceeds to fund the Subject UAAL of both Retirement Systems on the Closing Date.

Each Retirement System receives an annual actuarial report from its consulting actuary as of each June 30, providing actuarial valuations of its vested benefits, prior service costs and unfunded accrued liabilities. Each Retirement Board uses those actuarial valuations, together with certain actuarial assumptions, to determine the annual contribution amounts requested from the City to fulfill its constitutional and statutory pension funding obligations. As part of their regular, periodic review of the actuarial assumptions used to administer their respective Retirement Systems, the GRS and PFRS Retirement Boards may receive recommendations from time to time to increase or decrease the interest rate and to change other actuarial assumptions.

The most recent annual actuarial reports available for the Retirement Systems are as of June 30, 2004. Although the GRS and PFRS had assets actuarially valued at \$2,470,243,470 and \$3,074,516,589, respectively, as of that date, they also had estimated UAAL of \$913,683,202 and \$782,976,693, respectively, as of that date, as determined by their actuary. \$739,793,898 of GRS UAAL and \$630,829,189 of PFRS UAAL are the "**Subject UAAL**" to be funded in full from Certificate proceeds on the Closing Date.

The Subject UAAL is a major part, but not all, of the existing UAAL of the Retirement Systems. The funding of the Subject UAAL from Certificate proceeds is not intended to and will not fund the entire existing UAAL of either or both Retirement Systems.

Under the Retirement Boards' current actuarial assumptions and the traditional funding mechanism, the City would be required to amortize the Subject UAAL over a remaining period of 13 years for the PFRS and 20 years for the GRS. In each year that the City has outstanding UAAL, it is assessed interest thereon (currently at annual rates of 7.9% on GRS UAAL and 7.8% on PFRS UAAL).

By arranging through the alternative funding mechanism for the Subject UAAL to be funded (in effect, prepaid) on the Closing Date, the City will avoid further interest accrual on the amount thus funded; and the Retirement Systems will have possession and control of those funds (including the exclusive right to invest and receive all investment earnings on those funds) much sooner than they would under the traditional funding mechanism. The Alternative Funding Mechanism Ordinances impose certain technical restrictions on the Retirement Systems' uses of those funds, but neither rescind any substantive rights, entitlements or obligations with respect to benefits earned or accrued of members, retirees or beneficiaries of the Retirement Systems nor affect the validity or enforceability of the Service Contracts or the City's payment obligations thereunder.

The financing plan reflects the expectation that by prepaying the Subject UAAL, the City will reduce its costs and better ensure the timely and full payment of retirement benefits. As a practical matter, it is

expected that amounts that otherwise would have been expended by the City for the annual amortization of the Subject UAAL (under the traditional funding mechanism) will be sufficient to offset all of the Contract Payments to be made by the City under the Service Contracts. Those Contract Payments are intended to replace payments the City would otherwise make to meet its constitutional obligation to amortize the Subject UAAL.

Apart from the Subject UAAL, other unfunded accrued actuarial liabilities of the Retirement Systems may exist and arise in the ordinary course of the City's operations, which the City may elect to fund by utilizing the traditional funding mechanism or the alternative funding mechanism. Any utilization of the alternative funding mechanism for such other unfunded accrued actuarial liabilities would, however, require (i) separate authorization by a future enabling ordinance of the City enacted for that purpose; (ii) a new funding trust separate and distinct from the Funding Trust; (iii) one or more new service contracts separate and distinct from the Service Contracts; and (iv) issuance of new certificates of participation unrelated to the Certificates.

*Swap Agreements*

It is expected that the Service Corporations will enter into interest rate exchange agreements or similar agreements (**Swap Agreements**) before or at the time of issuance of the Series B Certificates, to hedge variable-rate exposure under the Service Contracts, and they may do so from time to time with respect to any rate exposure under the Service Contracts. Payments under a Swap Agreement may include net payments based on the interest rates exchanged. Under the Swap Agreements, the Service Corporations will be obligated in certain instances to make periodic payments to the Swap Agreement counterparty, and should a Swap Agreement be terminated, under certain circumstances the Service Corporations may be required to pay a termination payment. The Service Corporations' obligation to make all payments under the Swap Agreements will be payable from moneys paid by the City under the Service Contracts. In applying moneys so received from the City, the Contract Administrator will be required to treat any termination payment owing to a Swap Agreement counterparty as subordinated in right of payment to the prior payment in full of any Scheduled Payments and Service Charges (corresponding to principal of and interest on Certificates) then due and unpaid.

*Sources and Uses of Funds*

The proceeds from the sale of the Certificates are expected to be used as follows:

<b>Sources of Funds</b>	
Principal Amount of Series A Certificates .....	\$ 640,000,000
Principal Amount of Series B Certificates .....	<u>800,000,000</u>
TOTAL SOURCES .....	<u>\$1,440,000,000</u>
<b>Uses of Funds</b>	
Subject UAAL.....	\$1,370,623,087
Capitalized Interest .....	23,014,439
Costs of Issuance*.....	<u>46,362,474</u>
TOTAL USES .....	<u>\$1,440,000,000</u>

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\* Includes premiums on Certificate insurance policies, underwriters' discount and other costs of issuance.

**SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES**

The Certificates are payable solely from all COP Service Payments which may be received by the Trustee pursuant to the Service Contracts. Such COP Service Payments will include all Scheduled Payments and Service Charges payable by the City under the Service Contracts, corresponding to the principal of and interest on the Certificates, respectively. The City's obligations to make COP Service Payments are unsecured contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City. **Such payment obligations of the City are not general obligations of the City, and neither the faith and credit, taxing power nor any specific revenues of the City are pledged to the COP Service Payments coming due under the Service Contracts.**

The City's unconditional contractual obligation to pay all COP Service Payments is not "subject to appropriation," as is customary with many certificate of participation transactions entered into by municipalities in the United States. The City's Service Contracts are not subject to termination if the City were to fail to appropriate sufficient amounts for the required payments in any single year. The City is legally bound to make all COP Service Payments for the full term of both Service Contracts, and statutory remedies exist to enforce the City's obligations.

To secure the payment of the Certificates, the Service Corporations will irrevocably sell, assign and convey to the Funding Trust all of their rights to receive, collect and enforce all COP Service Payments to become due under the Service Contracts. As further security for the payment of the Certificates, although the parties intend that such sale, assignment and conveyance be an absolute transfer of those rights under the Service Contracts, in the Trust Agreement the Service Corporations will additionally grant a security interest in their right to receive COP Service Payments to the Funding Trust for the benefit of the Certificateholders. That security interest will be a perfected first security interest in such property under the Michigan Uniform Commercial Code.

The Service Contracts additionally require the City to make certain other payments, such as general corporate expenses of the Service Corporations, fees and expenses of the Trustee and the Contract Administrator, and certain amounts payable to one or more Swap Agreement counterparties. The amounts paid by the City for such additional purposes do not constitute part of the COP Service Payments and are not pledged for the payment of the Certificates.

If the City were to fail to pay any COP Service Payment when due, the Contract Administrator could file a lawsuit against the City to enforce that contractual obligation, a right that is available to all parties entering into valid enforceable contracts with the City. The City would be required to pay any resulting judgment against it, the same as any other. If the City were to fail to provide for payment of any such judgment, a court can compel the City to raise the payment through the levy of taxes, as provided in the Revised Judicature Act of 1961, Act No. 236 of the Michigan Public Acts of 1961, as amended (Michigan Compiled Laws Section 600.6093), without limit as to rate or amount. This is the same remedy that the Retirement Systems would have against the City if it failed to make its required annual payment to fund UAAL under the traditional funding mechanism described above under "PLAN OF FINANCE - Constitutional, Statutory and Ordinance Authority for Payment of Unfunded Accrued Actuarial Liabilities and Issuance of the Certificates."

The Contract Administrator has no duty under the Contract Administration Agreement to pursue any remedy against the City for nonpayment of COP Service Payments except at the request of Certificateholders representing at least 25% of the outstanding principal amount of Certificates, the payments on which have not been made when due, or at least 50% of the outstanding principal amount of all Certificates. See "SERVICE CONTRACT ADMINISTRATION - Enforcement."

## **THE CERTIFICATES**

The Certificates are being issued in two series, as described below.

### ***The Series A Certificates (Fixed Rate)***

The Series A Certificates will be dated the date of their issuance. Interest from that date will be payable on each Series A Certificate on December 15, 2005 and semiannually thereafter on each June 15 and December 15 until its maturity or earlier redemption. The interest on the Series A Certificates will be computed at the rates shown on the inside cover of this Offering Circular, on the basis of a 30-day month and a 360-day year. The Series A Certificates are issued as fully registered Certificates, in principal denominations of \$5,000 or multiples thereof.

Mandatory Sinking Fund Redemption

All Series A Certificates maturing in 2020 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series A Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series A Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under “THE CERTIFICATES – The Series A Certificates (Fixed Rate) - Optional Redemption with Make-Whole Premium,” at least 45 days before the redemption date:

<u>Redemption Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2016	\$36,950,000
2017	40,965,000
2018	45,270,000
2019	31,035,000
2020 <sup>(a)</sup>	34,265,000

<sup>(a)</sup> Stated Maturity

All Series A Certificates maturing in 2025 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series A Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series A Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under “THE CERTIFICATES – The Series A Certificates (Fixed Rate) - Optional Redemption with Make-Whole Premium,” at least 45 days before the redemption date:

<u>Redemption Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2021	\$37,730,000
2022	41,475,000
2023	45,490,000
2024	49,785,000
2025 <sup>(a)</sup>	54,375,000

<sup>(a)</sup> Stated Maturity

Optional Redemption with Make-Whole Premium

The Series A Certificates are subject to optional redemption prior to their maturity from Scheduled Payments prepaid by the City, in whole or in part (and if in part, as described below under “THE CERTIFICATES – Selection of Certificates for Redemption”) on any date, at a redemption price equal to the greater of:

- 100% of the principal amount of the Series A Certificates to be redeemed, or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Series A Certificates to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points,

plus in each case, accrued and unpaid interest on the Series A Certificates being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions apply:

**Treasury Rate** means, with respect to any redemption date for a particular Series A Certificate, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Treasury Dealer.

**Comparable Treasury Issue** means, with respect to any redemption date for a particular Series A Certificate, the U.S. Treasury security or securities selected by the Designated Treasury Dealer which has an actual or interpolated maturity comparable to the remaining average life of the Series A Certificate to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series A Certificate to be redeemed.

**Comparable Treasury Price** means, with respect to any redemption date for a particular Series A Certificate, (1) if the Designated Treasury Dealer receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Designated Treasury Dealer obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

**Designated Treasury Dealer** means one of the Reference Treasury Dealers designated by the Contract Administrator.

**Reference Treasury Dealer** means UBS Financial Services Inc. or its successor, and four other firms, selected by the Contract Administrator from time to time, that are primary U.S. Government securities dealers in the City of New York (each a **Primary Treasury Dealer**); *provided, however*, that if any of them ceases to be a Primary Treasury Dealer, the Contract Administrator will substitute another Primary Treasury Dealer.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series A Certificate, the average, as determined by the Designated Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Treasury Dealer by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

#### ***The Series B Certificates (Floating Rate)***

The Series B Certificates will be dated the date of their issuance and mature on the dates set forth on the inside cover of this Offering Circular. The Series B Certificates are issued as fully registered Certificates, in principal denominations of \$25,000 and integral multiples of \$1,000 in excess thereof.

Interest will be payable on the Series B Certificates from the delivery date at a floating rate determined in the manner provided below, payable on September 15, 2005 and the 15<sup>th</sup> day of each December, March, June and September thereafter (each an **Interest Payment Date**) to the persons in whose name the Series B Certificates were registered at the close of business on the 15th day (whether or not a business day) preceding the respective Interest Payment Date, subject to certain exceptions.

The per annum interest rate on the Series B Certificates (**Interest Rate**) in effect during an Interest Period (as defined below) will be equal to the Three Month LIBOR plus the margin indicated on the inside cover of this Offering Circular, and interest on the Series B Certificates will accrue on the outstanding

principal balance of the Certificates as shown below. The outstanding principal balance is computed based upon the reduction of the principal balance of each Series B Certificate by the amount of the mandatory sinking fund prepayment on the specific dates set forth under the next subheading "Mandatory Sinking Fund Redemption" below.

<u>Dates</u>	<b>2014 Maturity Outstanding Principal Balance (Weighted Average Life: 6.12 Years)</b>	<b>2025 Maturity Outstanding Principal Balance (Weighted Average Life: 13.87 Years)</b>
June 2, 2005 - June 15, 2006	\$250,615,000	\$549,385,000
June 16, 2006-June 15, 2007	250,615,000	549,385,000
June 16, 2007-June 15, 2008	232,355,000	549,385,000
June 16, 2008-June 15, 2009	210,629,000	549,385,000
June 16, 2009-June 15, 2010	184,999,000	549,385,000
June 16, 2010-June 15, 2011	155,213,000	549,385,000
June 16, 2011-June 15, 2012	120,928,000	549,385,000
June 16, 2012-June 15, 2013	81,836,000	549,385,000
June 16, 2013-June 15, 2014	37,437,000	549,385,000
June 16, 2014-June 15, 2015		536,754,000
June 16, 2015-June 15, 2016		469,774,000
June 16, 2016-June 15, 2017		393,937,000
June 16, 2017-June 15, 2018		308,400,000
June 16, 2018-June 15, 2019		212,464,000
June 16, 2019-June 15, 2020		192,050,000
June 16, 2020-June 15, 2021		168,750,000
June 16, 2021-June 15, 2022		142,285,000
June 16, 2022-June 15, 2023		112,441,000
June 16, 2023-June 15, 2024		78,961,000
June 16, 2024-June 15, 2025		41,585,000

For the initial Interest Period which begins on the Closing Date and ends on (but does not include) September 15, 2005, the Contract Administrator will set the Interest Rate on the Closing Date and will determine the LIBOR rate by reference to straight line interpolation between Three Month LIBOR and four month LIBOR based on the actual number of days in the initial Interest Period. The Interest Rate for each subsequent Interest Period for the Series B Certificates will be set on September 15, 2005 and the 15<sup>th</sup> day of each December, March, June and September thereafter (each an **Interest Rate Adjustment Date**) until the principal on the Series B Certificates is paid or made available for payment. If any Interest Rate Adjustment Date (other than the initial Interest Rate Adjustment Date occurring on the Closing Date) and Interest Payment Date for the Series B Certificates would otherwise be a day that is not a LIBOR Business Day, such Interest Rate Adjustment Date and Interest Payment Date shall be the next succeeding LIBOR Business Day.

**LIBOR Business Day** means any day on which the City, the Trustee and banks in both London and New York City are open for the transaction of business. **Interest Period** means the period from and including the Closing Date or the most recent Interest Payment Date to but excluding the next succeeding Interest Payment Date on which interest on the outstanding Series B Certificates was paid in full.

The **Three Month LIBOR** for each Interest Period means the rate determined in accordance with the following provisions:

(i) On the second LIBOR Business Day before the Closing Date and each subsequent Interest Rate Adjustment Date (each such date an **Interest Determination Date** for the ensuing Interest Period), the Contract Administrator will determine the Three Month LIBOR which shall be the London interbank offered

rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m., London time, on such Interest Determination Date. **Telerate Page 3750** means the display page so designated on Moneyline Telerate, Inc. (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If the Three Month LIBOR on such Interest Determination Date does not appear on the Telerate Page 3750, the Three Month LIBOR will be determined as described in paragraph (ii) below.

(ii) With respect to an Interest Determination Date for which the Three Month LIBOR does not appear on Telerate Page 3750 as specified in paragraph (i) above, the Three Month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on such Interest Determination Date to prime banks in the London interbank market by at least three leading banks engaged in transactions in Eurodollar deposits in the international Eurocurrency market (the **Reference Banks**) selected by the Contract Administrator. The Contract Administrator shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Contract Administrator, at approximately 11:00 a.m., New York City time, on such Interest Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity; provided, however, that if the banks in New York City selected by the Contract Administrator are not then quoting rates for such loans, the relevant Interest Rate for the Interest Period commencing on the Interest Rate Adjustment Date following such Interest Determination Date will be the Interest Rate in effect on such Interest Determination Date.

The amount of interest for each day that the Series B Certificates are outstanding (the **Daily Interest Amount**) will be calculated by dividing the Interest Rate in effect for such day by 360 and multiplying the result by the principal amount of the Series B Certificates. The amount of interest to be paid on the Series B Certificates for any Interest Period will be calculated by adding the Daily Interest Amounts for each day in such Interest Period.

The Interest Rate on the Series B Certificates will in no event be higher than the maximum rate permitted by Michigan law as the same may be modified by United States law of general application.

The Interest Rate and amount of interest to be paid on the Series B Certificates for each Interest Period will be determined by the Contract Administrator. All calculations made by the Contract Administrator shall in the absence of manifest error be conclusive for all purposes and binding on the Funding Trust and the Holders of the Series B Certificates.

#### Mandatory Sinking Fund Redemption

All Series B Certificates maturing in 2014 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts specified below, except that the principal amount of the Series B Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series B Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under "*The Series B Certificates (Floating Rate) - Optional Redemption*," at least 45 days before the redemption date:

<u>Redemption Date (June 15)</u>	<u>Principal Amount</u>
2007	\$18,260,000
2008	21,726,000
2009	25,630,000
2010	29,786,000
2011	34,285,000
2012	39,092,000
2013	44,399,000
2014 <sup>(a)</sup>	37,437,000

<sup>(a)</sup> Stated Maturity

All Series B Certificates maturing in 2025 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series B Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series B Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under “*The Series B Certificates (Floating Rate) - Optional Redemption*,” at least 45 days before the redemption date:

<u>Redemption Date (June 15)</u>	<u>Principal Amount</u>
2014	\$12,631,000
2015	66,980,000
2016	75,837,000
2017	85,537,000
2018	95,936,000
2019	20,414,000
2020	23,300,000
2021	26,465,000
2022	29,844,000
2023	33,480,000
2024	37,376,000
2025 <sup>(a)</sup>	41,585,000

<sup>(a)</sup> Stated Maturity

#### Optional Redemption

The Series B Certificates are subject to optional redemption on any Interest Payment Date at par, beginning June 15, 2007, in whole or in part (and if in part, as described below under “THE CERTIFICATES – *Selection of Certificates for Redemption*”).

#### *Selection of Certificates for Redemption*

If some but less than all of the Certificates of either Series A or Series B are to be redeemed on any date, the Contract Administrator, at the direction of the City, will select the maturity or maturities to be redeemed. Within a maturity, the particular Certificates of a Series to be redeemed shall be redeemed *pro rata* as described below.



So long as the Certificates of either Series are in the book-entry-only system, the securities depository will administer the prorating of partial redemptions among beneficial owners of the Certificates of that Series. See "THE CERTIFICATES - Global Book-Entry System."

#### ***Notice of Redemption***

The Trustee will mail a notice to the registered owner of each Certificate to be redeemed in whole or in part at the address for the registered owner shown in the registration books (the securities depository so long as the book-entry-only system is in effect). The notice will be mailed at least 30 days but not more than 45 days prior to the redemption date. Failure to give a notice of redemption or a defect in it will not affect the validity of the proceedings for the redemption of any Certificates for which proper notice was given.

#### ***Global Book-Entry System***

Payments of principal and interest for each Certificate will be paid to the registered owner of the Certificates. The Certificates are being issued initially in book-entry-only form, so the registered owner will be a securities depository—a nominee of The Depository Trust Company (DTC). Clearance is expected to be available through DTC and also through Clearstream and Euroclear, which will hold omnibus positions on behalf of their participants in the books of their respective depositories. For more information about the global book-entry system, see APPENDIX D. Under certain conditions the Certificates may be issued in certificated form.

The Trustee is the registrar and paying agent for the Certificates and may be contacted as follows:

*Contact:* U.S. Bank National Association  
*Attn:* Trust Finance Management  
*Phone:* 651-495-3713  
*Mail:* Corporate Trust Services  
U.S. Bank National Association  
60 Livingston Avenue  
St. Paul, MN 55107  
Mail Station EP-MN-WS3T

#### ***Registration and Payment of Certificates***

How the Certificates are paid depends on whether or not they are in book-entry-only form.

While the Certificates are in book-entry-only form (as they are initially), payment of principal will be made by wire transfer to the securities depository or its nominee. Payment of interest will be made by wire transfer to the securities depository or its nominee on the payment date.

If the Certificates are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the Certificates at the designated office of the Trustee. Payment of interest due on the Certificates will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the 15th day (whether or not a business day) preceding the respective interest payment date.

#### **FISCAL YEAR COP SERVICE PAYMENTS**

The following table sets forth the contractual obligations of the City under the Service Contracts in each fiscal year for payment of Scheduled Payments and Service Charges, corresponding to the principal of and interest on the Certificates, respectively.

**FISCAL YEAR COP SERVICE PAYMENTS**

Maturity (June 15)	Series A		Series B		Total	
	Principal	Interest <sup>(1)</sup>	Principal	Interest <sup>(2)</sup>	Principal	Interest <sup>(2)</sup>
2006	\$ —	\$ 21,345,691	\$ —	\$ 27,777,564	\$ —	\$ 27,777,564
2007	10,845,000	30,253,736	18,260,000	39,369,775	29,105,000	69,623,511
2008	13,905,000	29,819,502	21,726,000	38,522,511	35,631,000	68,342,013
2009	17,310,000	29,241,888	25,630,000	37,514,425	42,940,000	66,756,313
2010	20,950,000	28,508,983	29,786,000	36,325,193	50,736,000	64,834,176
2011	24,880,000	27,605,200	34,285,000	34,943,122	59,165,000	62,548,322
2012	29,095,000	26,509,485	39,092,000	33,352,298	68,187,000	59,861,783
2013	33,720,000	25,213,884	44,399,000	31,538,430	78,119,000	56,752,314
2014	38,680,000	23,695,473	50,068,000	29,478,316	88,748,000	53,173,789
2015	33,275,000	21,930,504	66,980,000	27,112,342	100,255,000	49,042,846
2016	36,950,000	20,395,528	75,837,000	23,761,922	112,787,000	44,157,450
2017	40,965,000	18,617,125	85,537,000	19,967,481	126,502,000	38,584,605
2018	45,270,000	16,645,480	95,936,000	15,686,691	141,206,000	32,332,170
2019	31,035,000	14,466,634	20,414,000	10,884,531	51,449,000	25,351,165
2020	34,265,000	12,972,920	23,300,000	9,838,722	57,565,000	22,811,641
2021	37,730,000	11,323,745	26,465,000	8,645,063	64,195,000	19,968,808
2022	41,475,000	9,456,865	29,844,000	7,289,261	71,319,000	16,746,126
2023	45,490,000	7,404,682	33,480,000	5,760,352	78,970,000	13,165,034
2024	49,785,000	5,153,837	37,376,000	4,045,172	87,161,000	9,199,009
2025	54,375,000	2,690,475	41,585,000	2,130,400	95,960,000	4,820,875
<b>Totals</b>	<b>\$640,000,000</b>	<b>\$383,251,636</b>	<b>\$800,000,000</b>	<b>\$443,943,568</b>	<b>\$1,440,000,000</b>	<b>\$827,195,204</b>

<sup>1</sup> Net of capitalized interest.

<sup>2</sup> Series B interest calculated at fixed swap rates.

## CERTIFICATE INSURANCE

The scheduled payment of principal of and interest on the particular Certificates specifically identified on the inside cover of this Offering Circular as the "FGIC-insured Certificates" will be guaranteed under an insurance policy to be issued concurrently with the delivery of the FGIC-insured Certificates by Financial Guaranty Insurance Company (**Financial Guaranty**). Information provided by Financial Guaranty about its operations and financial condition is included as APPENDIX E, as is the form of its insurance policy.

The scheduled payment of principal of and interest on the particular Certificates specifically identified on the inside cover of this Offering Circular as the "XLCA-insured Certificates" will be guaranteed under an insurance policy to be issued concurrently with the delivery of the XLCA-insured Certificates by XL Capital Assurance Inc. (**XLCA**). Information provided by XLCA about its operations and financial condition is included as APPENDIX F, as is the form of its insurance policy.

In addition, Financial Guaranty and XLCA are expected to provide insurance policies that cover payments required to be made by the Service Corporations under the Swap Agreements that the Service Corporations are expected to enter into before or at the time of issuance of the Series B Certificates.

## SERVICE CONTRACT ADMINISTRATION

On the Closing Date, the Funding Trust, the Service Corporations, severally and not jointly, and the Swap Agreement counterparties and a backing provider for one of them, will enter into the Contract Administration Agreement (**Administration Agreement**) with U.S. Bank National Association, as Contract Administrator. U.S. Bank National Association will also be the Trustee under the Trust Agreement. The Administration Agreement will permit the substitution of a different Contract Administrator if a conflict of interest were to arise from the same institution serving in both roles.

Under the Administration Agreement, each of the Service Corporations and the Trustee on behalf of the Funding Trust will appoint the Contract Administrator as its respective agent to collect COP Service Payments, as well as periodic or termination payment amounts received from the City under the Service Contracts (**Hedge Payables**) or received from a Swap Agreement counterparty (**Hedge Receivables**), and will require the Contract Administrator to determine in accordance with prescribed priorities and prorating provisions to whom they must be disbursed. Also under the Administration Agreement, the Trustee on behalf of the Funding Trust will appoint the Contract Administrator as its agent to enforce the payment of COP Service Payments. Additionally, under the Administration Agreement, each Service Corporation will appoint the Contract Administrator as its agent if directed by the Service Corporation to enforce the payment of Hedge Receivables and Hedge Payables.

### *Payments to the Trustee or Others*

On any date that principal or interest is due and payable on any Certificates, the applicable Certificateholders are entitled to receive the amount due from the Trustee in accordance with the Trust Agreement. The Trustee is dependent on receiving from the Contract Administrator, as the agent of each Corporation, the proceeds of COP Service Payments collected by the Contract Administrator for that purpose. In the event that on such date the Trustee has insufficient moneys to pay the full aggregate amount thus due, the Trustee is required by the Trust Agreement to disburse all of the available moneys it then holds to the entitled Certificateholders on a *pro rata* basis.

The Contract Administrator is required to distribute the moneys it receives from the City as Service Payments (which term includes not only COP Service Payments but also payments for fees, expenses and indemnification of the Contract Administrator and amounts in respect of periodic Hedge Payables and termination Hedge Payables) in accordance with the following priorities of payment among specific categories of payments, as prescribed in each Service Contract:

- First:** any Contract Administrator Payments owing to the Contract Administrator under the Contract Administration Agreement are payable to it,
- Second:** all theretofore due and unpaid Service Charges (corresponding to interest due and unpaid to Certificateholders) and amounts in respect of periodic Hedge Payables due and unpaid to a Swap Counterparty are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Third:** all then due and about to become due Service Charges (corresponding to interest to Certificateholders) and amounts in respect of periodic Hedge Payables to a Swap Counterparty are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Fourth:** all theretofore due and unpaid regular Scheduled Payments and Sinking Fund Installments (corresponding to principal due and unpaid to Certificateholders) are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Fifth:** all then due or about to become due regular Scheduled Payments and Sinking Fund Installments (corresponding to principal to Certificateholders) are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Sixth:** all theretofore due and unpaid amounts in respect of termination Hedge Payables to a Swap Counterparty are payable before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Seventh:** all then due and about to become due amounts in respect of termination Hedge Payables to a Swap Counterparty are payable before the Contract Administrator can pay any available moneys then held by it to the final priority, namely,
- Eighth:** all then due and about to become due Optional Prepayment Amounts (corresponding to optional prepayments of principal to Certificateholders) and Accrued Service Charges.

For purposes of the above priorities, an amount is "about to become due" (i) in the case of amounts which are payable not more frequently than once each calendar week, when there are six or fewer days before its due date, or (ii) for amounts which are payable more frequently than once each calendar week, the day after its most recent due date.

The Administration Agreement requires the Contract Administrator, before paying any COP Service Payment proceeds to the Trustee for pass through to Certificateholders on any payment date, to determine which priorities are then due and owing, whether on that date or in arrears, and to apply those moneys according to the priorities described above. Thus, if after satisfying the First priority, the Contract Administrator has insufficient moneys to pay all amounts then owing among the next priorities, it shall use the available moneys first to pay amounts owing in the Second priority on a parity between Service Charges (payable by the Contract Administrator to the Trustee) and periodic Hedge Payables (payable to a Swap Counterparty); and in that event, Certificateholders may receive on that date less than the full amount then owing to them. If that occurred, however, the affected Certificateholders would have the benefit of the applicable Certificate insurance. See "CERTIFICATE INSURANCE."

### *Enforcement*

Promptly after any failure of the City to pay any COP Service Payment when due, the Contract Administrator is required to give written notice by mail to all Certificateholders and others, except that such notice shall be given to the insurer of particular Certificates rather than those Certificateholders as long as the insurer is not in default under its insurance policy. The Contract Administrator has no duty under the Contract Administration Agreement to pursue any remedy against the City for nonpayment of COP Service Payments except at the request of Certificateholders representing at least 25% of the outstanding principal amount of Certificates, the payments on which have not been made when due, or at least 50% of the outstanding principal amount of all Certificates, and only if they shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request.

### **THE SERVICE CORPORATIONS AND THE FUNDING TRUST**

The two Service Corporations are Michigan nonprofit corporations incorporated by the City pursuant to the Home Rule City Act, Ordinance No. 05-05 of the City and the Michigan Nonprofit Corporation Act. They are organized primarily for the purpose of assisting the City in carrying out its constitutionally mandated obligation to maintain the actuarial integrity of its two Retirement Systems through performing the services of reducing the financial burden of the unfunded accrued actuarial liabilities of the GRS or PFRS, as applicable, by funding specified amounts thereof. They will do this with respect to the Subject UAAL by entering into and performing their obligations under the two respective Service Contracts, the Trust Agreement, the Contract Administration Agreement and the Swap Agreements. The Service Corporations are not expected to have a significant active role with regard to any outstanding Certificates after the Closing Date.

The governing body of each respective Service Corporation is its Board of Directors, comprised of five directors. The Articles of Incorporation of each Service Corporation prescribe that its Board of Directors shall consist of three officials of the City – the Finance Director, the Budget Director and the Corporation Counsel – plus two members of the Detroit City Council appointed by the City Council. The current Board of Directors of each Service Corporation is comprised of these same five individuals:

Sean K. Werdlow	Finance Director of the City
Roger Short	Budget Director of the City
Ruth Carol Carter	Corporation Counsel of the City
Kenneth V. Cockrel, Jr.	City Council member
Sharon McPhail	City Council member

The officers of both Service Corporations are: Mr. Werdlow, President; Mr. Short, Treasurer; and Ms. Carter, Secretary.

Detroit Retirement Systems Funding Trust 2005 (the **Funding Trust**) is a grantor trust that will be established and existing under Michigan law beginning on the Closing Date. It will be created by the Service Corporations, severally and not jointly, by their entering into the Trust Agreement on that date with U.S. Bank National Association, as Trustee. The purposes of the Funding Trust are to purchase and accept from the Service Corporations their assignment of the rights to receive all COP Service Payments payable by the City under the Service Contracts solely with respect to the Subject UAAL, to issue and sell the Certificates in accordance with the Trust Agreement and, acting through the Trustee, to pay all received COP Service Payments to the Certificateholders. In the event that at any future time either Service Corporation enters into a service contract with the City to provide for refunding any of the Subject UAAL or funding a particular amount of unfunded accrued actuarial liabilities of the City other than the Subject UAAL, the Funding Trust will have nothing to do with those transactions and the Service

Corporation would have to create one or more other funding trusts to issue any certificates of participation for those transactions.

## **UNDERWRITING**

The Series A Certificates are being purchased by certain underwriters (**Series A Underwriters**), and UBS Financial Services Inc. is serving as representative for the Series A Underwriters. The Series A Underwriters have agreed, subject to certain conditions, to purchase the Series A Certificates from the Funding Trust at an aggregate purchase price of \$634,994,605.52 (reflecting underwriters' discount of \$5,005,394.48).

The Series B Certificates are being purchased by certain underwriters (**Series B Underwriters**), and UBS Financial Services Inc. is serving as representative for the Series B Underwriters. The Series B Underwriters have agreed, subject to certain conditions, to purchase the Series B Certificates from the Funding Trust at an aggregate purchase price of \$794,512,639.73 (reflecting underwriters' discount of \$5,487,360.27).

The Underwriters have agreed to reoffer the Certificates at the public offering prices or yields set forth on the inside cover of this Offering Circular. The Certificates may be offered and sold to certain dealers (including dealers depositing the Certificates into investment trusts) at prices lower than such public offering prices, and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions, and they will be obligated to purchase all the Certificates if any Certificates are purchased.

The Underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum. Syndicate covering transactions involve purchases of the Certificates in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit an Underwriter to reclaim a selling concession from a syndicate member when the Certificates originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions, and penalty bids may cause the price of the Certificates to be higher than it would otherwise be in the absence of such transactions. Such transactions, if commenced, may be discontinued at any time.

Affiliates of one or more of the Underwriters may also be counterparties in Swap Agreements entered into by the Service Corporations in connection with the Service Contracts.

### ***Global Plan of Distribution***

The Certificates are offered by the Underwriters for sale in those jurisdictions in the United States, Europe, Asia, and elsewhere where it is lawful to make such offers. Each Underwriter has undertaken that it will not offer, sell, or deliver, directly or indirectly, any of the Certificates or distribute this Offering Circular or any other material relating to the Certificates, in or from any jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with the applicable laws and regulations thereof and not impose any obligations on the City, the Service Corporations or the Funding Trust except as contained in the underwriting agreement among the City, the Service Corporations and the Underwriters. Persons who receive this Offering Circular are required to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell, or deliver the Certificates or have in their possession, distribute, or publish any offering material relating to the Certificates, in all cases at their own expense.

**Reference Information about the Certificates**

The table on the inside cover of this Offering Circular provides information about the Certificates. The CUSIP, ISIN and Euroclear and Clearstream Common Code numbers for each maturity have been obtained from sources the City and the Service Corporations believe to be reliable, but the City, the Service Corporations, the Trustee and the Underwriters are not responsible for the correctness of the CUSIP, ISIN and Euroclear and Clearstream Common Code numbers or other identifying numbers assigned to the Certificates. The Underwriters have provided the reoffering yields and prices. The yield at issuance is the yield to maturity.

**RATINGS**

At the City's and the Service Corporations' request, several rating agencies have rated the Certificates as set forth in the table below with the understanding that, upon delivery of the Certificates, the insurance policies described under "CERTIFICATE INSURANCE" will be issued.

<u>Insured Rating</u>		<u>Rating Agency</u>
<u>Series A Certificates</u>	<u>Series B Certificates</u>	
AAA	AAA	Fitch Ratings
Aaa	Aaa	Moody's Investors Service, Inc.
AAA	AAA	Standard & Poor's Ratings Services

In addition, at the City's request, several rating agencies have assigned an underlying rating to the Certificates (the rating that would apply to the Certificates if the insurance policies were not issued) as set forth in the table below.

<u>Underlying Rating</u>		<u>Rating Agency</u>
<u>Series A Certificates</u>	<u>Series B Certificates</u>	
BBB+	BBB+	Fitch Ratings
Baa1	Baa1	Moody's Investors Service, Inc.
Aa1	Aa1	Moody's Investors Service, Inc. (corporate equivalent rating)
BBB	BBB	Standard & Poor's Ratings Services

Any explanation of what a rating means may only be obtained from the rating agency assigning the rating. There is no assurance that a rating assigned to the Certificates will continue for any period of time. A rating agency may lower or withdraw the rating it assigns if in its judgment circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the Certificates. The Funding Trust, the Service Corporations and City make no representations as to the appropriateness of the ratings.

**FINANCIAL ADVISORS**

Robert W. Baird & Co. and Scott Balice Strategies, LLC have been employed by the City to perform professional services in the capacity of financial advisor with respect to the Service Contracts and the Certificates.

**INDEPENDENT ACCOUNTANTS**

The basic financial statements of the City, as of and for the fiscal year ended June 30, 2004, included in APPENDIX C, have been audited by the firm of KPMG LLP, independent accountants, to the extent indicated in their report thereon, which also appears in APPENDIX C.

KPMG LLP's qualified report dated March 21, 2005 states the financial statements of the Detroit Housing Commission Component Unit did not include a liability to the Department of Housing and Urban Development in the amount of \$14,236,946 related to unallowable costs claimed for federal reimbursement.

Accounting principles generally accepted in the United States of America require that all liabilities that are probable and can be estimated should be recorded as liabilities, which would increase expenses and decrease net assets.

## LEGAL MATTERS

Legal matters incident to the authorization, issuance, and sale of the Certificates are subject to the approval of Lewis & Munday, A Professional Corporation, Detroit, Michigan, Certificate Counsel, whose approving opinion, substantially in the form shown in APPENDIX G, will be delivered on the date of issuance of the Certificates. In the event certificated Certificates are issued, the opinion will be printed on the reverse side of each Certificate.

Certain legal matters will be passed upon for the Underwriters by their counsel, Honigman Miller Schwartz and Cohn LLP, Detroit, Michigan.

A legal opinion addressing the United States federal income tax characterization of the Funding Trust, the Scheduled Payments and Service Charges to be received by the Funding Trust under the Service Contracts, and the income to be earned by the Service Corporations pursuant to the transactions described in this Offering Circular will be delivered by Mayer, Brown, Rowe & Maw LLP, New York, New York, as special U.S. federal tax counsel. A legal opinion on certain State of Michigan tax considerations relating to the purchase, ownership and disposition of the Certificates will be delivered by Honigman Miller Schwartz and Cohn LLP, as special Michigan tax counsel.

## LITIGATION

The City is a defendant in numerous lawsuits and is also subject to other claims. It has been the City's experience that lawsuits and claims are settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Law Department have estimated that the liability for all such litigation and claims approximates \$121.9 million for governmental activities as of June 30, 2004.

The following are significant General Fund litigation matters which remain pending or have arisen since June 30, 2004.

*City of Detroit v Detroit Plaza Limited Partnership.* This is a condemnation action that was filed in September of 2000. The property owners in this case initially challenged the necessity of the acquisition. The City and the property owners ultimately reached an agreement for withdrawal of the necessity challenge, which allowed the case to proceed only on the question of valuation of the property. The respective appraised values for the property have served as the basis for the City's estimated just compensation and the property owners claims, and would indicate that a material expense to the City might result from any adverse verdict. The matter was tried in April 2004. A verdict of \$25,000,000 was rendered by the jury. The City's estimated just compensation was \$13,712,500, which had been previously paid by the City. The increase was approximately \$11,287,500. A judgment was entered in May 2004. Motions for new trial, judgment notwithstanding the verdict and remittitur, along with the property owners' motion for attorneys fees, costs and case evaluation sanctions have been heard by the trial court. The trial court denied the City's motions for new trial and judgment notwithstanding the verdict, and granted the property owners motions for attorneys fees and costs. A claim of appeal was timely filed on October 12, 2004, and the trial transcripts have been ordered. The City intends to continue to vigorously prosecute this matter through appeal. The City believes that the trial court made a number of evidentiary rulings that were in error, but the ultimate outcome is difficult to assess at this time.

*Estate of Theodore Laroque.* This lawsuit arose out of a September 13, 1998 fatal police shooting by off-duty police officer Anthony Goree. After arguing with Officer Goree and his wife in front of the Goree



home, the decedent attempted to run down Officer Goree with his vehicle, at which time Officer Goree drew and fired his weapon four times, fatally wounding the decedent. The case was tried before a Wayne County Circuit Court jury in April 2001 on a 42 USC Sec. 1983 claim against Officer Goree. The City of Detroit was dismissed from the lawsuit as a result of prior dispositive motions. In May 2001, after a five-week trial, the jury rendered a verdict against Officer Goree in the amount of \$6,000,000. No punitive damages were awarded. While the judgment was under appeal, with interest, costs and attorney fees the judgment was expected to approximate \$10,000,000. With the City obligated to indemnify the defendant, the Detroit City Council has approved a signed agreement to settle the case for \$5,000,000, and an order of dismissal has been entered in the Court of Appeals.

*Estate of Lamar Grable v Eugene Brown.* The suit arises out of a shooting incident in which the plaintiff's decedent died after being shot by Officer Brown. Both Officer Brown and his partner testified at trial that the decedent fired his weapon twice and struck Brown twice in his abdominal area. Judgment was entered on a jury verdict of \$4,000,000 plus taxable costs of \$18,510 and attorney fees of \$255,055, against City of Detroit police officer Eugene Brown and in favor of the plaintiff. An appeal has been taken and is being vigorously pursued. The brief on behalf of Brown has been filed but the plaintiff-appellee's brief has not yet been filed.

*HRT Enterprises, et al v City of Detroit.* These consolidated inverse condemnation cases have two plaintiffs: HRT Enterprises, a Michigan partnership, the fee owner of the industrial property in question; and Steel Associates, Inc., a sub-tenant. The fee owner of the property seeks to compel the City to purchase the subject buildings. A separate case against the City was filed by Steel Associates, Inc. on July 8, 2002. The cases were consolidated for trial scheduled for November 5, 2003. The combined damages sought for the plaintiffs totaled \$20,000,000. The court granted the City's summary disposition motion against HRT Enterprises, but allowed Steel Associates to proceed to trial. On November 17, 2003 a jury returned a verdict in Steel Associate's favor in the amount of \$4,000,000 exclusive of statutory interest and costs. In addition, the court entered an order for case evaluation sanctions in the amount of \$85,714, which is to be added to the judgment amount. The City's motion for new trial or judgment notwithstanding the verdict was denied on January 30, 2004. On December 23, 2003, HRT Enterprises filed a timely claim of appeal of right to the Michigan Court of Appeals from the trial court's grant of summary disposition in favor of the City. On February 19, 2004, the defendant City of Detroit filed a timely claim of appeal of right to the Michigan Court of Appeals from the jury verdict of \$4,000,000 awarded to plaintiff Steel Associates, Inc. in its case. Steel Associates filed a cross-appeal from the trial court Order Denying Attorneys Fees and Costs under the Uniform Condemnation Procedures Act. Trial transcripts have been filed and this matter has been briefed in the Court of Appeals. The parties are awaiting a hearing date and ultimately issuance of an opinion by the Court of Appeals in this matter.

*Trustees of the Policemen and Firemen Retirement System of the City of Detroit v City of Detroit, et al.* (two lawsuits). These are two similar lawsuits filed in July 2003 and July 2004 by the Retirement Board of the Police and Fire Retirement System over the contested amount of the City's required contribution obligation to the System for fiscal years 2002-2003 and 2003-2004, respectively. In the earlier case, the Wayne County Circuit Court ruled that the City must pay an additional \$35 million into the System for fiscal 2002-2003, and in the later case the Court ruled, based primarily on the *collateral estoppel* effect of its prior decision, that the City must pay an additional \$10 million into the System for fiscal year 2003-2004. The City appealed both decisions, which have been consolidated for hearing in the Michigan Court of Appeals. Oral argument occurred on May 3, 2005, and the cases have been submitted for decision. The City has meanwhile paid the disputed \$35 million amount to the PFRS pursuant to a written agreement with the Retirement Board that if the decision is ultimately reversed on appeal, the payment will be refunded to the City with interest at the actuarially determined rate. In the consolidated pending appeals, the City claims that under applicable state law, City Charter and City ordinance provisions, its contribution obligation should be the amount determined by the System's consulting actuary, using the entry age normal actuarial methodology that permits an offset for any actuarial "excess" funding. The Board alleges that the City must instead pay the amount set by the Board, without any credit.

*Trustees of the Policemen and Firemen Retirement System of the City of Detroit v. the City of Detroit.* The Retirement Board of the Police and Fire Retirement System of the City of Detroit filed this action in June 2004 for a declaratory judgment that the Board can impose a shorter amortization period for the City's funding of the System's unfunded accrued actuarial liabilities (UAALs) than that set forth in a 1974 City Ordinance, codified at Section 52-4-6(c) of the City Code. The ordinance and Section 52-4-6(c) prescribe a 30-year amortization period, to be reduced by one year each subsequent year until reaching, and thereafter maintaining, a 20-year amortization period. The Board alleged that the ordinance provision is permissive only, and that under an agreement entered into in 1992, the Board has the authority to establish amortization periods of less than 20 years. The Board, accordingly, had adopted a declining amortization policy such that the amortization period for computing the City's contribution for UAALs due June 30, 2006 would be 13 years. The City denied that there was such an agreement, and argued that under the City Code there cannot be an amortization period shorter than 20 years. Both sides moved for summary disposition, and on May 16, 2005, the Court granted summary disposition to the City and closed the case. The effect of the Court's decision is to require the City's contribution obligation to be determined using a 20-year amortization period, substantially longer than the amortization period imposed by the Board, resulting in a lower required annual contribution amount from the City than if the Board had prevailed. The period during which the Board may file an appeal has not yet expired, and no appeal was filed before the date of this Offering Circular.

*George Marshall Grace, et al v City of Detroit.* This is a class action lawsuit filed in April 1990 arising from the City of Detroit's residency requirement. The United States District Court held that the City unconstitutionally discriminated against applicants for employment who were not residents of the City of Detroit at the time they made application. The City ceased requiring residency upon application for employment and subsequently state law enacted in March 2000 now prohibits residency requirements in most respects. The claims of over four hundred class members have been adjudicated with a finding of liability in ninety-four of those claims. The Court ruled in favor of the City on the issue of mitigation of damages, but permitted the class to file an interlocutory appeal to the Sixth Circuit Court of Appeals, pursuant to 28 U.S.C. §1292b. This relief is permissive and may or may not be granted by the Court of Appeals. In the interim, the District Court has ordered the parties to continue resolving the liability claimants, pending the outcome of the potential appeal. Because the Court found liability pursuant to 42 U.S.C. §1983, the Court will award attorneys fees and costs to class counsel and the court-appointed special master. There have been no requests for attorneys fees or special master fees since the inception of this case. It is anticipated that these fees alone will exceed \$2.5 million.

#### UNITED STATES FEDERAL TAX CONSIDERATIONS

The following is a general discussion of certain U.S. federal tax considerations relating to the purchase, ownership and disposition of the Certificates. The discussion below does not deal with all U.S. federal tax considerations applicable to all categories of investors, some of which may be subject to special rules. In addition, this discussion is generally limited to investors who will hold Certificates as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), and who would be treated as holding the Funding Trust's right to receive COP Service Payments under the Service Contracts as a capital asset if they held such right directly. This discussion is limited to initial purchasers of Certificates. **Investors (including subsequent purchasers of Certificates) are strongly urged to consult their own tax advisors about the U.S. federal, state (including State of Michigan), local and other tax consequences of the purchase, ownership and disposition of Certificates.**

This discussion is based on the Code, administrative pronouncements, judicial decisions and existing and proposed U.S. Department of Treasury regulations. Prospective purchasers should note that no rulings have been or will be sought from the Internal Revenue Service (**IRS**) with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Mayer, Brown, Rowe & Maw LLP has opined on none of the tax consequences discussed below except as expressly indicated below.

As used below, the term “U.S. Certificateholder” means a beneficial owner of a Certificate who is a citizen or resident of the United States or a U.S. domestic corporation, or a Certificateholder who otherwise will be subject to U.S. federal income taxation on a net basis in respect of the Certificates; and the term “Non-U.S. Certificateholder” means a beneficial owner of a Certificate other than a U.S. Certificateholder. Except as stated below, the following discussion does not address any tax consequences that apply specifically to a Non-U.S. Certificateholder.

#### *Tax Status of the Funding Trust*

In the opinion of Mayer, Brown, Rowe & Maw LLP, the Funding Trust will be classified as a grantor trust within the meaning of Sections 671 through 679 of the Code. Accordingly, each Certificateholder will be treated for U.S. federal income tax purposes as the owner of an undivided *pro rata* interest in the payments in respect of the Service Contracts received or accrued by the Funding Trust that are attributable to the specific maturity of such Certificateholder’s Certificate.

#### *Tax Status of the COP Service Payments under the Service Contracts*

In the opinion of Mayer, Brown, Rowe & Maw LLP, payments (Scheduled Payments and Service Charges) in respect of the Service Contracts received by the Funding Trust will constitute payments in respect of indebtedness for U.S. federal income tax purposes. Accordingly, the Service Charges received by the Funding Trust under the Service Contracts will constitute interest in respect of indebtedness for U.S. federal income tax purposes.

#### *Agreements Regarding Tax Status of the Funding Trust and COP Service Payments under the Service Contracts*

The City. In a written agreement the City agrees that, for all federal, state and local income, business, franchise and modified value added tax purposes, the Scheduled Payments and Services Charges are, and shall be treated by the City as, payments in respect of indebtedness for all such tax purposes (but the City expressly acknowledges and agrees that the Service Charges and Scheduled Payments made by the City under the Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or City charter limitation).

The Service Corporations. In the Trust Agreement for U.S. federal, state and local income, business, franchise and modified value added tax purposes, the Service Corporations agree that (i) the Funding Trust is a grantor trust under the Code, (ii) each Certificateholder of a Certificate will be treated as the owner of an undivided *pro rata* interest in the portion of the grantor Trust Estate attributable to such Certificateholder’s Certificate(s), and (iii) the Funding Trust Receivables will constitute payments in respect of indebtedness (but the Service Corporations will expressly acknowledge and agree that the Services Charges and Scheduled Payments made by the City under the Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or City charter limitation).

Investors and Certificateholders. By purchasing or acquiring a Certificate, each investor and Certificateholder agrees that for all U.S. federal, state and local income, business, franchise and modified value added tax purposes, (i) the investor or Certificateholder will treat the Funding Trust as a grantor trust under the Code, (ii) each Certificateholder will be treated as the owner of an undivided *pro rata* interest in the portion of the grantor Trust Estate attributable to such Certificateholder’s Certificate(s), and (iii) the investor or Certificateholder will treat the Funding Trust Receivables as payments in respect of indebtedness (and will thereby also acknowledge that the Services Charges and Scheduled Payments made by the City under the Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or City charter limitation).

### *Tax Status of the Service Corporations*

In the opinion of Mayer, Brown, Rowe & Maw LLP, the Service Corporations will either be treated as an integral part of the City or their gross income from the transactions described in this Offering Circular will constitute gross income described in Section 115 of the Code. Accordingly, the Service Corporations will not be subject to U.S. federal income taxation in respect of any income derived by the Service Corporations from the transactions described in this Offering Circular.

#### *U.S. Certificateholders*

Interest Income. A U.S. Certificateholder will be required to recognize its allocable share of the Service Charges payable under the Service Contracts as interest income in accordance with the Certificateholder's method of tax accounting. Accordingly, a cash method U.S. Certificateholder will recognize its allocable share of the Service Charges as interest income at the time the Service Charges are received by the Funding Trust. An accrual method U.S. Certificateholder will recognize its allocable share of the Service Charges at the time the Service Charges are accrued by the Funding Trust.

Original Issue Discount. In the event that the face amount of a Certificate exceeds its issue price, the excess constitutes original issue discount (OID) provided that such excess equals or exceeds 0.25% of the face amount of the Certificate multiplied by the number of complete years to maturity of the Certificate (such Certificates being **OID Certificates**). The issue price of OID Certificates of a particular maturity is the first price at which a substantial amount of the OID Certificates of that maturity are sold (excluding sales to bond houses, brokers or underwriters). The issue price of Series A Certificates of each maturity is expected to be the amount set forth on the inside cover of this Offering Circular, but is subject to change based on actual sales.

With respect to a U.S. Certificateholder that purchases in the initial offering an OID Certificate, the amount of OID that accrues in respect of the OID Certificate during any accrual period equals (i) the adjusted issue price of the OID Certificate at the beginning of the accrual period, multiplied by (ii) the yield to maturity of the OID Certificate, less (iii) the stated interest payable on the OID Certificate during the accrual period. The "accrual periods" of an OID Certificate generally correspond to the six-month intervals ending on the June 15 and December 15 interest payment dates on the OID Certificate, with a first long accrual period from the Closing Date to December 15, 2005. The "adjusted issue price" of an OID Certificate at the beginning of any accrual period equals the issue price of the OID Certificate, plus the amount of OID that has accrued on the OID Certificate on a constant-yield basis in all prior accrual periods, minus the amount of any Scheduled Payments received on the OID Certificate in prior accrual periods. The "yield to maturity" of an OID Certificate is determined on the basis of compounding at the end of each accrual period and properly adjusted for the length of the accrual period.

The amount of OID so accrued on an OID Certificate during a particular accrual period will be divided by the number of days in the accrual period to derive a "daily portion." A U.S. Certificateholder who owns an OID Certificate must include as ordinary income the daily portions of OID that accrue on the OID Certificate for each day during the taxable year on which the U.S. Certificateholder owns the OID Certificate. Such an inclusion in advance of receipt of the cash attributable to the income is required even if the U.S. Certificateholder is on the cash method of accounting for U.S. federal income tax purposes. The amount of OID includible in a U.S. Certificateholder's income will increase the U.S. Certificateholder's tax basis in the OID Certificate for purposes of determining the U.S. Certificateholder's gain or loss upon a sale, exchange or redemption of the OID Certificate.

Trustee's Fees and Expenses. In general, each U.S. Certificateholder will be entitled to deduct, consistent with its method of tax accounting, its *pro rata* share of fees and expenses, if any, paid or incurred by the Funding Trust as provided in Sections 162 or 212 of the Code. The U.S. federal income tax treatment of the Trustee's fees is unclear, and prospective U.S. Certificateholders should consult their own tax advisors regarding such treatment, including the effect of the possible treatment of the Trustee's fees as having been

constructively received by the Funding Trust from the City (followed by the constructive payment of such fees by the Funding Trust).

If a U.S. Certificateholder is an individual, estate or trust, the deduction for the Certificateholder's share of the fees and expenses, if any, paid or incurred by the Funding Trust, including the Trustee's fees, will be allowed only to the extent that all of the Certificateholder's miscellaneous itemized deductions exceed 2% of the Certificateholder's adjusted gross income. In addition, in the case of U.S. Certificateholders who are individuals, certain otherwise allowable itemized deductions will be subject generally to additional limitations on itemized deductions under the applicable provisions of the Code.

Sale or Other Disposition of a Certificate. Upon the sale, exchange or redemption of a Certificate owned by a U.S. Certificateholder, the Certificateholder will recognize gain or loss in an amount generally equal to the difference between the amount realized by the Certificateholder on the sale, exchange or redemption and the Certificateholder's adjusted tax basis in its Certificate. A U.S. Certificateholder's adjusted tax basis in its Certificate will equal the price paid by the Certificateholder for the Certificate (excluding the portion of such price, if any, attributable to accrued interest on the Certificate), increased by any amounts includible in income by the Certificateholder as OID on the Certificate, and reduced by the Certificateholder's allocable share of Scheduled Payments received by the Funding Trust under the Service Contracts. In general, any such gain or loss recognized by a U.S. Certificateholder would be capital gain or loss, and will be long-term capital gain or loss if the Certificateholder held the Certificate for more than one year.

#### *Non-U.S. Certificateholders*

A Non-U.S. Certificateholder that has no connection with the United States other than holding a Certificate will not be subject to U.S. withholding or income tax with respect to the Certificate; provided, with respect to interest (including OID), that the Funding Trust's rights to receive COP Service Payments under the Service Contracts are considered "portfolio debt investments" (as defined in Sections 871(h) and 881(c) of the Code) and that such Certificateholder provides an appropriate statement (generally on IRS Form W-8BEN), signed under penalties of perjury, identifying the Non-U.S. Certificateholder and stating, among other things, that such Certificateholder is a non-U.S. person. Special certification rules may apply to non-U.S. partnerships or trusts (or entities that are so treated for U.S. federal tax purposes). If these conditions are not met, a 30% withholding tax will apply to interest (including OID) unless an income tax treaty reduces or eliminates such tax or unless the interest is effectively connected with the conduct of a trade or business within the United States by such Certificateholder and certain other requirements are met. In the latter case, the Non-U.S. Certificateholder will be subject to U.S. federal income tax with respect to all income attributable to the Certificate at regular rates then applicable to U.S. taxpayers (and, in the case of corporations, possibly also the branch profits tax). A Non-U.S. Certificateholder will not be considered engaged in a United States trade or business solely by reason of holding a Certificate.

#### *Information Reporting and Backup Withholding*

Information reporting to the IRS generally will be required with respect to amounts distributed by the Funding Trust to Certificateholders other than corporations and other exempt recipients. A "backup" withholding tax at the rates described below will apply to those payments if such Certificateholder fails to provide certain identifying information (such as the Certificateholder's taxpayer identification number) to the Trustee. Non-U.S. Certificateholders generally will be required to comply with applicable certification procedures to establish that they are not U.S. Certificateholders in order to avoid the application of such information reporting requirements and backup withholding. Any amount withheld under the backup withholding rules will be allowable as a credit against the Certificateholder's U.S. federal income tax, provided that the required information is provided to the IRS. The current backup withholding rate of 28% applies to payments made through the year 2010. For payments made after the year 2010, the backup withholding rate will be increased to 31%.

### *State and Other Tax Consequences*

In addition to the U.S. federal income tax consequences described above, potential investors should consider the state, local and foreign tax consequences of the acquisition, ownership and disposition of the Certificates offered under this Offering Circular. State tax law may differ substantially from the corresponding U.S. federal tax law, and the discussion above does not purport to describe any aspect of the tax laws of any state, local, foreign or other jurisdiction. **Each Certificateholder is strongly urged to consult its own tax advisor with respect to all aspects of the U.S. federal, state (including State of Michigan), local and foreign tax treatment of the purchase, ownership and disposition of a Certificate.**

### *ERISA Considerations*

The Employee Retirement Income Security Act of 1974, as amended (**ERISA**), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (**ERISA Plans**). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on, among other things, tax-qualified retirement plans described in Section 401(a) of the Code (**Qualified Retirement Plans**) and on Individual Retirement Accounts described in Sections 408(a) and (b) and 408A of the Code (collectively, **Tax-Favored Plans**).

Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA) and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Accordingly, assets of such plans may be invested in Certificates without regard to the ERISA considerations described below, subject to the provisions of applicable federal and state law. Any such plan which is a Qualified Retirement Plan and exempt from taxation under Sections 401(a) and 501(a) of the Code, however, is subject to the prohibited transaction rules set forth in the Code.

In addition to the imposition of general fiduciary requirements (including those of investment prudence and diversification, and the requirement that a plan's investment be made in accordance with the documents governing the plan), Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans, Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, **Benefit Plans**) and persons who have certain specified relationships to the Benefit Plans (**Parties in Interest** or **Disqualified Persons**), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding, or transfer of Certificates might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the City or the Funding Trust were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (**Plan Asset Regulation**), the assets of the City, the Service Corporations or the Funding Trust would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the City, the Service Corporations or the Funding Trust and none of the exceptions contained in the Plan Assets Regulation is applicable.

An equity interest is defined under the Plan Asset Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Certificates should be treated as debt without substantial equity features for purposes of the Plan Asset Regulation. Although also not free from doubt, it also appears that, so long as the Certificates retain a rating of at least investment grade, they should continue to be treated as indebtedness without substantial equity features for the purposes of the Plan Asset Regulation.

However, without regard to whether the Certificates are treated as an equity interest for such purposes, the acquisition or holding of Certificates by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the City, the Service Corporations or the Funding Trust, or any of their affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. A prohibited transaction could also occur in the event that a Benefit Plan transfers a Certificate to a Party in Interest or a Disqualified Person. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Certificate. Included among these exemptions are: Prohibited Transaction Class Exemption (PTCE) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts;” PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional assets managers.”

A transferee (including any purchaser in the initial transfer of the Certificates) of the Certificates or any interest therein, who is a trustee of or is acting on behalf of a Benefit Plan or who is using Benefit Plan assets to effect such transfer, will be deemed to represent that: (i) at the time of such transfer the Certificates are rated at least investment grade and such transferee believes that the Certificates are properly treated as indebtedness without substantial equity features for purposes of the Plan Asset Regulation, and agrees to so treat the Certificates, or (ii) such transferee’s acquisition and holding of the Certificates do not result in a violation of the prohibited transaction rules of Section 406 of ERISA or Section 4975 of the Code because the transaction is covered by an applicable exemption, including PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. In addition such transferee will be deemed to represent that neither the City, either Service Corporation or any provider of credit support nor any of their affiliates is a Party in Interest with respect to such Benefit Plan.

Alternatively, a prospective transferee of the Certificates or any interest therein who is a trustee of, or who is acting on behalf of, a Benefit Plan, or who is using Benefit Plan assets to effect such transfer, may provide the City, the Service Corporations or the Funding Trust, as applicable, an opinion of counsel satisfactory to such trustee, which opinion will not be at the expense of the City, the Service Corporations or the Funding Trust, that the purchase, holding and transfer of the certificates or interests therein is permissible under applicable law, and will not constitute or result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code and will not subject the City, the Service Corporations or the Funding Trust to any obligation in addition to those undertaken in the Service Contracts or the Trust Agreement, as applicable.

Any ERISA Plan fiduciary considering whether to purchase Certificates on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code. Moreover, each Benefit Plan fiduciary should take into account, among other considerations:

- whether the fiduciary has the authority to make the investment;
- whether the investment constitute a direct or indirect transaction with a Party in Interest
- the diversification by type of the assets in the Benefit Plan’s portfolio;
- the Benefit Plan’s funding objectives;
- the tax effect of the investment; and
- whether under the general fiduciary standards of investment procedure and diversification an investment in the securities is appropriate for the Benefit Plan, taking into account the overall investment policy of the Plan and the composition of the Benefit Plan’s investment portfolio.

## CONTINUING DISCLOSURE

The City will undertake, for the benefit of the beneficial owners of the Certificates, to provide an annual report presenting certain financial information and operating data about the City (**Annual Report**). By about January 26 of each year, the City will send the Annual Report to each nationally recognized municipal securities information repository (**NRMSIR**) and Michigan's State Information Depository (**SID**), in each case as designated from time to time by the United States Securities and Exchange Commission (the **SEC**). The City will also provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (**MSRB**), and to any SID. A copy of the undertaking is set forth in APPENDIX H.

In order to provide continuing disclosure with respect to the Certificates in accordance with such undertaking and with Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, the City has entered into a Disclosure Dissemination Agent Agreement (**Disclosure Dissemination Agreement**) for the benefit of the beneficial owners of the Certificates with Digital Assurance Certification, L.L.C. (**DAC**), under which the City has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent that the City has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the contents of any disclosures made or notice given pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Report, any audited financial statements, notice or voluntary report, or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the beneficial owners of the Certificates or any other party. The Disclosure Dissemination Agent has no responsibility for the City's failure to report to the Disclosure Dissemination Agent any specified event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the City has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

Copies of the notices may be obtained from:

*Mail:* DAC Digital Assurance Certification  
390 N. Orange Avenue, 17th Floor  
Orlando, FL 32801

*Attn:* Jenny Emami  
Client Service Manager

*Phone:* 407-515-1100

*E-mail:* [jemami@dacbond.com](mailto:jemami@dacbond.com)

*Web site:* [www.dacbond.com](http://www.dacbond.com)

The undertaking also describes the consequences if the City fails to provide any required information. A failure by the City to comply with the undertaking must be reported by the City in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Certificates and the market price therefor.



Since its fiscal year ended June 30, 1999, the City has been unable to meet its obligation to provide annual financial information within the periods specified in the applicable continuing disclosure agreements. The annual financial information for the fiscal years ended June 30, 1999 through 2004 was filed on May 10, 2000, May 28, 2001, May 31, 2002, March 10, 2003, February 9, 2004 (for water supply system bonds and sewage disposal bonds), March 1, 2004 (for other bonds), February 16, 2005 (for water supply system bonds and sewage disposal bonds), and May 5, 2005 (for other bonds).

Dated: May 25, 2005

**CITY OF DETROIT**

By:     /s/ Sean K. Werdlow      
Its: Finance Director

**DETROIT GENERAL RETIREMENT SYSTEM  
SERVICE CORPORATION**

By:     /s/ Sean K. Werdlow      
Title: President

**DETROIT POLICE AND FIRE RETIREMENT  
SYSTEM SERVICE CORPORATION**

By:     /s/ Sean K. Werdlow      
Title: President

## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS, THE CONTRACT ADMINISTRATION AGREEMENT AND THE TRUST AGREEMENT

The summaries of certain provisions of the Service Contracts, the Contract Administration Agreement and the Trust Agreement set forth below do not purport to be complete and are qualified by reference to the complete text of such documents. All capitalized terms used in this APPENDIX A, unless otherwise defined or the context otherwise indicates, have the same meaning as in the Service Contracts, the Trust Agreement, the Contract Administration Agreement and the forepart of this Offering Circular.

#### DEFINITIONS OF CERTAIN TERMS

All capitalized terms that are defined in the Offering Circular which precedes this APPENDIX A have the same meaning in this Appendix, unless the context otherwise indicates. All other capitalized terms used in this Appendix, unless otherwise defined or the context otherwise indicates, have the same meaning as in the Service Contracts, the Trust Agreement and the Contract Administration Agreement. Certain of those terms are defined as follows, unless the context clearly otherwise requires.

**Additional Service Payments** means such periodic amounts as may be necessary to provide for the general administrative expenses of the Service Corporations as authorized or permitted by the Funding Ordinance plus compensation, expenses and indemnification due the Trustee under the Trust Agreement and certain amounts payable by the Corporation to the Enforcement Officer and the Insurers under the Contract Administration Agreement.

**Authorized Denominations** means (a) for Series A Certificates, denominations of \$5,000 and any multiple thereof; and (b) for Series B Certificates, denominations of \$25,000 and multiples of \$1,000 in excess thereof.

**Authorized Investments** means direct obligations of, or obligations unconditionally guaranteed by, the United States of America (**US Governments**) and repurchase agreements whereby the counterparty agrees to repurchase US Governments so long as the obligations to be repurchased are under the exclusive "control" (as defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) of the Service Corporation. STRIPS issued by the United States Treasury are **Authorized Investments**, but private proprietary stripped US Governments, whether interest or principal strips, are not Authorized Investments.

**Beneficial Owner** means any Person who indirectly owns Certificates pursuant to Part 5 of Article 8 of the Michigan Uniform Commercial Code.

**Certificates** or **Certificates of Participation** mean the Certificates of Participation issued by the Funding Trust representing beneficial interests in the Service Payments other than Hedge Payables, Contract Administrator Payments and Additional Service Payments (*i.e.*, beneficial interests in the Funding Trust Receivables only).

**Contract Administrator Payments** means amounts equal to amounts payable as fees, expenses and indemnification of the Contract Administrator in accordance with the Contract Administration Agreement, including reasonable fees and expenses of its counsel, in connection with any waiver or consent thereunder or any amendment thereof or of a Service Contract, or in connection with the enforcement thereof.

**Credit Insurance** means any insurance intended to protect owners of Certificates from loss arising from a failure of the City to timely pay Service Charges or Scheduled Payments. **Credit Insurance** also means any financial arrangement intended to protect a Hedge Counterparty from a failure of a Service Corporation to timely pay any Hedge Payable.

**Creditor Lien** means any lien or security interest granted by the Contract Administration Agreement in the amounts payable by the City under the Service Contracts in respect of Hedge Payables, including rights to proceeds and rights of enforcement, and granted by the Trust Agreement in Funding Trust Receivables.

**Deficiency** means any unsatisfied amount under the following clauses set forth under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - Preservation of Parity among Service Contracts" below in this Appendix: **First** (to the extent of any fees, expenses and indemnity is at the time due and unpaid to the Contract Administrator), **Second**, **Fourth** and **Sixth**.

**Enforcement Officer** means the same entity who is acting as the Contract Administrator but in its separate capacity as the Enforcement Officer under provisions of the Contract Administration Agreement which apply only if and when all Insurers are in default under their respective Credit Insurance.

**Fixed Rate Funding Portion** means all the portion, if any, of the Stated Funding Amount to be funded in a particular Funding equal to the total of the Scheduled Payments set forth for Fixed Rate Service Charges.

**Fixed Rate Service Charge Class** means all Scheduled Payments that have related Service Charges determined by a fixed rate methodology.

**Funding** means the Service Corporation's funding the Stated Funding Amount by the provision of money through the issuance of Certificates.

**Funding Costs** has the meaning given within the definition of "Service Charges" below.

**Funding Rate Portion** means the Fixed Rate Funding Portion or the Variable Rate Funding Portion as the context may require.

**Funding Trust Receivables** means any Principal Related Receivables or Interest Related Receivables. (This corresponds to the right to receive COP Service Payments payable by the City under each Service Contract.)

**Hedge Amount** means, in connection with any Optional Prepayment of Scheduled Payments, the amount, if any, of any Hedge Termination Payable that will be owed by the Service Corporation pursuant to any Stated Hedge relating to the Scheduled Payments being prepaid as a result of any required reduction in the notional amount of such Stated Hedge due to such prepayment and the Hedge Periodic Payable, if any, accrued to the date of termination.

**Hedge Counterparty** means the particular counterparty as to any Stated Hedge.

**Hedge Payable** means, after giving effect to any netting under the particular Stated Hedge, any Hedge Periodic Payable or any Hedge Termination Payable as the context may require.

**Hedge Periodic Payable** means, after giving effect to any netting under the particular Stated Hedge, a periodic amount owing by a Service Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Periodic Receivables** means, after giving effect to any netting under the particular Stated Hedge, periodic payments owing by the Hedge Counterparty under a Stated Hedge.

**Hedge Receivable** means any Hedge Periodic Receivable or Hedge Termination Receivable as the context may require.

**Hedge Termination Payable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by a Service Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Termination Receivable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Hedge Counterparty under a Stated Hedge.

**Insurer** means the Person obligated under Credit Insurance to make payments with respect to Certificates or a Stated Hedge.

**Interest Related Receivable** means an amount owing by the City as a Service Charge, including any Accrued Service Charges. (This corresponds to interest on the Certificates.)

**Participant** means any Person whose ownership of Certificates and other securities is shown on books of the Securities Depository.

**Payment Time** means 12:00 noon, Detroit, Michigan time.

**Principal Related Receivable** means an amount owing by the City as a Scheduled Payment (whether a Regular Scheduled Payment or a Sinking Fund Installment) or an Optional Prepayment Amount exclusive on any prepayment premium. (These correspond to principal of the Certificates.)

**Scheduled Payments** means the payments specified and so defined in each Service Contract Specific Terms. (These correspond to principal of the Certificates.)

**Service Charge Class** means all Scheduled Payments that have the same methodology for determining related Service Charges..

**Service Charges** means the amounts payable under the Service Contract by the City to the Service Corporation on Service Charge Payment Dates sufficient to pay the periodic costs of capital (**Funding Costs**) incurred by the Funding Trust for the particular Funding. (This corresponds to interest on the Certificates.) **Service Charges** do not include Hedge Payables.

**Service Contract Priority Sections** means those particular numbered clauses set forth under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - Preservation of Parity among Service Contracts" below in this Appendix.

**Service Payments** has the meaning given under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - *Service Payments*" below.

**Stated Funding Amount** means the total amount to be funded by the Service Corporation in the Initial Funding or in an Additional Funding, as applicable.

**Stated Hedge** means a variable to fixed interest rate swap agreement permitted by the Funding Ordinance and specified in a Service Contract, entered into between a Service Corporation and a Hedge Counterparty.

**Trust Estate** means the Funding Trust Receivables arising under the GRS Service Contract, the Funding Trust Receivables arising under the PFRS Service Contract, and all proceeds of the foregoing.

**Variable Rate Funding Portion** means all the portion, if any, of the Stated Funding Amount to be funded in a particular Funding equal to the total of the Scheduled Payments set forth for Variable Rate Service Charges.

**Variable Rate Service Charge Class** means all Scheduled Payments that have related Service Charges determined by a variable rate methodology.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS**

There are two separate and distinct Service Contracts. One is called the General Retirement System Service Contract 2005, between Detroit General Retirement Service Corporation (the **GRS Service Corporation**) and the City of Detroit. The other is called the Police and Fire Retirement System Service

Contract 2005, between Detroit General Retirement Service Corporation (the **PFRS Service Corporation**) and the City of Detroit. Each Service Contract is comprised of its own two documents, called the General Terms (dated as of May 1, 2005) and the Specific Terms (dated May 25, 2005), which operate together as if they were combined in a single document.

Although separate and distinct, the two Service Contracts are similar in form and substance, and the summary below fits each Service Contract. The ways in which the two Service Contracts differ from each other (*e.g.*, they provide for funding the different Subject UAAL amounts of two different Retirement Systems and consequently have different Service Corporations as a party and different Funding Amounts) are not affected by the generality of the summary below. This summary should be read in the context of describing either one of the two Service Contracts, and not in the context of describing both of them collectively. Thus, for example, the term “the Service Corporation” when used in the summary below means the GRS Service Corporation if the summary is read in the context of describing its Service Contract, or otherwise means the PFRS Service Corporation if the summary is read in the context of describing its Service Contract. Similarly, for example, the term “Subject UAAL” when used in the summary below means the Subject UAAL of the General Retirement System of the City of Detroit if the summary is read in the context of describing the GRS Service Corporation’s Service Contract, or otherwise means the Subject UAAL of the Police & Fire Retirement System of the City of Detroit if the summary is read in the context of describing the PFRS Service Corporation’s Service Contract.

#### **Service and Funding Arrangements**

##### *Provision of Services*

The services of the Service Corporation consist of reducing the financial burden of the Subject UAAL to the City in the current and in future years. The Service Corporation agrees in the Service Contract to provide its services through taking the following actions: (a) the Service Corporation shall fund the Stated Funding Amount on the Closing Date (the **Initial Funding**) and, in addition, if applicable, (b) the Service Corporation shall fund any Hedge Termination Payable in whole or in part as requested of the City and approved by the City Council, and/or (c) the Service Corporation shall fund a reduction or rescheduling (or both) of Service Payments as requested by the City and approved by City Council (funding pursuant to this clause (c) or the preceding clause (b), an **Additional Funding**). An Additional Funding may include such things in the nature of Costs of Issuance, Prepaid Service Charges and Underwriters’ Discount as authorized or permitted by the approval of the City Council of the Additional Funding.

“Funding” as used above means the provision of money through the issuance of Certificates and does not mean or imply any further authorization of the City to make any Contract Payment other than Contract Payments in connection with any Additional Funding.

##### *Payment Obligation*

The City agrees to make Contract Payments to the Service Corporation in return for the present and future services of the Service Corporation as and when Contract Payments become due and payable. The obligations of the City under the Service Contract, including its obligation to make Contract Payments, are contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City, and are not general obligations of the City to which the City has pledged its full faith and credit.

##### *Funding Obligation*

The obligation of the Service Corporation to provide the Initial Funding or any Additional Funding is subject to the receipt by the Service Corporation of proceeds sufficient for the Funding from the sale of Certificates. The Service Corporation shall use its best efforts to cause the consummation of the offering and sale by the Underwriters of Certificates to provide sufficient proceeds for the particular

Funding. For the Initial Funding, the Service Corporation shall cause a portion the proceeds of the sale of Certificates in an amount equal to the Subject UAAL to be paid to the applicable Retirement System on the Closing Date and shall apply the balance of such proceeds to pay costs of issuance of the Certificates and other Ancillary Amounts.

## Scheduled Payments

### Scheduled Payments

The City agrees to pay the Scheduled Payments of each Funding Rate Portion to the Service Corporation on the respective Scheduled Payment Dates for such Funding Rate Portion. (Scheduled Payments do not include Hedge Payables.)

### Mandatory Prepayment by Sinking Fund Installments

The City agrees to prepay Scheduled Payments of each Funding Rate Portion in specified amounts (**Sinking Fund Installments**) and on specified dates (**Sinking Fund Installment Dates**).

### Optional Prepayment of Scheduled Payments

The City shall not voluntarily prepay any Scheduled Payments of a Funding Rate Portion (an **Optional Prepayment**) in whole or in part except as expressly permitted in the Service Contract. The City shall exercise its option to make any Optional Prepayment by delivering a prior written **Prepayment Notice** at least 45 days (or fewer days as acceptable to the Service Corporation) before the Optional Prepayment Date on which the City shall pay the Total Prepayment Amount to the Service Corporation in connection with such Optional Prepayment, stating: (a) the Scheduled Payments of the particular Funding Rate Portion to be prepaid in whole or in part by such Optional Prepayment and the date on which such Scheduled Payments are to be prepaid (**Optional Prepayment Date**), subject to the following:

- (1) a Scheduled Payment may be selected by the City only if it is permitted by the Service Contract to be prepaid on the particular Optional Prepayment Date and
- (2) a Scheduled Payment may be selected by the City for partial prepayment only in an amount of at least \$100,000 unless otherwise provided in the Service Contract;

(b) the amount of prepayment premium, if any, required by the Service Contract in connection with the prepayment of any selected Scheduled Payments (such prepayment premium, if any, together with the amount of Scheduled Payments selected to be prepaid, the **Optional Prepayment Amount**); (c) if an Optional Prepayment Date is not a Service Charge Payment Date, the amount of Service Charges accrued on the amount of the Scheduled Payment to be prepaid from the last Service Charge Payment Date before the Optional Prepayment Date to the Optional Prepayment Date (**Accrued Service Charges**); (d) the Hedge Amount, if any, and (e) such information in tabular or other form so as to readily permit the Service Corporation to identify (i) the Scheduled Payments of the particular Funding Rate Portion selected for prepayment, (ii) the provisions of the Service Contract authorizing or permitting such prepayment, (iii) the prepayment premium, if any, required to be paid in connection with the prepayment of each such Scheduled Payment, (iv) Accrued Service Charges, if any due in connection with such prepayment, and (v) the Hedge Amount, if any, due in connection with such prepayment.

If a Hedge Amount would be due in connection with an Optional Prepayment, it is a condition precedent to the City giving an Optional Prepayment Notice that the City provide reasonable evidence satisfactory to the Service Corporation that such Hedge Amount will be paid when due and such prepayment will not cause the Service Corporation to be in default under any agreement to which it is a party in connection with the particular Funding.

The delivery by the City of a Prepayment Notice to the Service Corporation is a statement of the City's intention to pay the Total Principal Amount to the Corporation on the day before the Optional Prepayment Date stated therein (**Prepayment Receipt Day**). The City is prohibited from paying the Total Prepayment Amount to the Service Corporation on any day prior to the Prepayment Receipt Day. Its delivery of a Prepayment Notice does not obligate the City to pay the Total Prepayment Amount, and no default shall occur by its not paying the Total Prepayment Amount or by the Optional Prepayment not otherwise being effected on the Prepayment Receipt Date.

Satisfaction of Scheduled Payments by Delivery of Certificates

The City may deliver or cause to be delivered Certificates to the Service Corporation in satisfaction (whether in whole or in part) of Scheduled Payments at any time and in any denomination upon 45 day's prior notice to the Service Corporation (or fewer days as acceptable to the Service Corporation) (a **Delivery Notice**) subject to the following limitations. A Scheduled Payment may be satisfied by delivery of Certificates entitled to payment from such Scheduled Payment (**Eligible Certificates**). The amount of a Scheduled Payment deemed paid shall be equal to the denominations of the particular Eligible Certificates.

No Certificate shall be delivered in payment in whole or in part of the respective Scheduled Payment (whether as payment of a Sinking Fund Installment or as other prepayment) more than 45 days before the respective due date if at the time of such delivery the City has not paid all Service Payments then and theretofore due. No Scheduled Payment shall be satisfied by the delivery of Certificates until such Certificates have been delivered to the Trustee.

If Sinking Fund Installments are to be satisfied (whether in whole or in part) by the delivery of Eligible Certificates, the City shall indicate in the respective Delivery Notice the particular Sinking Fund Installments and amounts thereof to be so satisfied. All Certificates so received by the Service Corporation in payment of Scheduled Payments shall be immediately delivered to the Trustee for cancellation.

**Service Charges**

Agreement to Pay Service Charges; Funding Costs

The City agrees to pay Service Charges to the Service Corporation on Service Charge Payment Dates sufficient to pay the Funding Costs incurred by the Funding Trust for the particular Funding. (Service Charges do not include Hedge Payables.) Funding Costs shall be determined by the particular Funding Rate Methodology (fixed or variable). Funding Costs for a Variable Rate Funding Portion shall be periodically determined in accordance with the Variable Rate Funding Methodology, and the corresponding periodic Service Charges shall be **Variable Rate Service Charges**.

Prepaid Service Charges; Hedge Receivables

Prepaid Service Charges shall be used to meet the City's obligation to pay the first occurring Service Charges and Hedge Periodic Receivables Payables of the Service Corporation except as otherwise may be provided in the Service Contract Specific Terms. Hedge Receivables received by the Service Corporation shall be used to satisfy the City's obligation in respect of then existing Deficiencies or then current Service Charges not otherwise paid.

**Fixed Rate Funding Methodology**

The provisions summarized under this heading constitute the **Fixed Rate Funding Methodology**. The particular Service Contract Specific Terms shall state the dates (**Fixed Rate Service Charge Payment**

Dates) on which the Fixed Rate Service Charges are payable. The Fixed Rate Service Charges applicable to the Fixed Rate Funding Portion shall be set forth for the respective Scheduled Payments comprising the Fixed Rate Funding Portion (**Fixed Rate Scheduled Payments**). Fixed Rate Service Charges may be different for different Scheduled Payment Dates in the Fixed Rate Funding Portion.

Fixed Rate Service Charges shall be computed as if the Fixed Rate Scheduled Payments bore interest at the respective rates at which Fixed Rate Service Charges are determined and computed on the basis of a 360-day year consisting of twelve 30-day months. On each Fixed Rate Service Charge Payment Date, the City shall pay a Fixed Rate Service Charge equal to the Fixed Rate Service Charge accrued on the respective unpaid Fixed Rate Scheduled Payments from the later of the Closing Date or the last Fixed Rate Service Charge Payment Date on which Fixed Rate Service Charges were paid in full by the City.

### **Variable Rate Funding Methodology**

The provisions summarized under this heading constitute the **Variable Rate Funding Methodology**. The periodic Variable Rate Service Charge for each Scheduled Payment specified for a particular type of Service Charge Class in the Variable Rate Funding Portion (**Variable Rate Scheduled Payments**) shall be determined in accordance with the particular Variable Rate Funding Type. Each Service Contract Specific Terms shall provide for a procedure by which the Variable Rate Service Charges are determined for the particular Variable Rate Funding Type and shall further provide:

- **Variable Rate Service Charge Payment Dates:** the dates on which the Variable Rate Service Charges are payable for such Type;
- **Service Charge Determination Dates:** the dates on which the Variable Rate Service Charges of such Type are determined;
- **Service Charge Adjustment Dates:** the dates on which the Variable Rate Service Charges of such Type are adjusted; and
- **Day Count Convention:** the number of days in a month and in a year used to determine the amount of the Variable Rate Funding Service Charges of such Type.

Variable Rate Service Charges for each Variable Rate Funding Type in the Variable Rate Funding Portion shall be computed as if the Variable Rate Scheduled Payments of the particular Variable Rate Type bore interest at a rate (i) determined as of each Service Charge Determination Date for such Type and effective as of the respective Service Charge Adjustment Date for such Type and (ii) computed using the applicable Day Count Convention for such Type. On each Variable Rate Service Charge Payment Date for a particular Type the City shall pay a Variable Rate Service Charge equal to the applicable Variable Rate Funding Costs accrued on the unpaid Variable Rate Funding Scheduled Payments of that Type from the later of the Closing Date or the last applicable Variable Rate Funding Service Charge Payment Date on which the Variable Rate Funding Service Charges of that Type were paid in full by the City.

### **General Provisions Governing Service Payments**

#### *City's Payment Times*

The City shall make all Service Payments other than Contract Administrator Payments by the Payment Time on the day before the date when due. The City shall make all Contract Administrator Payments on the date when due. The City shall pay the amount of any Hedge Payable to the Service Corporation promptly upon receipt of notice thereof from the Service Corporation; provided, that the City is not required to pay such amount before the Payment Time on the day before the due date of the particular Hedge Payable.



### Subrogation

No payment of any amount to a Certificateholder or a Hedge Counterparty made from an amount paid by an Insurer under its Credit Insurance (a **Credit Insurance Payment**) shall discharge the City's obligation to pay any Service Payment in respect of which such Credit Insurance Payment was paid (a **Related Service Payment**). An Insurer making a Credit Insurance Payment shall be subrogated to the rights of Certificateholders or a Hedge Counterparty, as the case may be, to receive the Related Service Payment and shall be entitled to exercise all rights that the Person to which it is the subrogee would have otherwise been entitled to exercise.

### Investment

The Service Corporation shall not invest any amounts received by it under the Service Contract except as summarized under this heading. **Invest** means the transfer, disposition or other use of such amounts in expectation of gain. **Investable Funds** (being amounts representing Costs of Issuance and Prepaid Service Charges) shall be invested by the Service Corporation in Authorized Investments that mature in the amounts and at the times the related Investable Funds are needed to make the payments for which such funds were received by the Service Corporation. Investments shall be made by Funding Rate Portion but may be commingled for investment purposes so long as records are kept showing each particular Funding Rate Portion and the gain and loss attributable to it. No Authorized Investment shall be sold prior to its maturity. Gain and loss from Investments shall be attributed to the type of Investable Funds giving rise to it.

All Investments shall be made directly by the Service Corporation having exclusive control over the related securities Component (as such terms are defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) except that Investments may also be made through one or more investment companies registered under the Investment Companies Act of 1940, as amended, if (i) such investment company has a rating by Standard & Poor's Corporation or any national statistical ratings organization (as defined by the Securities and Exchange Act of 1934, as amended, or any successor to it) at least equal to the rating of the Authorized Investment and (ii) such registered investment company invests only in debt instruments.

Gain and loss from Investments shall be attributed to the type of Investable Funds giving rise to it. Gain shall be paid to the City when realized to the extent it is not needed to satisfy any then existing Deficiency or satisfy any then current Service Payment. The City is responsible for all such loss and shall reimburse the Service Corporation for such loss upon its demand.

### Binding Obligation

The Service Contract is a continuing obligation of the City and shall until the date on which all amounts due and owing thereunder are paid in full (a) be binding upon the City and its successors and (b) inure to the benefit of and be enforceable by the Service Corporation, its successors and permitted assigns, and by Third Party Beneficiaries.

### **Satisfaction of Service Payments**

#### Service Payments

**Service Payments** consist of the following components (each a separate **Component** or **Service Payment Component**):

- Contract Administrator Payments
- Service Charges (regardless of the Funding Rate Methodology)
- Regular Scheduled Payments

- Sinking Fund Installments
- amounts in respect of Hedge Periodic Payables
- amounts in respect of Hedge Termination Payables
- Optional Prepayments
- Accrued Service Charges

Preservation of Parity among Service Contracts

As used in the summary under this heading:

- **all Service Contracts** means the Service Contract and the Other Service Contract;
- **each Service Contract** means the Service Contract or the Other Service Contract as the context may require;
- **each Service Corporation** means the Service Corporation or the Other Service Corporation as the context may require;
- **the Other Service Contract** means the service contract between the City and the Other Service Corporation for the funding of unfunded accrued actuarial liability of the City with respect to a different pension system maintained by the City, certain payments under which Other Service Contract are part of the Trust Estate; and
- **the Other Service Corporation** means the service corporation party to the Other Service Contract (*i.e.*, if “the Service Corporation” is the GRS Service Corporation, then “the Other Service Corporation” is the PFRS Service Corporation, and *vice versa*).

All Service Payments payable under a Service Contract shall be made and each Service Corporation shall be entitled to receive such payments on a *pro rata* basis with the Service Payments under the Other Service Contract so that each Service Contract Component having a specified priority (described below) is made on a *pro rata* basis with the Service Payment Components having the same defined term under the Other Service Contract, and no Service Payment Component shall be satisfied until all Service Payment Components under all Service Contracts having the same defined term but having a greater priority under each Service Contract are first satisfied in full.

Also as used in the summary under this heading, an amount is **about to become due**:

- in the case of amounts which are payable not more frequently than once each calendar week, when there are six or fewer days before its due date; and
- for amounts which are payable more frequently than once each calendar week, the day after its most recent due date.

Service Payments under all Service Contracts shall be satisfied in the following order and priority (the **Service Contract Priority Sections**):

**First:** Contract Administrator Payments; then

**Second:** all theretofore due and unpaid Service Charges (regardless of the Funding Rate Methodology) and amounts in respect of Hedge Periodic Payables; then

**Third:** all then due and about to become due Service Charges and amounts in respect of Hedge Periodic Payables; then

**Fourth:** all theretofore due and unpaid Regular Scheduled Payments and Sinking Fund Installments; then

**Fifth:** all then due or about to become due Regular Scheduled Payments and Sinking Fund Installments; then

**Sixth:** all theretofore due and unpaid amounts in respect of Hedge Termination Payables ; then

**Seventh:** all then due and about to become due amounts in respect of Hedge Termination Payables to ; then

**Eighth:** all then due and about to become due Optional Prepayment Amounts and Accrued Service Charges.

#### **Acceleration on Bankruptcy**

If the City shall (i) commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, (ii) consent to the institution of any such proceeding or the filing of any such petition or (iii) make a general assignment for the benefit of creditors, then all payments due under the Service Contract shall become immediately due and payable without presentment, demand, protest or notice of any kind.

#### **Termination or Assignment of Stated Hedges**

At the request of the City and with the prior written consent of the Insurer that has Credit Insurance in respect of the particular Stated Hedge, the Service Corporation shall terminate any Stated Hedge or assign its interest in any Stated Hedge to a Person that agrees to perform and observe all of the duties and obligations of the Hedge Counterparty to such Stated Hedge. Any such substitute Hedge Counterparty shall have at least the rating required by Act 34 of the Michigan Public Acts of 2001, as amended, as if the City were a party to the particular Stated Hedge. No such termination or substitution of a Hedge Counterparty shall take effect unless each Rating Agency that at the time has a rating of the Certificates in effect confirms its rating of the particular Certificates.

#### **Required Ratings of Hedge Counterparties**

The Service Corporation shall only enter into Hedges with Persons who have, on the date the Hedge is entered into, or whose Hedge obligations are guaranteed by a Person who has on that date, a rating of its long-term, senior secured debt at least "A-" by Standard & Poor's Corporation and at least "A3" by Moody's Investors Service.

#### **Amendment of the Service Contract**

The Service Contract may be amended only by written instrument signed by the parties thereto except that no amendment shall be valid: (a) if such amendment diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary; (b) unless the Trustee of the Funding Trust that is a transferee of or successor to any rights or Components under the Service Contract and that received an opinion of counsel in connection with the organization of such Funding Trust to the effect that such Funding Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, shall have received an opinion reasonably acceptable in form and substance to such Trustee of counsel reasonably acceptable to such Trustee to the effect that such amendment shall not result in such Funding Trust being treated as other than such a grantor trust; (c) unless the Trustee has received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to such Trustee to the effect that such

amendment shall not result in the Funding Trust Receivables failing to constitute payments in respect of indebtedness for U.S. federal income tax purposes; and (d) unless every Insurer who is not in default under its Credit Insurance at the time has consented to the amendment.

### **Expenses Payable by the City and the Service Corporation**

The City shall pay such periodic amounts as may be necessary to provide for the general administrative expenses of the Service Corporation as authorized or permitted by the Funding Ordinance, as and when they become due. The Service Corporation shall pay compensation due the Trustee in accordance with the Trust Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent thereunder or any amendment thereof, or in connection with the enforcement thereof. The Service Corporation also shall pay compensation, expenses and indemnification due the Contract Administrator and compensation and expenses due the Enforcement Officer, if any, in accordance with the Contract Administration Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent under the Service Contract or any amendment of the Contract Administration Agreement or of the Service Contract, or in connection with the enforcement of the Service Contract.

### **Permitted Assignment.**

The Service Contract shall be binding upon the parties thereto and their respective successors and permitted assigns. No assignment by either party of its interests therein shall be valid except as follows. The Service Corporation may transfer the Scheduled Payments and Service Charges to the Funding Trust in accordance with the Service Contract. No assignment of the Service Contract or any amounts receivable thereunder shall include the right to receive Additional Service Payments, Contract Administrator Payments or Hedge Payables, except that the Service Corporation may assign or grant a security interest in amounts received by it as payment of amounts in respect of Hedge Payables to the Hedge Counterparties.

### **Third Party Beneficiaries**

The Persons, including the Trustee and the Contract Administrator, originally entitled to Additional Service Payments or Contract Administrator Payments and their respective successors are third party beneficiaries of the Service Contract as to the City's promises to pay Additional Service Payments or Contract Administrator Payments to them. Hedge Counterparties, and their respective successors and subrogees, are third party beneficiaries of the Service Contract as to the City's promises to pay amounts in respect of Hedge Payables to the Service Corporation. Insurers are third party beneficiaries of the Service Contract. Third Party Beneficiaries have the right to enforce the respective promises made in the Service Contract as if such promises were made directly to them. If and when an Insurer is the subrogee of another Third Party Beneficiary, such Insurer may enforce the promises made in the Service Contract to such other Third Party Beneficiary in its right and stead.

## **SUMMARY OF CERTAIN PROVISIONS OF THE CONTRACT ADMINISTRATION AGREEMENT**

### **Collection of Receivables**

Each of the Service Corporations, the Trustee on behalf of the Funding Trust, and the Specified Hedge Counterparties appoints the Contract Administrator as its respective agent and attorney-in-fact to receive Service Payments.

### **Appointment by Funding Trust**

On behalf of the Funding Trust, the Trustee appoints the Contract Administrator as its agent and attorney-in-fact to take such actions and exercise such rights and remedies as to Funding Trust Receivables as the Funding Trust is or may become entitled to exercise under law and in equity to enforce the payment thereof and otherwise realize Funding Trust Receivables.

### **Appointment by Each Service Corporation**

Each Service Corporation appoints the Contract Administrator as its agent and attorney-in-fact to enforce such Service Corporation's rights and remedies under the Stated Hedges, including the collection of Hedge Receivables from the Specified Hedge Counterparties under the respective Stated Hedges, and to take all such actions and exercise such rights and remedies as the respective Service Corporation is or may become entitled to exercise under the particular Stated Hedge and otherwise at law or in equity. Each Service Corporation further appoints the Contract Administrator to invest amounts received by the Contract Administrator as Costs of Issuance and Prepaid Service Charges in Authorized Investments in accordance with the Service Contract.

### **Distributions of Service Payments**

On each Distribution Date, the Contract Administrator shall distribute the amount of the Service Payment Components satisfied since the last such Distribution Date to the respective Entitled Persons. If the Entitled Person is the Funding Trust, the amounts of satisfied Components shall be distributed to the Funding Trust to be applied in accordance with the Trust Agreement.

As used in this Appendix:

- references to "clause **Second**," "clause **Third**," "clause **Fourth**," "clause **Fifth**" or "clause **Eighth**" mean those particular clauses set forth in the Service Contract Priority Sections (see "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - Preservation of Parity among Service Contracts" above in this Appendix);
- amounts distributed to the Trustee representing satisfied Components constituting Service Charges and Accrued Service Charges described in clause **Second** shall be identified to the Trustee as *Deficit Interest Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments described in clause **Fourth** shall be identified to the Trustee as *Deficit Principal Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Sinking Fund Installments described in clause **Fourth** shall be identified to the Trustee as *Deficit Principal Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Service Charges described in clause **Third** shall be identified to the Trustee as *Interest Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments and Sinking Fund Installments described in clause **Fifth** shall be identified to the Trustee as, respectively, *Principal Related Payments* and *Sinking Fund Related Payments*; and
- amounts distributed to the Trustee representing satisfied Components constituting Optional Prepayment Amounts and Accrued Service Charges described in clause **Eighth** shall be identified to the Trustee as *Redemption Related Payments*.

If the Entitled Persons are the Specified Hedge Counterparties, the amounts of satisfied Components constituting amounts in respect of Hedge Payables shall be paid to the Specified Hedge Counterparties to whom such amounts are owing in proportion to the amounts owed to each under the respective Stated Hedges. If distributions are to be made on the same Distribution Date for two or more different priorities of Components (pursuant to clauses **First** through **Eighth**), no distribution shall be made in respect of a lower priority to the extent that each of the higher priorities is not satisfied in full.

### **Service Corporation Covenants**

Each Service Corporation covenants with the Contract Administrator, the Funding Trust, the Specified Hedge Counterparties and the Other Corporation as follows:

(a) The Service Corporation shall not convey, transfer or assign Funding Trust Receivables under its Service Contract or any interest therein to any Person other than the Funding Trust as provided in the Trust Agreement;

(b) the Service Corporation shall not convey, transfer or assign Hedge Payables under its Service Contract or any interest therein to any Person other than the Specified Hedge Counterparties as provided in the Contract Administration Agreement; and

(c) the Service Corporation shall not convey, transfer or assign any Stated Hedge or any interest therein to any Person other than as provided in the Service Contract;

### **Events of Default; Remedies**

It will be an "Event of Default" under the Contract Administration Agreement if the City: (a) fails to pay any Funding Trust Receivable as and when the same shall become due, (b) commences any proceeding or files any petition seeking relief under Title 11 of the United States Code, (c) consents to the institution of any such proceeding or the filing of any such petition or (d) makes a general assignment for the benefit of creditors.

Upon the occurrence and during the continuance of an Event of Default, the Contract Administrator may and shall, at the request of the Certificateholders representing either (i) 25% in principal amount of Outstanding Certificates, the payments on which have not been made as a result of such Event of Default (**Affected Certificates**), or (ii) at least 50% in principal amount of all Outstanding Certificates, enforce the Service Contract under which the Event of Default occurred by such remedies as are available to the Contract Administrator. Any money collected or received by the Contract Administrator from pursuing such remedies shall be applied in the order of the Service Contract Priority Sections, subject to any Creditor Lien.

### **No Duty of Inquiry**

The Contract Administrator has no duty to inquire into the performance by a Service Corporation of its obligations under its Service Contract, but if the Contract Administrator receives notice (a **Default Notice**) from Holders of either (i) at least 25% in principal amount of the Outstanding Affected Certificates or (ii) at least 50% in principal amount of all Outstanding Certificates, specifying the failure of the City to pay Funding Trust Receivables, then the Contract Administrator shall give notice of such failure to the City and demand that such failure be remedied. Upon receipt of any Default Notice, the Contract Administrator shall give notice to all Certificateholders and the Specified Hedge Counterparties that did not join in such Default Notice.

### **Notice of Defaults**

Promptly upon obtaining actual knowledge of the occurrence of any Event of Default, the Contract Administrator shall give written notice of such Event of Default by mail to all Certificateholders,

Specified Hedge Counterparties and Rating Agencies unless such Event of Default has been cured or waived.

Any Insurer who is not then in default under its Credit Insurance shall be entitled to receive all notices in respect of Certificates insured by it, and no notices under the prior paragraph shall be sent to the Holders of such Certificates.

#### **Limitation on Suits by Certificateholders**

No Certificateholder shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Service Contract unless:

- (a) such Holder has previously given written notice to the Contract Administrator of an Event of Default that is then continuing;
- (b) the Holders of either (i) at least 25% in principal amount of the Outstanding Affected Certificates or (ii) at least 50% in principal amount of all Outstanding Certificates have made written request to the Contract Administrator to institute proceedings in respect of such Event of Default in its own name as Contract Administrator;
- (c) such Holder or Holders have offered to the Contract Administrator satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Contract Administrator for 30 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (e) in the case of a written request from the Holders of at least 25% in principal amount of the Outstanding Affected Certificates, no direction inconsistent with such written request has been given to the Contract Administrator during such 30-day period by the Holders of a greater percentage in principal amount of the Outstanding Affected Certificates;

it being understood and intended that no one or more Holders of Certificates shall have any right in any manner to affect, disturb or prejudice the interest of the parties to the Contract Administration Agreement or the rights of any other Certificateholders, or to obtain or to seek to obtain priority or preference over any other Certificateholders or to enforce any right under any Service Contract, except in the manner therein provided and for the equal and ratable benefit of all Entitled Persons.

#### **Control by Majority**

The Holders of a majority in principal amount of the Outstanding Certificates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator to exercise any power exercisable by the Contract Administrator, provided that such direction is not in conflict with any rule of law or the Contract Administration Agreement.

Any Insurer not then in default under its Credit Insurance shall be treated as the Holder of Outstanding Certificates equal to the principal amount of Certificates insured by it for the purposes of actions thus permitted to be taken by Certificateholders and for the purpose of giving all other consents, directions and waivers that Certificateholders may give.

#### **Actions by Beneficial Owners**

For the purpose of providing any consent, waiver or instruction to the Contract Administrator, the terms **Holder** and **Certificateholder** include a Person who provides the Contract Administrator an affidavit of beneficial ownership of a Certificate together with satisfactory indemnity against any loss, liability or expense to the Contract Administrator to the extent that it acts on the affidavit of beneficial

ownership (including any consent, waiver or instruction given by a Person providing such affidavit and indemnity). The principal amount of Outstanding Certificates owned by a Beneficial Owner satisfying the preceding sentence shall be deemed held by such Beneficial Owner and not held by Certificateholders for the purposes of providing any consent, waiver or instruction to the Contract Administrator.

### **Concerning the Contract Administrator**

The Contract Administrator undertakes to perform such duties and only such duties as are specifically set forth in the Contract Administration Agreement, and no implied covenants or obligations shall be read into that Agreement against the Contract Administrator. In the absence of bad faith on its part, the Contract Administrator may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Contract Administrator and conforming to the requirements of the Contract Administration Agreement or the Service Contract; but in the case of any such certificates, documents, other instruments or opinions which by any provision thereof are specifically required to be furnished to the Contract Administrator, the Contract Administrator is under a duty to examine the same to determine whether or not they conform to the requirements of the Contract Administration Agreement.

If an Event of Default occurs and is continuing, the Contract Administrator shall exercise such of the rights and powers in respect of Funding Trust Receivables and use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances.

No provision of the Contract Administration Agreement shall be construed to relieve the Contract Administrator from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (a) the Contract Administrator shall not be liable for any error of judgment made in good faith by an authorized officer of the Contract Administrator, unless it is proved that the Contract Administrator was negligent in ascertaining the pertinent facts; (b) the Contract Administrator shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in Outstanding principal amount of the Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator, or exercising any trust or power conferred upon the Contract Administrator, by or under the Contract Administration Agreement; and (c) no provision of the Contract Administration Agreement shall require the Contract Administrator to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Contract Administrator may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, opinion, notice, request, consent, or other document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Contract Administrator may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Contract Administrator in good faith and in reliance thereon.

The Contract Administrator is under no obligation to exercise any of the rights or powers vested in it by the Contract Administration Agreement at the request or direction of any of the Certificateholders pursuant to that Agreement, unless such Certificateholders shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.



### **Compensation and Reimbursement**

The Contract Administrator is entitled to payment or reimbursement from time to time for reasonable compensation for all services rendered by it under the Contract Administration Agreement. The Contract Administrator is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of that Agreement or the exercise of its powers hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The compensation of the Contract Administrator shall be an Additional Service Payment under the Service Contracts.

The Contract Administrator shall not have any lien on any funds held by it under the Contract Administration Agreement.

### **Enforcement of Rights**

Every provision of the Contract Administration Agreement relating to the enforcement of rights and remedies by any of the parties thereto is subject to particular provisions in the Contract Administration Agreement that would apply if, but only if, all Insurers are then in default under their respective Credit Insurance.

### **Third Party Beneficiaries**

The covenants of each Service Corporation made in the Contract Administration Agreement are also made for the benefit of each of the Third Party Beneficiaries, each of whom may enforce them same as if it were a party thereto.

### **SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

The Trust Agreement is comprised of two documents, called the General Terms (dated as of May 1, 2005) and the Specific Terms (dated the Closing Date), which operate together as if they were combined in a single document. The parties to the Trust Agreement are the Detroit General Retirement Service Corporation and the Detroit Police and Fire Retirement Service Corporation (each a **Service Corporation**), severally and not jointly, and U.S. Bank National Association, as Trustee (in such capacity, the **Trustee**). The Trust Agreement establishes the Detroit Retirement Systems Funding Trust 2005 (the **Funding Trust**) for the purpose of funding the Subject UAAL of the Detroit General Retirement System (**GRS**) and the Detroit Police and Fire Retirement System (**PFRS**).

### **Conveyance of Funding Trust Receivables; Grant of Security Interest**

Effective the Closing Date, each Service Corporation transfers, assigns and conveys to the Funding Trust all of its right, title and interest in and to the Funding Trust Receivables under its respective Service Contract, all monies due or to become due with respect thereto and all proceeds of such Funding Trust Receivables. Each Service Corporation intends that such sale, assignment and conveyance be an absolute transfer of such property for all purposes. However, to preserve rights if such sale, assignment and conveyance is deemed a pledge of such property, each Service Corporation also grants a security interest in such property to the Funding Trust for the benefit of the Certificateholders.

The Trust Estate consists of the Funding Trust Receivables arising under the GRS Service Contract, the Funding Trust Receivables arising under the PFRS Service Contract, and all proceeds of the foregoing.

### **Contract Administration Agreement**

The Trustee is directed in the Trust Agreement to enter into the Contract Administration Agreement in the name and on behalf of the Funding Trust. See "Summary of Certain Provisions of the Contract Administration Agreement" in this APPENDIX A.

### **No City Indebtedness**

The Funding Trust and the Funding Trust Receivables paid to the Funding Trust do not constitute or create any indebtedness of the City within the meaning of the limitation of The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.

### **Tax Treatment Agreed to by Certificateholders; Restriction on Trustee's Powers**

Except to the extent otherwise provided in the Trust Agreement, each Service Corporation has entered into the Trust Agreement, the Certificates will be issued and the Funding Trust will acquire the Funding Trust Receivables, with the intention that for federal, state and local income, business, franchise and modified value added tax purposes: (a) the Funding Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended; (b) each Beneficial Owner of Certificates will be treated as the owner of an undivided *pro rata* interest in the portion of the Trust Estate attributable to such Beneficial Owner's Certificates; and (c) the Funding Trust Receivables constitute payments in respect of indebtedness. In furtherance of such intention, except to the extent otherwise provided in the Trust Agreement, the Trustee shall not have the power to vary the investment of the Beneficial Owners of the Certificates within the meaning of U.S. Treasury regulations §301.7701-4(c) or to engage in any business unless the Trustee shall have received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such activity will not cause the Funding Trust to fail to be treated as such a grantor trust.

Each Service Corporation and the Trustee by entering into the Trust Agreement and each Certificateholder by its acceptance of its Certificate agrees to treat the Funding Trust, the Certificates and the Funding Trust Receivables in accordance with the intention expressed in the preceding paragraph (or any alternative intention expressed in the Trust Agreement) for federal, state and local income, business, franchise and modified value added tax purposes.

### **Authentication and Delivery of Certificates by Trustee; Disposition of Certificate Proceeds**

The Funding Trust shall issue Certificates as fully registered securities in the form prescribed by the Trust Agreement. The Trustee shall authenticate and deliver the Certificates in accordance with a written order of each Service Corporation stating the amount of Certificate proceeds to be received by the Trustee in respect of that Service Corporation and providing for the disposition of such proceeds as provided in its Service Contract (in major part into the Accrued Liability Fund of each Retirement System in satisfaction of its respective Subject UAAL). The Certificates evidence the entire beneficial interest in the Trust Estate.

### **Payment of Interest on Certificates**

Interest payable on any Series A Certificate or Series B Certificate and paid on an Interest Payment Date shall be paid to the Person in whose name that Certificate (or a Predecessor Certificate) is registered at the close of business on the Regular Record Date for such Series.

Interest payable on any Certificate and not paid on an Interest Payment Date when due shall be not be paid to the registered Holder on the relevant Regular Record Date by virtue of being such Holder, but rather shall be payable as a Deficit Interest Related Payment to the Person in whose name such Certificate (or a

Predecessor Certificate) is registered at the close of business on a Special Record Date for the payment of such Deficit Interest Related Payment.

If an amount is payable as all or part of a Deficit Interest Related Payment received by the Trustee, the Trustee shall establish a day for the payment of such amount to Certificateholders not less than 10 days after its receipt of such amount and establish a Special Record Date which shall be not more than 15 nor fewer than 10 days before the date set for payment of such amount. The Trustee shall mail notice of a Special Record Date to the Certificateholders at least 10 days before such Special Record Date.

Subject to the foregoing three paragraphs, each Certificate delivered under the Trust Agreement upon transfer of, in exchange for or in lieu of any other Certificate shall carry all the rights to Interest accrued and unpaid, and to accrue, which were carried by such other Certificate.

### **Registration, Exchanges and Transfers**

The Trustee shall keep at its designated corporate trust office a register for the registration of Certificates and for the registration of transfers of Certificates, subject to such reasonable regulations as the Trustee may prescribe. Upon surrender of any Certificate for transfer of the registration thereof, the Trustee shall authenticate and register in the name of the designated transferee(s) one or more new Certificates of the same tenor in any authorized denomination in like aggregate principal amount.

At the option of the Holder, Certificates may be exchanged for other Certificates of the same tenor in any authorized denomination in like aggregate principal amount, upon surrender of the Certificates to be exchanged at the designated corporate trust office of the Trustee. Whenever any Certificates are surrendered for exchange, the Trustee shall authenticate and deliver the Certificates that the Certificateholder making the exchange is entitled to receive.

All Certificates issued upon any transfer of registration or exchange of Certificates shall constitute valid evidences of beneficial interests in the Trust Estate evidencing the same beneficial interests and entitled to the same benefits under the Trust Agreement as the Certificates surrendered in such transfer or exchange.

No service charge may be made for any transfer of registration or exchange of Certificates, but the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect such transfer or exchange. The Trustee may make the payment of such tax, fee or other governmental charge and the cost of preparing each new Certificate delivered in such transfer or exchange a condition precedent to making any transfer of registration or exchange of any Certificate, to be paid by the Person requesting such transfer or exchange, unless otherwise provided in the Trust Agreement.

The Trustee shall not be required (a) to transfer or exchange any Certificate during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Certificate and ending at the close of business on the day of such mailing, or (b) to transfer or exchange any Certificate selected for redemption in whole or in part, during a period beginning at the opening of business on any Regular Record Date for such Certificates and ending at the close of business on the relevant Interest Payment Date therefor.

### **Persons Deemed Owners**

The Trustee may treat the Person in whose name any Certificate is registered as the owner of such Certificate, whether payments with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of the principal thereof, premium, if any, and (except as otherwise provided in the Trust Agreement) Interest thereon and for all other purposes whatsoever.

## **Book-Entry Certificates; Securities Depository**

While Certificates are registered in the name of a Securities Depository or its nominee, the Trustee shall not have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to: (a) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership Interest in the Certificates; (b) the delivery to any Participant, and Beneficial Owner or any other Person, other than the Securities Depository of any notice with respect to the Certificates, including any notice of redemption; or (c) the payment to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal of or premium, if any, or Interest on the Certificates.

The Trustee shall pay all principal (and premium, if any) of and Interest on such Certificates only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Funding Trust's obligations with respect to the principal (and premium, if any) of, and Interest on such Certificates to the extent of the sum or sums so paid.

Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository and upon receipt of notice from the Securities Depository containing sufficient information, the Trustee shall authenticate and deliver Certificates in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any authorized Denomination.

Notwithstanding anything to the contrary in the Trust Agreement, so long as any Certificate is registered in the name of the Securities Depository or its nominee: (a) all payments with respect to the Principal and Interest on such Certificate and all notices of redemption and otherwise with respect to such Certificate shall be made and given, respectively, to the Securities Depository as provided in the representation letter with respect to such Certificates; (b) if less than all such Certificates of a maturity and series are to be redeemed *pro rata*, then the particular Certificates or portions of Certificates of such maturity and series to be redeemed shall be so determined by the Securities Depository; and (c) all payments with respect to Principal of such Certificate and premium, if any, and Interest on such Certificate shall be made in such manner as shall be prescribed by the Securities Depository.

### **Redemption of Certificates**

#### *Selection of Certificates to be Redeemed*

Whenever any Certificates of a series are to be redeemed, the Trustee shall select the maturity or maturities that correspond to the prepaid Scheduled Payments giving rise to such redemption. Whenever Certificates of less than all of a maturity are to be redeemed, the Trustee shall select the particular Certificates to be redeemed from the Outstanding Certificates of such maturity and series that have not previously been called for redemption in such manner as results in *pro rata* redemption among all Holders of Certificates of the maturity being redeemed. All Certificates of the same series and having the same maturity shall constitute a class for purposes of *pro rata* redemption. The Trustee shall select Certificates for redemption *pro rata* within each class. In the case of any maturity of Certificates for which Sinking Fund Installments have been established, any optional redemption of such Certificates shall be credited among such Sinking Fund Installments *pro rata* in accordance with the unpaid amounts thereof.

#### *Notice of Redemption*

When any Certificates are to be redeemed, notice of any such redemption shall be given by the Trustee by first class mail, no fewer than 30 days and no more than 45 days before the Redemption Date to each Holder of Certificates to be redeemed at his/her last address in the Registry. All notices of redemption shall be dated and shall state: (a) the Redemption Date; (b) the Redemption Price; (c) if less than all Outstanding Certificates are to be redeemed, the identification number, maturity dates and, in the case of a partial

redemption of Certificates, the respective principal amounts of the Certificates to be redeemed; (d) that on the Redemption Date the Redemption Price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; (e) the place where the Certificates to be redeemed are to be surrendered for payment of the Redemption Price, which place of payment shall be the designated corporate trust office of the Trustee or other Paying Agent; and (f) the proposed redemption (except in the case of a redemption from Sinking Fund Installments) is conditioned on the Trustee having received a Redemption Related Payment on the Prepayment Receipt Day sufficient to pay the full Redemption Price of the Certificates to be redeemed.

The failure of the Holder of any Certificate to receive notice of redemption given as provided above, or any defect therein, shall not affect the sufficiency of the proceedings for the redemption of any Certificates as to which no failure or deficiency occurred.

The Trustee shall provide additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (Dec. 3, 1985) as the same may be amended or supplemented from time to time by the Securities and Exchange Commission or by generally accepted practice of corporate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

#### Certificates Payable on Redemption Date

Notice of redemption having been given as aforesaid, the Holders of the Certificates so to be redeemed shall be entitled, on the Redemption Date, to payment of an amount equal to the Redemption Price therein specified and from and after such date (unless the full amount of the Redemption Price is not distributed) the Holders of such Certificates shall cease to be entitled to any further payment in respect of Interest. Upon surrender of any such Certificate for redemption in accordance with said notice, the Holder of such Certificate shall be paid by the Trustee an amount equal to the Redemption Price. Installments of Interest with a due date on or prior to the Redemption Date shall be payable to the Holders of the Certificates as of the relevant Record Dates.

If any Certificate called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear Interest from the Redemption Date at the rate prescribed in the Certificate.

#### Certificates Redeemed in Part

Any Certificate which is to be redeemed only in part may, at the option of the Holder: (a) be presented for notation thereon by the Trustee of the payment as of the Redemption Date of the redeemed portion of the principal thereof; or (b) be surrendered at the place of payment therefor (with, if the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Holder or his attorney or legal representative duly authorized in writing), and the Trustee shall authenticate and deliver to such Holder, without service charge, a new Certificate or Certificates of the same maturity and series of any authorized denomination or denominations as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Certificate so surrendered.

### **Payments to Certificateholders**

#### Deficiency Payments

On the day the Trustee receives a Deficit Interest Related Payment from the Contract Administrator, the Trustee shall establish a Special Record Date and pay the same to the Certificateholders entitled thereto in accordance with their respective Percentage Interests. On the day the Trustee receives a Deficiency Payment,

other than a Deficit Interest Related Payment, from the Contract Administrator, the Trustee shall pay the same to the Certificateholders entitled thereto in accordance with their respective Percentage Interests.

Other Payments

On each Interest Payment Date for which the Trustee has received an Interest Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Interest by the terms of their Certificates as of the Regular Record Date in accordance with their relative Percentage Interests. On each Principal Payment Date for which the Trustee has received a Principal Related Payment from the Contract Administrator, the Trustee shall pay the same to the Certificateholders entitled to such Principal Related Payment by the terms of their Certificates in accordance with their relative Percentage Interests. On each Sinking Fund Installment Date for which the Trustee has received a Sinking Fund Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Sinking Fund Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

On each Redemption Date that is also an Interest Payment Date for which the Trustee has received a Redemption Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Redemption Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed. On each Redemption Date that is not also an Interest Payment Date for which the Trustee has received a Redemption Related Payment that includes associated Accrued Service Charges from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Redemption Related Payment and Accrued Service Charges by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

**The Trustee**

Certain Duties and Responsibilities

The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Trustee and conforming to the requirements of the Trust Agreement or the Service Contract; in the case of any such certificates, documents, other instruments or opinions which by any provision thereof are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine the same to determine whether or not they conform to the requirements of the Trust Agreement.

No provision of the Trust Agreement or the Service Contract shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, *except* that (a) the Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Trustee, *unless* it is proved that the Trustee was negligent in ascertaining the pertinent facts; (b) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement or the Service Contract; and (c) no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Certain Rights of Trustee

The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, opinion, notice, request, consent, order, or other document believed by it to be genuine and to have been signed or presented by the proper parties. Whenever in the administration of the Trust Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action under the Trust Agreement, the Trustee (unless other evidence is specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of the Contract Administrator. The Trustee may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Certificateholders pursuant to the Trust Agreement, unless such Certificateholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, opinion, notice, request, consent, order, or other document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit. The Trustee may execute any of its trusts or powers or perform any of its duties either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it.

The Trustee shall not have any lien on any funds held by it under the Trust Agreement.

Not Responsible for Recitals or Issuance of Certificates

The Trustee assumes no responsibility for the correctness of the recitals contained in the Trust Agreement, in a Service Contract or in the Certificates except the certificate of authentication on the Certificates. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title thereto or as to the security afforded thereby, or as to the validity or sufficiency of the Trust Agreement or of the Certificates.

Corporate Trustee Required; Eligibility

There shall at all times be a Trustee under the Trust Agreement which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement if it becomes ineligible under this paragraph.

Replacement of Trustee

No resignation or removal of the Trustee and no appointment of a successor Trustee shall be effective until the successor Trustee accepts its appointment. The Trustee may resign at any time, but such resignation shall become effective only in accordance with the preceding sentence. The Holders of a majority in principal amount of Outstanding Certificates may remove the Trustee by so notifying the Trustee. If the Trustee becomes ineligible, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor. The retiring Trustee or the Service Corporations may appoint a successor at any time prior to the date on which a successor Trustee takes office. If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, any Certificateholder may petition a court of

competent jurisdiction for the appointment of a successor Trustee. Within one year after a successor Trustee appointed by the Service Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Trustee to replace such successor Trustee.

Acceptance of Appointment

A successor Trustee shall deliver written acceptance of its appointment to the retiring Trustee and to each Service Corporation. Thereupon the resignation or removal of the retiring Trustee shall be effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Trust Agreement. The successor Trustee shall mail a notice of its succession to the Certificateholders. Upon the appointment of a successor Trustee becoming effective, the retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

Merger, Consolidation and Succession to Business

If the Trustee consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee if such successor corporation is eligible under the Trust Agreement. The successor Trustee may adopt the authentication of Certificates authenticated by the predecessor Trustee and deliver such Certificates with the same effect as if the successor Trustee had authenticated such Certificates.

ERISA

The Trustee acknowledges and agrees that, in the event that assets of the Funding Trust are deemed to be plan assets of a Certificateholder that is an employee benefit plan subject to Title I of ERISA (an *ERISA Plan*), the Trustee is a fiduciary to such ERISA Plan with respect to such ERISA Plan's undivided interests in the Trust Estate, and the Trust Agreement shall be deemed to be the management agreement between the Trustee and such ERISA Plan.

**Supplemental Trust Agreements**

Supplemental Trust Agreements without Consent of Certificateholders

Without the consent of any Certificateholders, the Service Corporations and the Trustee may from time to time enter into one or more Trust Agreements supplemental to the Trust Agreement (a *Supplemental Trust Agreement*) for any of the following purposes:

- b) to correct or amplify the description of Trust Estate, or better to assure, convey and confirm unto the Trustee any of the Trust Estate or the lien of the Trust Agreement thereon, or to add to the Trust Estate subject to the lien of the Trust Agreement additional property;
- c) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the issue, authentication and delivery of the Certificates, thereafter to be observed;
- d) to evidence a successor trustee under the Trust Agreement;
- e) to add to rights, powers and remedies of the Trustee for the benefit of the Certificateholders;
- f) to cure any ambiguity, or correct or supplement any provision in the Trust Agreement which may be inconsistent with any other provision;
- g) to provide for the issuance of Additional Certificates; or
- h) to make any other change that does not adversely affect the rights of Certificateholders.



Supplemental Trust Agreements with Consent of Certificateholder

With the consent of the Holders of not less than a majority in principal amount of the Certificates then Outstanding, the Trustee may enter into one or more Supplemental Trust Agreements for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Agreement or of modifying in any manner the rights of Certificateholders under the Trust Agreement; provided, however, that no such Supplemental Trust Agreement shall, without the consent of the Holder of each Outstanding Certificate affected thereby, change any Principal Payment Date or Interest Payment Date of any Certificate, or reduce the principal amount thereof or Sinking Fund Installment or the Interest thereon or any premium payable upon the redemption thereof, or change any place of payment where any Certificate or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the Redemption Date), or reduce the percentage in principal amount of the Outstanding Certificates, the consent of whose Holders is required for any such Supplemental Trust Agreement, or the consent of whose Holders is required for any waiver of compliance with certain provisions of the Trust Agreement or certain defaults thereunder and their consequences; or modify any provisions summarized under the above subheadings "No City Debt or Other Obligation" or "Tax Treatment Agreed to by Certificateholders; Restriction on Trustee's Powers" under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT" or certain other provisions, except to increase any percentage provided thereby or to provide that certain other provisions of the Trust Agreement cannot be modified or waived without the consent of each Holder affected thereby.

Execution of Supplemental Trust Agreements

Prior to executing, or accepting the additional trusts created by, any permitted Supplemental Trust Agreement or the modification thereby of the trusts created by the Trust Agreement, the Trustee shall be entitled to receive and be fully protected in relying upon an opinion of counsel addressed to the Trustee to the effect that the execution of such Supplemental Trust Agreement is authorized or permitted by the Trust Agreement and the Supplemental Trust Agreement will be a valid and binding agreement of each Service Corporation upon the execution and delivery thereof.

Preconditions to Effectiveness

If the Trustee received a Qualifying Opinion in connection with the formation of the Funding Trust, then no Supplemental Trust Agreement shall become effective unless and until the Trustee receives an opinion in form and substance reasonably satisfactory to it of counsel reasonably acceptable to the Trustee to the effect that such supplement will not cause the Funding Trust to fail to be treated as such a grantor trust. Each Supplemental Trust Agreement is subject to the prior written consent of any Insurer.

**Miscellaneous Provisions**

Notices to Certificateholders; Waiver

Where the Trust Agreement provides for the publication of notice to Certificateholders, such notice shall be sufficiently given (unless otherwise expressly provided in the Trust Agreement) if in writing and mailed, first-class postage prepaid, to each Certificateholder at his address as it last appears in the Registry, no later than the latest date and no earlier than the earliest date permitted for the first publication of such notice. Where the Trust Agreement provides for notice in any manner, such notice may be waived by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice shall be filed with the Trustee, *but* such filing shall not be a condition precedent to the validity of any action taken in reliance on the waiver.

Payments Due on Saturdays, Sundays and Holidays

In any case where the date fixed for payment of the Certificates shall not be a Business Day, *then* such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such payment.

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**Appendix B**  
**INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN**

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## GOVERNMENTAL STRUCTURE

Pursuant to the provisions of the State Constitution, the City is a home rule city with significant independent powers. In accordance with the City Charter (the "Charter"), the governance of the City is organized in two branches: the Executive Branch, which is headed by the Mayor, and the Legislative Branch, which is composed of the City Council and its agencies. The Charter provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify ordinances enacted by the City by referendum. However, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to an emergency ordinance. The Mayor and the members of the City Council are elected every four years. The last regular election for these positions was on November 6, 2001, in which the Mayor, and six incumbent members and three new members of the City Council were elected. In January 2002, the Mayor and the newly constituted City Council commenced their new terms. JoAnn Watson was subsequently elected in a special election held as a result of the death of City Council member Brenda Scott. A City Council vacancy currently exists due to the death of Council member Kay Everett in November 2004. There are no limits as to the number of terms that may be served by City elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the 36th District Court. See "GOVERNMENTAL STRUCTURE – District Court." Following is a description of the duties and responsibilities of the branches of the City government.

### *Executive Branch*

The Mayor is the chief executive of the City and has control of and is accountable for the Executive Branch of City government. The Charter grants the Mayor broad managerial powers, including the authority to appoint all department directors and deputy directors. The Charter also delegates the responsibility for the implementation of most programs, services and activities solely to the Executive Branch.

**Kwame M. Kilpatrick, Mayor**, was elected in November 2001 and assumed office January 1, 2002. Prior to his election as Mayor of the City, he served two terms representing Detroit's 9th District in the Michigan House of Representatives, including serving as House Democratic Leader. Prior to his tenure as a state legislator, he served as a teacher, mentor and basketball coach in the Detroit Public Schools and also taught high school in Tallahassee, Florida. Mayor Kilpatrick is chair of the Democratic Leadership Council's locally elected officials network. Mayor Kilpatrick graduated from Florida A&M University with a Bachelor of Science degree in Political Science, as well as his teacher certification. He received his Juris Doctor degree from Detroit College of Law.

**Anthony Adams, Deputy Mayor**, was appointed in January 2005. Prior to his appointment, he was General Counsel for the School District of the City of Detroit since January 2003, with responsibilities for supervising a staff of 20 and managing more than 25 outside firms to coordinate the legal defense of the District and serving as its Chief Legal Compliance Officer. Before that, he served as Chief Development Attorney for the District since July 2002, with responsibilities for coordinating all development projects and business contracts for the District, including its \$1.5 billion capital improvement program. Earlier, he had a private law practice primarily in real estate development and finance. From 1991 to 1993, Mr. Adams was of counsel to the Dykema Gossett law firm in Detroit, Michigan. From 1985 to 1991, he served as an Executive Assistant to the Mayor of Detroit. He has a Bachelor of Science degree in Urban Management and Planning from the University of Cincinnati, and a law degree from Georgetown University Law Center in Washington, D.C.

Financial operations of the City are carried out through the appointed positions of Finance Director and Budget Director. The Finance Director oversees most financial functions of the City, including coordinating debt issuance activities, collecting and disbursing funds, investing City funds (excluding pensions), directing accounting procedures, purchasing goods and services and assessing of property in the City. The Budget Director is responsible for controlling and supervising the expenditure of funds and assisting the Mayor in the preparation of the City's annual budget and long-term capital agenda.

**Sean K. Werdlow, Finance Director**, was appointed in January 2002. Prior to his appointment, he was the Vice President of Finance and Treasurer of The Detroit Medical Center ("DMC") with responsibilities over system-wide cash management, short and long term capital budgeting, coordination of external working capital funding, issuance of debt, and various other financial planning and related activities. Prior to the DMC, Mr. Werdlow served as Executive Assistant Director of the City of Detroit Finance Department for nearly six years where he oversaw debt issuance and the investment of all City funds (excluding pension). Mr. Werdlow holds a Bachelor of Science degree in Finance from Wayne State University. He is a member of the Treasury Management Association and the Michigan Municipal Finance Officers Association. Mr. Werdlow serves on the boards of the City of Detroit Downtown Development Authority, the Detroit Brownfield Redevelopment Authority, the City of Detroit Building Authority, The Economic Development Corporation of the City of Detroit, the Greater Detroit Resource Recovery Authority, Detroit Transportation Corporation, the General Retirement System and the Charles H. Wright Museum of African American History.

**Roger Short, Budget Director**, was appointed in September 1999 and re-appointed by Mayor Kilpatrick in January 2002. Mr. Short has been employed by the City for approximately 21 years. Prior to his current appointment, Mr. Short served as Deputy Director of the Finance Department, with responsibilities that included issuing the City's Comprehensive Annual Financial Report, implementing a city-wide financial reporting and accounting system, and implementing an income tax reporting and collection system. He also held a 10-year appointed position as Auditor General for the City of Detroit. Mr. Short, a certified public accountant, holds a Bachelor of Arts degree and a Master of Arts degree in Public Policy from the University of Michigan.

**Carolyn Williams Meza, Chief Operating Officer**, was appointed in June 2002 and assumed her duties July 1, 2002 overseeing Detroit's public works, water and sewerage, public lighting, recreation, transportation, health and cultural departments. Ms. Williams Meza was formerly chief executive officer of the Chicago Park District of the City of Chicago, Illinois, the largest municipal system in the United States, for which she worked in several capacities since 1994. She was Assistant Commissioner at the City of Chicago's Department of General Services, and also worked as Executive Assistant in Chicago Mayor Daley's office from 1988 to 1989. Prior to her work in the public sector, she spent 13 years in the corporate arena. Ms. Williams Meza earned a Masters of Management degree from the Kellogg Graduate School at Northwestern University in 1975.

**Walter C. Watkins Jr., Chief Development Officer and Director of the City Planning and Development Department**, was appointed in February 2002. Mr. Watkins was formerly President of Bank One, Michigan. In addition to serving on the board of the Detroit Black Chamber of Commerce and the City of Detroit Downtown Development Authority, Mr. Watkins is a member of the boards of Fisk University, The Wellness Plan (HMO), the Detroit Medical Center and TEC Foods Inc. He also serves on the advisory board of Black Family Development Inc. and is a member of the Leadership Detroit Alumni Association and 100 Black Men of Greater Detroit. He received a bachelor's degree in Business Administration from Fisk University and a Master in Business Administration degree from Wayne State University.

**Ruth Carol Carter, Corporation Counsel**, was appointed in January 2002 and heads a staff of more than 100 lawyers, with responsibilities for city contracts, advising the Mayor and City Council on legal issues, supervising preparation of ordinances and resolutions, and defending and prosecuting all city lawsuits. Prior to her appointment, she had been an Assistant Prosecuting Attorney for Wayne County, Michigan since July 1988, and before that she was a trial attorney in private practice. Ms. Carter serves as an Arts Commission Board member for the Detroit Institute of Arts, an Advisory Board member of the American Civil Liberties Union, and a member of the boards of the Detroit Cable Communications Commission, the Legal Defense Fund and the Michigan Association of Municipal Attorneys. She is a graduate of Dillard University in New Orleans, Louisiana, and has a law degree from Howard University School of Law.

### *Legislative Branch*

The City Council, composed of nine members elected at large for four-year terms, is the City's legislative body. The City Council has the power to override the Mayor's veto of City Council changes to the annual budget with a two-thirds majority of its members. The three agencies that aid the City Council in the performance of its duties are described below.

The Auditor General is appointed for a term of 10 years by a majority of City Council members and may be removed for cause by a two-thirds majority. Any person who has held the position of Auditor General is not eligible for reappointment. By Charter, the principal duty of the Auditor General is to audit the financial transactions of all City agencies. However, since 1980 the City has retained independent accounting firms to perform that function. As required by State law, audits are performed annually; they are only required every two years by the Charter. The Auditor General may investigate the administration and operation of any City agency and prepares various reports including an annual analysis for the City Council of the Mayor's proposed budget.

The Ombudsman is appointed for a term of 10 years by a two-thirds majority of City Council members for the purpose of investigating any official act of any agency (except elected officers) which aggrieves any person.

The City Planning Commission, consisting of nine members appointed by the City Council for 3-year terms, advises the City Council on such matters as the annual capital budget, certain development or renewal projects and proposals for the demolition, disposition or relinquishment of, or encroachment upon, public real property or public interests in real property.

### *District Court*

The 36th District Court is responsible for adjudicating certain legal matters that arise within the City, including state felony arraignments and preliminary examinations, state misdemeanor and City ordinance violations, civil litigation for claims of \$25,000 or less, and landlord / tenant disputes. From the creation of the 36th District Court in 1981, through September 30, 1996, when Public Act 374 of 1996 became effective, the State of Michigan and the City of Detroit were responsible for shared funding of the 36th District Court.

In July 1996, the State of Michigan enacted Public Act 374 of 1996, which required that, effective October 1, 1996, the City assume the cost, in excess of fines collected by the Court, for the operations of the 36th District Court, including payroll for non-judicial 36th District Court personnel, except to the extent the City is reimbursed by an allocation from the State's so-called "hold harmless fund" during a five-year transition period. The "hold harmless fund" consisted of a statewide amount of \$20 million for the state's fiscal year beginning October 1, 1996, and was phased out, annually, in \$4 million increments during the next four state fiscal years.

On January 12, 1997, the State of Michigan enacted Public Act 524 of 1996. Public Act 524 amended Act 374 by changing the calculation for determining the City's initial share of the so-called "hold harmless fund." When the "hold harmless fund" terminated on September 30, 2001, the City became solely responsible for all funding of the 36th District Court, except for judicial salaries.

### *Principal Governmental Services and Work Force*

The following table sets forth the major services provided to City residents, the governmental unit responsible for providing that service, and the revenue source of City-provided services as indicated in the City's proposed Executive Budget for the fiscal year ending June 30, 2006. The City's budget contains both operating revenues and expenditures, and capital sources and expenditures.

**Table 1--Services Provided: Governmental Unit and Revenue Sources**

	<u>Responsibility</u>	<u>Percent Supported by:</u>				
		<u>General Fund(1)</u>	<u>Self-Supported(2)</u>	<u>State Grants(3)</u>	<u>Federal Grants(3)</u>	<u>Other Revenue(4)</u>
Police and fire .....	City	80.7%	13.7%	1.0%	0.9%	3.7%
Education .....	Independent School District (totally funded by other than City sources)					
Sanitation and streets .....	City	57.6	10.5	30.7	-	1.1
Parks and recreation.....	City	73.0	6.8	5.6	-	14.5
Water and Sewer (5)(7)....	City	-	100.0	-	-	-
Court .....	City/State	39.8	56.6	3.7	-	-
<b>Transportation:</b>						
Port (6) .....	City/County/State	100.0	-	-	-	-
Bus (7) .....	City	-	62.8	30.5	-	6.7
<b>Airports:</b>						
City (7).....	City	-	100.0	-	-	-
Metropolitan.....	County (totally funded by other than City sources)					
Housing (8) .....	Independent (totally funded by other than City sources)					
<b>Planning and</b>						
Development (9) .....	City	(50.6)	65.9	-	83.1	1.6
Health.....	City	16.7	9.3	25.4	48.6	1.0
Hospital.....	Private (totally funded by other than City sources)					
Welfare .....	State (totally funded by other than City sources)					
Public Lighting (10).....	City	22.5	68.4	5.0	-	4.0
Parking(7) .....	City	-	100.0	-	-	-

SOURCE: Proposed fiscal year 2006 Executive Budget; may be different from actual. Totals may not add up to 100% due to rounding.

- (1) Represents the net tax cost to the City.
- (2) Includes revenues derived from sale of services to other City departments and self-supporting agencies.
- (3) Includes mass transportation and housing capital grant revenues.
- (4) Includes both bond proceeds and Federal project note borrowings.
- (5) Provides water supply and sewage disposal services for the Southeastern Michigan region. Accounted for separately in two enterprise funds.
- (6) Although the Port facilities are privately owned, the Detroit/Wayne County Port Authority's budget is derived from City, Wayne County, and State contributions.
- (7) Accounted for in an enterprise fund.
- (8) See "FINANCIAL OPERATIONS-Other Funds of the City--Enterprise Funds" herein. The Detroit Housing Commission ("DHC") is no longer an enterprise fund of the City. As such, the fiscal year 2006 budget does not include funding for the DHC.
- (9) Department revenues exceed appropriations resulting in net contributions to the General Fund
- (10) Provides power through a City-owned public utility for City-owned buildings, streets, certain other governmental units and some private customers. Revenues are derived from the sale of power to these governmental units and private customers.

The following table sets forth the City's budgeted employee positions for the fiscal years ended or ending June 30, 2002 through 2006, according to those positions that are tax-supported and those positions that are supported by other revenues.



**Table 2--City of Detroit Budgeted Employee Positions**

	Fiscal Year Ended or Ending On June 30,									
	2002		2003		2004		2005		2006	
	Number	%	Number	%	Number	%	Number	%	Number	%
Tax supported:										
General City .....	8,419	40%	8,104	40%	7,929	40%	7,448	40%	6,179	37%
Police and fire .....	5,812	28	5,694	28	5,704	29	5,695	30	5,482	33
Library .....	<u>537</u>	<u>3</u>	<u>475</u>	<u>2</u>	<u>476</u>	<u>2</u>	<u>485</u>	<u>3</u>	<u>465</u>	<u>3</u>
Total tax supported.....	14,768	70	14,273	70	14,109	72	13,628	73	12,126	72
Revenue supported:										
Transportation .....	1,861	9%	1,838	9%	1,838	9%	1,716	9%	1,534	9%
Water.....	2,420	12	2,411	12	2,097	11	2,097	11	1,916	11
Sewage .....	1,499	7	1,477	7	1,301	7	1,302	7	1,189	7
Housing (1) .....	<u>442</u>	<u>2</u>	<u>442</u>	<u>2</u>	<u>357</u>	<u>2</u>	-	-	-	-
Total revenue supported.....	<u>6,222</u>	<u>30</u>	<u>6,168</u>	<u>30</u>	<u>5,593</u>	<u>28</u>	<u>5,115</u>	<u>27</u>	<u>4,639</u>	<u>28</u>
Total .....	<u>20,990</u>	<u>100%</u>	<u>20,441</u>	<u>100%</u>	<u>19,702</u>	<u>100%</u>	<u>18,743</u>	<u>100%</u>	<u>16,765</u>	<u>100%</u>

SOURCE: City's Budgets for fiscal years ended or ending June 30, 2002 through 2005, and proposed Executive Budget for fiscal year ending June 30, 2006. Totals may not add up to 100% due to rounding.

(1) Housing (the Detroit Housing Commission) is no longer a City Department. Separation was finalized through judicial action in fiscal 2004.

The following table sets forth the departmental budgeted appropriations as a percentage of total City general agency appropriations for the fiscal years ended or ending June 30, 2002 through 2006:

**Table 3--Departmental Appropriations**

	Fiscal Year Ended or Ending On June 30,				
	2002	2003	2004	2005	2006
Police.....	19%	20%	23%	25%	24%
Fire .....	8%	9%	10%	11%	10%
Public works (sanitation and streets) .....	13%	12%	11%	11%	9%
Public lighting .....	4%	4%	4%	4%	4%
Health .....	5%	5%	5%	5%	5%
Recreation.....	3%	3%	3%	3%	2%
Planning and development .....	4%	4%	4%	3%	4%
Other departments .....	26%	25%	24%	22%	22%
Non-departmental:					
Enterprise fund contributions (1)....	5%	5%	4%	4%	4%
Other.....	13%	12%	11%	13%	17%
General agency budget (millions) .....	\$1,933.2	\$1,816.0	\$1,877.3	\$1,935.1	\$1,776.2

SOURCE: Budget Department. Totals may not add up to 100% due to rounding.

(1) The City has provided financial support for the Transportation Fund. See "FINANCIAL OPERATIONS - Other Funds of the City."

***Related City Entities***

Other entities have been established by the City, in certain cases with the County and with the City of Highland Park, principally for the purpose of providing capital financing (normally through the sale of bonds

or through special tax levies) for various improvements, services or major construction projects. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES – Tax Supported and Revenue Debt" and "-Overlapping Debt." Below is a description of certain entities and their functions.

*City of Detroit Downtown Development Authority.* This authority (the "DDA") was established by the City to help halt property value deterioration and to promote economic growth in the City's downtown district. The DDA has issued tax increment bonds to partially finance various downtown projects. Its administrative operations are financed by a one-mill property tax levy assessed on property in the downtown district. The DDA last issued debt in 1998.

*City of Detroit Tax Increment Finance Authority.* This authority (the "TIFA") was established for the purpose of preparing development and tax increment financing plans in the City other than in the Downtown District. The authority sold tax increment bonds and assisted in the financing of a portion of the Central Industrial Park Project, which includes a 3 million square foot General Motors plant in operation since 1985. Because of a sunset provision in the legislation creating this entity, this authority does not have the ability to issue additional debt.

*City of Detroit Local Development Finance Authority.* This authority (the "LDFA") was established for the purpose of assisting in the financing of development projects in the City. The authority is authorized to sell tax increment bonds and sold \$42 million in tax increment bonds to finance a portion of the cost of the City's Jefferson/Conner Redevelopment Project. The LDFA last issued debt in 1998.

*The Economic Development Corporation of the City of Detroit.* This corporation (the "EDC") was established for the purpose of assisting industrial and commercial enterprises in various endeavors that would benefit Detroit residents. It has various statutory powers, including the ability to issue project revenue bonds. The EDC has \$63.9 million of bonds outstanding as of May 1, 2005 that were issued to refund the bonds issued to finance pollution control equipment that was installed at the Greater Detroit Resource Recovery Authority ("GDRRA") Facility described below. The EDC last issued debt in 2001.

*Detroit Economic Growth Corporation.* This corporation is a private, non-profit corporation established in 1978 as a liaison between the public and private sector to promote economic growth and development. The corporation is governed by a board made up of prominent Detroit business, political and labor leaders and has a full-time staff. The corporation's operations are financed from private contributions and City and State grants. In addition to providing assistance to private firms, the corporation provides staff services to the DDA, the EDC, the TIFA and the LDFA.

*Greater Detroit Resource Recovery Authority.* GDRRA was created by the cities of Detroit and Highland Park for the purpose of financing and supervising construction and operations of a waste-to-energy facility located in the City (the "Facility"). GDRRA has \$183.0 million of bonds outstanding as of May 1, 2005, which were issued to refund the bonds issued to finance construction of the Facility. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES."

*Detroit Transportation Corporation.* This corporation was formed by the City in 1985 to complete construction and manage operations of the Downtown People Mover. Capital costs associated with the project were provided from Federal and State sources and operating funds are derived from fare box revenues and General Fund subsidies. The corporation's finances are accounted for as a discretely presented component unit enterprise operation of the City. See "FINANCIAL OPERATIONS – Other Funds of the City – Enterprise Funds."

*City of Detroit Building Authority.* The Building Authority was established by the City for the purpose of financing and managing the construction of various publicly owned buildings, parking lots and structures, recreational facilities and related sites to be leased to the City. The Building Authority financed the Joe Louis Arena and Joe Louis Arena Garage and the acquisition of and repairs to municipal parking facilities in downtown Detroit. The Building Authority also directs numerous other construction projects in the City. The Building Authority last issued debt in 1999.

*Detroit-Wayne Joint Building Authority.* This authority was established by a joint effort of the City and the County for the purpose of constructing and maintaining buildings that would serve both City and County residents. This authority financed the construction of both the Coleman A. Young Municipal Center (formerly known as the City-County Building) and the Frank A. Murphy Hall of Justice Building, and improvements to court-related facilities in the Coleman A. Young Municipal Center, through bonds that have since been retired.

*Detroit/Wayne County Stadium Authority.* This authority is a public body incorporated by Wayne County pursuant to Act 31, Public Acts of Michigan, 1948 (First Extra Session), as amended. It is governed by a 6-member board of directors appointed by the County Executive of Wayne County, three of which are nominated by the Mayor of the City. The purpose of the Detroit/Wayne County Stadium Authority is to acquire, build, furnish, equip, own, improve, enlarge, operate and/or maintain one or more stadia, together with appurtenant properties and facilities, including parking. The Detroit/Wayne County Stadium Authority acquired the land necessary for the two side-by-side stadiums, appurtenant facilities, and parking constructed in downtown Detroit. The first stadium project, Comerica Park and its appurtenant facilities and parking, was completed in 2000 and is presently occupied and utilized by Major League Baseball's Detroit Tigers. The second stadium and its affiliated facilities, Ford Field, was completed in 2002 and is occupied and utilized by the Detroit Lions of the National Football League. In March 1997, the Detroit/Wayne County Stadium Authority issued \$85,815,000 in stadium bonds.

*Detroit/Wayne County Port Authority.* This authority was created in 1979 for the purpose of promoting and facilitating the development of Detroit as a major international trade location. The Port Authority works in conjunction with State and local government and private investors to serve as a catalyst on projects that have a public purpose in the areas of international trade and freight transportation. The Port Authority conducts marketing and promotional activities in international and freight transportation. The Port Authority issued \$11 million of bonds in fiscal 2004 for development. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Port of Detroit," and "- Major Projects and Developments."

*City of Detroit Brownfield Redevelopment Authority.* The City's Brownfield Redevelopment Authority (the "DBRA") was established by the City to promote the redevelopment of and private investment in certain environmentally distressed properties within the City. The DBRA has various statutory powers, including the authority to issue bonds and other evidence of indebtedness, acquire and dispose of certain property and permit the use of certain tax increment financing. Since its inception, the DBRA has approved more than 80 brownfield redevelopment plans.

#### ***Other Governmental Entities***

Services are provided to residents of the City by other governmental entities such as Wayne County, the School District of the City of Detroit, Wayne County Community College and the Wayne County Regional Educational Service Agency. All of these entities are funded through their own taxing powers and other sources independent of the City.

### **FINANCIAL PROCEDURES**

#### ***Accounting System***

The City's fiscal year begins on July 1 and ends on June 30. The City uses an Oracle financial management system, which provides the general ledger, purchasing, accounts payable, accounts receivable, fixed assets, and project accounting applications. These Oracle core financial applications are integrated with third-party Oracle-approved software providers for budget preparation, work order, and inventory applications to provide a complete financial reporting system.

The City uses a Legacy human resources/payroll application for employee compensation. Preliminary funding has been approved to begin planning the replacement of the Legacy system with Oracle human

resources/payroll modules. The complete integration of the Oracle human resources/payroll application with the Oracle core financial applications is expected to take three to four years to completion.

The City's financial statements are prepared based substantially upon the financial information contained in the Oracle software. The City's basic financial statements and entity-wide financial statements for fiscal year 2004 were audited by independent accountants hired by the Auditor General's Office, and are the most recent audited City financial statements available.

#### *Accounting Methods*

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Except for the City's Enterprise Funds and Pension Funds (which are accounted for on the accrual basis), the City's funds and accounts are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual, *i.e.*, measurable and available to finance expenditures of the current fiscal year. Municipal income taxes are accrued for income tax withholdings estimated by the City as collected by employers but not yet remitted to the City. Estimated refunds for income tax returns received and in process, on which payment has not yet been made, are recorded as a reduction of revenues. Although the City recognizes revenues from sources when susceptible to accrual, the City also establishes reserves from time to time against certain of the revenues so recognized, to reflect its judgment of collectibility.

The City records expenses when goods and services are received and encumbers the amounts required by purchase orders and contracts at the time the purchase orders and contracts are issued. The encumbrances are liquidated when the goods and services are received. While the City is not required to carry unliquidated encumbrances past the end of the fiscal year, it sets aside, within each respective fund balance, an amount equal to the unliquidated encumbrances that the City wishes to carry forward. In the succeeding year, the budget is increased by an amount sufficient to cover the unliquidated encumbrances and these encumbrances are reinstated. Unliquidated appropriations represent amounts appropriated for liquidation of encumbrances and for other commitments not liquidated by year-end and carried forward to the succeeding year's budget. Any remaining balance constitutes an unappropriated surplus. In accordance with a City ordinance, one-half of any unappropriated surplus is transferred to a Budget Stabilization Fund with the balance being available for other appropriations in the following fiscal year. Any unappropriated deficit is funded in the succeeding fiscal year.

The Capital Projects Fund accounts for all funds used for the construction, acquisition, and renovation of capital facilities. The City maintains 12 funds within the Capital Projects Fund, which account for all capital improvements including those financed by the City's general obligation bond issues, gifts, governmental grants, transfers from other funds and special assessments. The City maintains detailed accounting records by individual projects within these funds. Revenues and expenditures are recorded in specific cost centers which list the sources of revenue and type of expenditure. Uncollected estimated revenues and unexpended appropriations are brought forward until completion of a capital project. Revenues must be used on the specific capital projects for which they were designated. Included as APPENDIX C are the audited basic financial statements of the City for the fiscal year ended June 30, 2004. The latest audited comprehensive annual financial report of the City is for the fiscal year ended June 30, 2004, and is available by request to the City's Finance Director or on the City's website at [www.ci.detroit.mi.us/finance](http://www.ci.detroit.mi.us/finance).

#### *Cash Management*

A cash flow forecast is prepared annually to assist in formulating cash management strategy and is revised as necessary. The City maintains one bank account for General Fund receipts and disbursements, excluding general obligation bond proceeds, which are kept in a separate account. Capital Projects Fund moneys are also maintained in separate accounts.

All funds are invested in accordance with State law. The City may invest in direct obligations of the United States, obligations of an agency or instrumentality of the United States, certain grades of commercial

paper, bankers acceptances of United States banks, certificates of deposit, savings accounts or depository receipts of savings and loan associations or member banks of the Federal Deposit Insurance Corporation, and certain municipal bonds.

The City's investment policy is to provide for effective cash management. The City's investment policy attempts to maintain and protect invested principal while striving to maximize total return on the portfolio consistent with limitations pursuant to guidelines set forth in Act 20, Public Acts of Michigan, 1943, as amended ("Act 20"). The City has not experienced material investment-related losses in any City-managed funds. As of May 1, 2005, the composition of the City's investment portfolio was as follows:

**Table 4-Composition of General Fund Investment Portfolio  
May 1, 2005**

Certificate of Deposit.....	4.02%
Pooled investment funds* .....	56.58
United States Government securities.....	<u>39.40</u>
Total.....	<u>100.00%</u>

\* Consists only of permitted investments.

In accordance with Act 20, Public Acts of Michigan, 1943, as amended, no investments may have a maturity longer than 10 years from the date of investment. As of May 1, 2005, the longest investment of the City's General Fund had a maturity of August 15, 2011.

**Table 5-General Fund Investments**

Average monthly investment balance, fiscal 2005.....	\$101,509,287
Investment earnings, fiscal 2004.....	\$ 1,467,561
Investment earnings, fiscal 2003.....	\$ 1,556,451

***Budget Process***

The general content and process of developing the City's annual budget are prescribed by the City Charter. The City's annual budget constitutes a financial plan for the next fiscal year which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included. Any deficit during the preceding year is entered into the budget for the next fiscal year as an appropriation in accordance with the City Charter. One-half of any surplus is credited to the Budget Stabilization Fund with the remainder being included as a revenue in the following year. The total of proposed expenditures cannot exceed the total of estimated revenues so that the budget as submitted is a balanced budget.

The adoption of the budget provides for: (1) appropriations of specified amounts from funds indicated, (2) a specified levy of the property tax and (3) provision for the issuance of bonds specified in the capital program. The budget document as adopted becomes the basis for establishing revenues and expenditures for the fiscal year following the fiscal year of passage. The appropriation for every function of each City department is a fixed expenditure and may not exceed the original appropriation without City Council approval. If, during the fiscal year, the Mayor advises the City Council that there are available for appropriation revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. The Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services or activities within an agency or from one agency to another.

Prior to the December submission of budget requests to the Budget Director, seven departments are required to attend a public meeting where input is received on programs and objectives for the coming year are

addressed. These departments include Police, Fire, Public Works, Public Lighting, Health, Recreation and Water and Sewerage. The initial budget proposal, which includes all department estimates of revenues and expenditures for the fiscal year beginning July 1, is submitted to the Mayor by the Budget Department on or before the preceding February 22. The Mayor may revise the budget prior to submitting it to the City Council on or before April 12, the date for budget submission to the City Council established by City ordinance.

Prior to approval of the budget, the City Council holds hearings with various department and agency heads and also holds a public hearing. In addition, the Auditor General prepares an analysis of the proposed budget for the City Council. The City Council may amend the budget as presented by the Mayor on or before May 24. The Mayor may veto any City Council amendment, but must do so by the third business day after May 27. Any Mayoral veto of City Council amendments to the budget may be overridden by the City Council by a two-thirds vote of the members serving; provided, however that the Council must act on or before the third calendar day or the second business day (whichever will provide the greater number of business days) following the maximum return date of the budget by the Mayor.

#### ***Budget Stabilization Fund***

In 1978, the State Legislature authorized municipalities to establish budget stabilization funds for the purpose of providing a method to stabilize financial operations. Prior to that time, municipalities were required to allocate any budget surplus to the following fiscal year. Accordingly, in 1979, the City, by ordinance, established the Budget Stabilization Fund of the City to cover General Fund deficits, to restore a reduction in the number of employees (under certain circumstances) and to cover expenses arising because of a natural disaster. One-half of the General Fund surplus, up to the lesser of either 15% of the City's most recent General Fund budget or 15% of the average of the City's five most recent General Fund budgets, is transferred to the Budget Stabilization Fund each year a surplus is experienced. The Budget Stabilization Fund had a balance of \$8.5 million as of June 30, 2003, which was used to reduce the City's General Fund deficit in fiscal year 2004, and the Budget Stabilization Fund has had a zero balance since that time. See "FINANCIAL OPERATIONS – Overview" and "FINANCIAL OPERATIONS – Recent Budget Results of the General Fund."

#### ***Risk Management***

The City is self-insured with respect to property damage, liability risks and worker's compensation claims. The City assumes the risk for many loss exposures, using generally accepted standards with regard to self-assumption of risk. Provisions are made for assumed losses by a combination of annual budgetary appropriations and liquid reserve funds. Insurance has been obtained for catastrophic loss exposures when insurance has been a feasible alternative. Contract liability losses and tort and negligence liability losses are covered by a combination of a Public Liability Reserve Fund and a Risk Management Fund ("RMF"). The City issued self-insurance bonds in 2003 and 2004 to make loss payments.

The following schedule indicates the amounts paid from appropriations for the fiscal years ended June 30, 2000 through 2004. The schedule reflects both General Fund and Transportation Fund payments. As discussed under "FINANCIAL OPERATIONS - Other Funds of the City-Enterprise Funds," the General Fund has typically made substantial transfers to the Transportation Fund, in part to cover liability claims payable from that fund.

**Table 6-Liability Claims Paid**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Damage and liability claims .....	\$32,324,513	\$22,984,376	\$26,079,282	\$31,902,082	\$31,471,943
Vehicle claims .....	7,270,904	5,973,490	8,235,563	8,784,362	27,963,846
Worker compensation claims ...	<u>20,189,525</u>	<u>21,363,664</u>	<u>17,876,181</u>	<u>14,695,446</u>	<u>16,042,338</u>
Total.....	<u>\$59,784,942</u>	<u>\$50,321,530</u>	<u>\$52,191,026</u>	<u>\$55,381,890</u>	<u>\$75,478,127</u>

SOURCE: Finance Department.

**FINANCIAL OPERATIONS**

*Overview*

This section contains a detailed account of various important financial matters. See especially “FINANCIAL OPERATIONS–Recent Budget Results of the General Fund” and “–Other Funds of the City.”

*Revenues and Expenditures of the General Fund*

The tables below and on the next page set forth a comparison of revenues, expenditures and other financing sources and uses of the General Fund by major classification.

Table 7-Revenues and Expenditures of the General Fund

	Fiscal Year Ended June 30,				
	2000	2001	2002	2003	2004
	(in millions)				
<b>REVENUES:</b>					
Taxes, assessments, interest and penalties:					
Property taxes .....	\$ 155.7	\$ 152.8	\$ 169.7	\$ 166.3	\$ 184.8
Municipal income tax .....	378.3	341.0	323.5	310.9	290.6
Utility User's Tax .....	54.5	54.3	52.1	55.3	50.5
Wagering Taxes .....	53.4	85.8	109.4	111.3	116.1
Other Taxes .....	10.8	12.5	13.4	13.5	12.0
Assessments, interest and penalties on taxes .....	<u>9.4</u>	<u>8.0</u>	<u>10.8</u>	<u>9.3</u>	<u>14.0</u>
Total Taxes, assessments, interest & penalties .....	662.1	654.4	678.9	666.6	668.0
Total licenses, permits and inspection charges .....	29.8	10.1	9.2	8.4	9.4
Shared taxes:					
State revenue sharing .....	332.7	333.3	333.8	319.1	286.5
Other shared taxes .....	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total shared taxes .....	333.2	333.8	334.3	319.6	287.0
Grants:					
State equity package .....	1.9	3.6	3.6	2.1	1.0
Other grants .....	<u>83.6</u>	<u>73.7</u>	<u>70.7</u>	<u>63.9</u>	<u>78.6</u>
Total grants .....	85.5	77.3	74.3	66.0	79.6
Sales and charges for services .....	176.9	185.9	198.0	171.1	176.0
Other revenues .....	<u>81.9</u>	<u>107.4</u>	<u>175.8</u>	<u>148.2</u>	<u>155.0</u>
Total revenues .....	1,369.4	1,368.9	1,470.5	1,379.9	1,375.0
<b>OTHER FINANCING SOURCES:</b>					
Bond proceeds .....	11.0	-	-	-	-
Debt proceeds-General Obligation Limited Tax .....	-	-	50.3	56.0	209.9
Project borrowings (loan proceeds) .....	23.7	-	-	-	-
Transfer from Community Development Block Grants .....	24.4	16.6	21.4	-	-
Transfer from Federal Employment & Training Funds .....	-	-	-	-	-
Transfer from Major & Local Street Funds .....	53.6	41.3	44.8	48.9	56.2
Transfer from Capital Projects Fund .....	-	-	0.8	-	-
Transfer from trust and agency funds .....	-	0.3	-	-	-
Transfer from Sewage Disposal Funds .....	-	-	-	-	-
Transfer from Water Fund .....	-	-	-	-	-
Transfer from component units .....	8.0	32.2	-	-	-
Transfer from Transportation Fund .....	<u>11.4</u>	-	-	-	-
Total other financing sources .....	132.1	90.4	117.3	104.9	266.1
Special Item-Casino Development Revenue .....	-	-	-	63.8*	38.3*
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES .....</b>	<u>\$1,501.5</u>	<u>\$1,459.3</u>	<u>\$1,587.8</u>	<u>\$1,548.6</u>	<u>\$1,679.4</u>

\* Non-recurring



	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions)				
<b>EXPENDITURES:</b>					
Executive agencies:					
Department of Public Works .....	\$ 224.9	\$ 203.5	\$ 226.9	\$ 188.0	\$ 168.1
Fire.....	141.3	155.4	151.2	161.2	182.2
Health.....	98.0	89.0	97.9	102.2	88.9
Police .....	332.5	382.5	362.5	362.4	462.6
Lighting .....	56.9	70.8	64.4	61.9	64.5
Recreation.....	49.0	48.1	53.9	59.3	53.6
All other .....	<u>274.2</u>	<u>231.8</u>	<u>254.4</u>	<u>237.2</u>	<u>274.5</u>
Total executive agencies.....	1,176.8	1,181.1	1,211.2	1,172.2	1,294.4
Legislative agencies.....	12.7	14.3	16.3	16.0	18.1
Judicial agencies .....	44.1	44.8	47.0	47.7	45.4
Non-departmental(1).....	<u>136.1</u>	<u>82.6</u>	<u>167.0</u>	<u>227.8</u>	<u>259.8</u>
Total expenditures .....	1,369.7	1,322.8	1,441.5	1,463.7	1,617.7
<b>OTHER FINANCING USES:</b>					
Transfer to Community Dev. Block Grant Fund .....	-	-	-	1.3	-
Transfer to Construction Code Fund.....	-	6.4	3.0	6.0	4.0
Transfer to Detroit Building Authority.....	-	0.5	0.5	0.4	0.3
Transfer to Human Services Fund .....	3.6	4.5	4.0	6.5	5.7
Transfer to Federal Employment & Training Funds.....	-	0.1	-	-	-
Transfer to Major Street Fund .....	-	-	-	-	-
Transfer to general debt service funds (2) .....	53.0	46.0	40.3	44.2	51.3
Transfer to Capital Projects Fund .....	2.2	6.6	1.7	-	-
Transfer to Urban Renewal Fund.....	-	-	-	-	-
Transfer to Airport Fund (3) .....	1.9	1.9	3.6	2.5	2.8
Transfer to Housing Fund .....	-	-	2.1	1.3	-
Transfer to trust and agency funds.....	0.8	-	-	-	-
Transfer to Transportation Fund (3) .....	53.4	74.2	79.3	75.5	74.3
Transfer to component units .....	15.5	25.7	-	-	-
Payment to refunded debt escrow .....	<u>11.0</u>	-	<u>49.4</u>	-	-
Total other financing uses.....	<u>141.4</u>	<u>165.9</u>	<u>183.9</u>	<u>137.7</u>	<u>138.4</u>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES .....</b>					
	<u>\$1,511.1</u>	<u>\$1,488.7</u>	<u>\$1,625.4</u>	<u>\$1,601.4</u>	<u>\$1,756.1</u>

SOURCE: Derived by the Finance Department from audited financial statements. Totals may not add up due to rounding.

- (1) Non-departmental includes items such as payment of damage claims, self insurance fund contributions and other expenses that are not allocated on a departmental basis.
- (2) Reflects refunding of certain limited tax obligations. See "FINANCIAL OPERATIONS – General Fund Revenue Categories."
- (3) The City has made transfers to certain enterprise funds for operating purposes. See "FINANCIAL OPERATIONS – Other Funds of the City – Enterprise Funds."

**Fund Balance of the General Fund**

An analysis of changes in Fund Balance of the General Fund for the fiscal years ended June 30, 2000 through 2004 is as follows:

**Table 8-General Fund Balance**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Fund balance at beginning of year previously reported before restatement.....	\$ 234.3	\$ 217.1	\$ 218.1	\$ 206.2	\$ 140.3
Fund balance restatement (1) .....	-	<u>32.9</u>	<u>19.7</u>	-	-
Fund balance at beginning of year, as restated	234.3	250.0	237.8	206.2	140.3
Revenues and other financing sources .....	1,501.5	1,459.3	1,587.8	1,548.6	1,679.5
Expenditures and other financing uses.....	(1,511.1)	(1,488.7)	(1,625.4)	(1,601.4)	(1,757.4)
Increase (decrease) in reserve for other assets	<u>(7.6)</u>	<u>(2.5)</u>	<u>6.0</u>	<u>(13.1)</u>	<u>6.9</u>
Fund balance at end of year.....	<u>\$ 217.1</u>	<u>\$ 218.1</u>	<u>\$ 206.2</u>	<u>\$ 140.3</u>	<u>\$ 69.2</u>

SOURCE: Derived by the Finance Department from audited financial statements.

- (1) The General Fund has been restated to reflect the adoption of Governmental Accounting Standards Board ("GASB") Interpretation Number 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

**Components of Fund Balance**

An analysis of the components of Fund Balance of the General Fund for the fiscal years ended June 30, 2000 through 2004 is as follows:

**Table 9-Components of General Fund**

	<b>Fiscal Year Ended June 30,</b>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions)				
<b>Reserved Fund balance:</b>					
Reserve for Encumbrances.....	\$108.8	\$ 98.0	\$ 59.2	\$ 96.8	\$48.9
Reserve for the Budget Stabilization Fund .....	-	34.1	7.7	8.5	-
Reserve for Risk Management Operations.....	36.1	44.8	51.8	50.5	35.9
Reserve for BC/BS Insured Program (1).....	-	-	-	21.7	-
Reserve for Motor Vehicle Fund.....	-	-	-	-	39.3
Reserve for Inventories .....	39.3	36.7	42.8	29.7	36.5
Reserve for Advances and Loans .....	<u>3.1</u>	<u>6.0</u>	<u>2.2</u>	<u>2.2</u>	<u>3.6</u>
Total reserved fund balance .....	187.3	219.6	163.7	209.4	164.2
<b>Unreserved Fund balance:</b>					
<b>Designated:</b>					
For Accrued Compensated Absences.....	-	-	17.5	-	-
For BC/BS insured program (1).....	<u>27.5</u>	<u>24.8</u>	<u>23.4</u>	-	-
Total Designated fund balance.....	27.5	24.8	40.9	-	-
<b>Undesignated:</b>					
From Operations .....	2.3	(26.4)	1.6	(69.1)	(95.0)
Funded by Fiscal Stabilization Bonds.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Undesignated fund balance.....	<u>2.3</u>	<u>(26.4)</u>	<u>1.6</u>	<u>(69.1)</u>	<u>(95.0)</u>
Total Unreserved fund balance (deficit).....	<u>29.8</u>	<u>(1.6)</u>	<u>42.5</u>	<u>(69.1)</u>	<u>(95.0)</u>
<b>Total Fund balance</b>	<u><b>\$217.1</b></u>	<u><b>\$218.1</b></u>	<u><b>\$206.2</b></u>	<u><b>\$140.3</b></u>	<u><b>\$69.2 (2)</b></u>

(1) The Blue Cross/Blue Shield Reserve component of the General Fund decreased from \$21.7 million at June 30, 2003 to \$-0- at June 30, 2004 as the result of a settlement agreement with the City's Retirement Systems. \$15.7 million was transferred to the Employee Benefit Fund (a fiduciary fund), and the remaining \$6.0 million was used to defray health care costs during fiscal 2004.

(2) See "FINANCIAL PROCEDURES – Recent Budget Results."

SOURCE: Derived by the Finance Department from audited financial statements.

***General Fund Revenue Categories***

The City's General Fund derives revenues from various sources. The following table shows the percentage that various sources of General Fund revenues have contributed to total General Fund revenues for the fiscal years ended June 30, 2000 through 2004.

**Table 10-Major General Fund Revenue and Other Financing Sources**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(Percent to Total)				
Property tax.....	11.4%	11.2%	11.5%	12.1%	13.4%
Municipal income tax .....	27.6	24.9	22.0	22.5	21.4
Utility users tax .....	4.0	4.0	3.5	4.0	3.6
Wagering excise tax.....	3.9	6.3	7.4	8.1	8.4
State shared revenues.....	24.3	24.3	22.7	23.1	20.8
State equity package .....	0.1	0.3	0.2	0.2	-
Sales and charges for services.....	12.9	13.6	13.5	12.4	12.8
Other revenue, grants and financing sources (1).....	<u>15.8</u>	<u>15.4</u>	<u>19.2</u>	<u>17.6</u>	<u>19.6</u>
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SOURCE: Derived by the Finance Department from audited financial statements.

(1) See "FINANCIAL OPERATIONS—General Fund Revenue Categories—Other Revenue, Grants and Other Financing Sources" for a discussion of the sources of revenue included in this category.

The following is a description of the major General Fund revenue sources of the City.

Property Taxes

The City reports revenue from real and personal property taxes when measurable and available. Available is defined as "due and receivable within the current period, and collected within the current period or expected to be collected within sixty days thereafter."

The City's Taxable Value (defined in "ASSESSED VALUATION AND PROPERTY TAXES – Property Valuation and Tax Rate" below) has increased an average of 4.3% during each of the five fiscal years ended June 30, 2005. The City contracted with MBIA Muniservices, Inc. to collect certain real property tax delinquencies existing prior to March 1, 2004. The MBIA contract expires in fiscal 2006. Beginning March 1, 2004, Wayne County began collection of the City's delinquent real property taxes. Effective December 29, 2003, Public Act 246 of 2003 allows for the Treasurer of a City with a first class school district to return (transfer) all uncollected delinquent taxes levied on real property after December 31, 2004 to the County Treasurer on the March 1<sup>st</sup> immediately following the year in which the taxes are levied. On March 1, 2004, the City transferred to the Wayne County Treasurer the uncollected 2003 real property taxes. In June 2004, the City received from Wayne County a total of \$37.4 million that was due to the General Fund and the Debt Service Fund which represented 2003 real property taxes that had been collected. See "ASSESSED VALUATION AND PROPERTY TAXES – Tax Levies and Collections" herein. Since 1994, the State Legislature has enacted various statutes pertaining to assessments and assessment procedures. These changes have restricted the rate of growth on Taxable Value of property throughout the State. See "ASSESSED VALUATION AND PROPERTY TAXES." During fiscal year 2001, the State Tax Commission issued new valuation multipliers that may be used by local assessors to value personal property, including certain contested utility personal property assessments in the City. See "ASSESSED VALUATION AND PROPERTY TAXES – Personal Property Tax Assessments and Appeals."

Municipal Income Taxes

The City levies an annual income tax, pursuant to State enabling legislation. The maximum rate consists of a tax of 2.5% on income earned and received (investment income included) by residents of the City, 1.2% on corporate income earned in the City and 1.25% on income earned in the City by non-residents. The

City has contracted with MBIA Muniservices, Inc. to collect certain tax delinquencies. See “–Tax Levies and Collections” herein.

In 1999, legislation was approved by the State, which requires a reduction in both the resident and non-resident city income tax rate. The resident income tax rate at the time of 3% was required to be reduced by 0.1% on each July 1, beginning July 1, 1999, until it reaches 2%. The non-resident income tax rate was required to be reduced to maintain it at one-half of the resident income tax rate. This rate reduction schedule may be suspended under certain circumstances if at least three of the following four conditions exist: (1) funds have been withdrawn from the City’s Budget Stabilization Fund for two or more consecutive fiscal years or the City’s Budget Stabilization Fund balance falls to zero; (2) the City’s inflation adjusted income tax revenue growth rate over the prior year is 0.95 or less; (3) the City’s tax base growth rate is 80% or less of the state-wide tax base growth rate over a two year period; or (4) the City’s unemployment rate is 10% or higher. If three of these four conditions exist, the next scheduled rate reduction will be suspended until the following July 1, and the suspension may be extended if these conditions continue. Accordingly, the full implementation of the rate reduction may be delayed past July 1, 2008.

The Michigan House of Representatives and the Michigan Senate have passed amendments to the 1999 income tax reduction legislation. These amendments provide for: (i) the resident tax rate to be ultimately reduced to 1.8% rather than 2%, with the non-resident tax rate continuing at one-half the resident rate; (ii) suspension of the rate reduction schedule under certain circumstances if two rather than three of the conditions described above exist; and (iii) a temporary roll back in income tax rate reduction from January 1, 2004 through June 30, 2005. Under the roll back provision, the income tax rates for calendar year 2004 were the rates in effect on January 1, 2003. From January 1, 2005 through June 30, 2005, the rates are those which were in effect July 1, 2003. The income tax rate for the 2005 fiscal year is 2.5% for residents and 1.25% for non-residents.

The 1999 legislation also reduced the population threshold for levying local income taxes at rates in excess of 2% from 1,000,000 to 750,000. In addition, the then current Mayor proposed to City Council a phase-out of the corporate income tax over a similar 10-year period at the end of calendar 1999. The reduction of 0.2% became effective on January 1, 2000, with subsequent reductions on each January 1 following the scheduled July 1 reduction in the individual income tax rate, until the corporate income tax is eliminated by January 1, 2009, or such later date as may be applicable. The corporate income tax rate for fiscal years 2004 and 2005, however, remained the same at 1.2%. The scheduled reduction for fiscal 2005 was frozen and did not take effect.

#### Utility Users Tax

The utility users tax is a 5% excise tax on utility bills within the City, and may be levied only by cities with a population in excess of 750,000 (legislation reduced this number from 1,000,000). The City recognizes utility users tax revenues collected during the fiscal year and accrues cash received within 60 days of the fiscal year end, which is related to utility usage during the fiscal year. Pursuant to State law, the first \$45 million of revenue generated by the utility users tax is used exclusively to retain and hire police officers. Revenue in excess of \$45 million is used exclusively to retain or hire uniformed police personnel over the level of police officers employed on November 1, 1984.

#### Wagering Tax

Act 69 imposes a State tax on adjusted gross receipts from casino operations (“AGR”) of 8.1%. Act 69 also imposed a State annual assessment fee of \$25 million in the first year of casino operations, the payment of which was shared by the three licensees, and which is adjusted annually by the State in line with the City’s Consumer Price Index (CPI), but in no event greater than one-third of the combined State annual assessment fee as adjusted by the City’s CPI, for any one licensee. In addition, as permitted by Act 69, in November 1997, the City’s voters approved the imposition of a local tax of 9.9% on AGR. Also pursuant to Act 69, the City has imposed a municipal service fee of 1.25% of AGR, or \$4 million per licensee, whichever is greater, to

pay for the provision of municipal services. Act 306, Public Acts of Michigan, 2004, effective September 2, 2004, imposed an additional wagering tax of 6% of AGR, one-third of which is allocated to the City and two-thirds of which is allocated to the State. Thus, the City currently collects a total of 11.9% on AGR as the wagering tax. As a result of the taxes and fees described above, the City collected revenues of \$53.4 million from the gaming facilities in fiscal year 2000, \$85.8 million in fiscal year 2001, \$109.5 million in fiscal year 2002, \$111.3 million in fiscal year 2003 and \$116.1 in fiscal year 2004. The City's budget for fiscal year 2005 anticipates revenues of \$117.6 million from gaming facilities. Actual collections for 2005 are estimated at \$139.0 million. Effective January 1, 2006, a 1% increase in the tax on AGR will be imposed. Also effective January 1, 2006, an additional 1% tax on AGR will be imposed on casinos that achieve at least \$400 million in annual AGR.

The finalization of the permanent casino development agreements with the City had been an issue of controversy since the initial award of casino licenses. The Lac Vieux Desert Band of Chippewa Indians ("Lac Vieux"), which did not submit a proposal for a license to operate a casino in the City of Detroit, filed suit challenging the system by which the City granted three casino licenses. The Michigan Attorney General and the two casino developers that allegedly benefited from the preferences intervened in the lawsuit as defendants. In November 2003, two of the three developers entered into a settlement agreement with Lac Vieux. On February 13, 2004, the Sixth Circuit Court of Appeals remanded the case to the U.S. District Court for consideration of the settlement, and the parties filed position papers with that court relative to approval of the settlement. The District Court later approved the settlement, and on April 28, 2005 the U.S. Circuit Court of Appeals for the Sixth Circuit affirmed it, lifted the injunction that had prevented construction of the permanent casinos, and dismissed the appeals. Lac Vieux has since announced its decision not to pursue any further appeal of the case. Consequently, the long-delayed construction in the City of the three permanent casinos and their planned hotel facilities can now begin. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION – Major Projects and Developments."

Following a settlement with the State of Michigan, reached in 2002, the Sault Ste. Marie Tribe of Chippewa Indians sought Congressional approval of a \$350 million casino, resort and convention center in Romulus, Michigan, approximately 20 miles from downtown Detroit (the "Romulus Casino"). Legislation to secure federal approval of a casino license for the tribe has been introduced in Congress. The effect, if any, that competition from the Romulus Casino would have on the City's existing gaming facilities, and the resulting effect on the City's anticipated revenues from gaming facilities, is unknown.

In the November 2004 election, Michigan voters approved a constitutional amendment which requires approval of any form of gambling, other than Indian tribal gaming and gambling in up to three casinos in the City, by a majority of State voters as well as a majority of voters in the city or township where the gambling will take place.

#### State Revenue Sharing (Distributable Aid)

Distributable Aid consists of State-shared revenues that can be used by a local unit of government for any purpose it deems appropriate. As permitted by State law, the City has secured certain debt obligations with a pledge of Distributable Aid. As of May 1, 2005, the City had approximately \$283.7 million of such debt outstanding, the highest aggregate annual debt service on which amounts to approximately \$91.8 million. The City also has certain contingent obligations and may issue additional debt obligations in the future, which may be secured by Distributable Aid both on a parity or subordinate basis. See "FINANCIAL OPERATIONS – Other Funds of the City" and "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES." The receipts under the Distributable Aid program are based upon components as shown in the table below. Of the components, only the sales tax distribution is mandated by the State Constitution. The other components are authorized by legislative action and distribution is subject to annual State appropriation by the State legislature, and may be reduced or delayed by Executive Order during any fiscal year in which the Governor, with the approval of the legislature's appropriation committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based. Legislative changes have been made that reduced the

overall level of Distributable Aid statewide and the City's share. See "FINANCIAL OPERATIONS – Recent Budget Results of the General Fund."

**Table 11-Distributable State Aid Revenue**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions)				
Revenue sharing					
Sales tax-constitutional.....	\$ 69.6	\$ 61.2	\$ 61.8	\$ 62.9	\$62.2
Sales tax-statutory .....	<u>262.3</u>	<u>270.7</u>	<u>270.2</u>	<u>255.0</u>	<u>223.5</u>
Total state revenue sharing .....	<u>331.9</u>	<u>331.9</u>	<u>332.0</u>	<u>317.9</u>	<u>285.7</u>
Total Distributable State Aid.....	<u>\$332.7</u>	<u>\$333.3</u>	<u>\$333.8</u>	<u>\$319.1</u>	<u>\$285.7</u>

SOURCE: Derived by the Finance Department from audited financial statements.

Since the original 1971 legislation creating the State revenue sharing program, both the formula determining the amount of revenues allocated and the basis of distribution have been changed. These changes have resulted in recent fluctuations in the revenue components and amounts received under the formula as shown above.

Prior to the 1996-1997 fiscal year of the State, which ended on September 30, 1997, revenue sharing distributions were made to each city, township and village as follows: (a) distributions from sales tax revenues were made to each city, township and village on the basis of population as mandated by the State Constitution; (b) distributions from personal income taxes and the intangibles replacement and inventory growth components of the single business tax were made on the basis of population as adjusted by a relative tax effort factor (the "RTE Formula"); and (c) distributions from the inventory reimbursement component of the single business tax were annual payments equal to the product of the state equalized value of fiscal year 1975 inventories that were exempted from local taxation following adoption of the single business tax, multiplied by the municipality's property tax millage rate for the then preceding fiscal year.

In June 1996, the State legislature changed the distribution formula for State shared revenues, and the sources of revenue distributed, by enacting Act 342, Public Acts of Michigan, 1996 ("Act 342"), which amended the State Revenue Sharing Act of 1971 and repealed portions of the single business tax act and the income tax act. Consequently, sales tax revenues became the sole source of revenue sharing distributions beginning with the 1996-1997 fiscal year of the State, and revenues from personal income taxes and single business taxes are no longer being distributed. The allocation of sales tax revenues to be distributed as revenue sharing payments has been increased to compensate for elimination of the other revenues; however, while the total amount of gross revenues distributed to municipalities state-wide has risen, it reflects a reduction of over \$80 million from what the previous formula would have yielded.

The sales tax revenues come from a 6% State levy on retail sales (other than sales of certain exempt items, such as food and drugs). The State Constitution limits the sales tax rate to 6%, and dedicates one-third of these taxes to the State school aid fund. The State Constitution mandates that 15% of the balance be distributed to townships, cities, and villages (the "Constitutionally Mandated Share"). Beginning in the State's 1996-1997 fiscal year, in addition to the Constitutionally Mandated Share of sales tax collections, the legislature allocated 21.3% of additional revenues from collections of sales taxes levied at a rate of 4% to revenue sharing payments to be distributed to townships, cities, villages, and counties (the "Additional Share").

In statutory amendments related to revenue sharing in December 1998 (the "1998 Amendments"), the State Legislature adopted a new distribution formula for the Additional Share. With respect to the City, the legislation provided that a total fixed annual amount of \$333.9 million was to be paid to the City through June 30, 2007. This amount included both the City's Constitutionally Mandated Share and its allocation of the

Additional Share. For other cities, villages and townships, a formula taking into account size and type of government, relative taxable value and a partial "tax yield" equalization is used. The formula was intended to be in effect until June 30, 2007, at which time a new distribution formula would be required.

#### *Recent Developments*

Revenue sharing payments were distributed in accordance with the 1998 Amendments until December 2002. Consistent with the downturn in the national economy, however, the State began experiencing financial difficulties as a result of reductions in sales tax revenues for State fiscal year 2003. In response, outgoing Governor John Engler issued Executive Order No. 2002-22 implementing certain spending reductions in order to bring the State's fiscal year 2003 general fund budget into balance. The Executive Order included a \$53.1 million reduction in revenue sharing payments to local governments, including a 3.5% reduction in previously appropriated revenue sharing payments, as well as an additional \$9.9 million reduction in certain grants to local governments in respect of statutory revenue sharing shortfalls. On December 31, 2002, Governor Engler signed into law Act 679, Public Acts of Michigan, 2002 ("Act 679"), a corresponding amendment to the Revenue Sharing Act to codify the reduction in statutory revenue sharing payments to local governments otherwise established by the 1998 Amendments. Act 679 resulted in the following:

- Adjusted the distribution to be received by the City in State fiscal year 2002-03 only, from a combined constitutional and statutory payment of \$333.9 million (the 1997-98 levels) to a combined payment of \$322.2 million. Combined distributions for each fiscal year thereafter until September 30, 2007 were frozen at \$333.9 million.
- For State fiscal year 2002-03 only, adjusted the distribution to be received by all other cities, villages, townships and counties to 96.5% of the amount the local units would have received if the 1998 formula were applied to calculate the 2002-03 distributions.
- Capped the total amount of revenue sharing payments available for distribution to cities, villages and townships at \$936.2 million, and the total amount available for distribution to all counties at \$204.1 million.
- Extended the sunset of the statute from June 30, 2007 until September 30, 2007, so as to make it consistent with the end of the State's fiscal year.
- Did not otherwise adjust formulas for distribution approved under the 1998 Amendments.

On February 19, 2003, in response to continuing declines in the State's revenue estimates, Governor Jennifer Granholm issued Executive Order No. 2003-03 which approved of a further \$145 million in spending reductions in order to again bring the State's fiscal year 2003 general fund budget into balance. No further reductions to payments to local governments were included within Executive Order No. 2003-03.

On August 11, 2003, the Revenue Sharing Act was further amended by enactment of Act 168, Public Acts of Michigan, 2003 ("Act 168"). Act 168 re-adjusted the 2002-03 distribution formula approved by Act 679. The reductions enacted in Act 679 contemplated uniform reductions for all local units of approximately 3.5%; based upon lower-than-estimated sales tax receipts, however, the actual payments reflected a 3.5% reduction for the City and a larger than 3.5% reduction for all other local units. Act 168 marginally reduced the combined constitutional and statutory payment for the City for State fiscal year 2002-03 from \$322.2 million to \$319.7 million, and increased payments to all other local units by 0.2%. For State fiscal year 2003-04, based on then-current estimates, Act 168 further provided for a 3.0% reduction in the combined constitutional and statutory payments for the City and all other local units from the statutory payment the City and each local unit received in State fiscal year 2002-03. Act 168 further provided for a reduction in payments by more than 3.0% should State sales tax receipts fall below forecasts.



State estimates for actual revenues for fiscal 2004 continued to fall below the revenue estimates upon which the appropriations for the fiscal year were based. As a result, on December 10, 2003, Governor Granholm issued Executive Order No. 2003-23 implementing additional spending reductions in order to bring the State's fiscal year 2004 general fund budget into balance. The Executive Order included an additional \$72 million reduction in payments to local governments, including a 3.0% reduction in revenue sharing payments previously appropriated by the Legislature in respect of statutory revenue sharing shortfalls. Governor Granholm indicated that the Executive Order was predicated on the State legislature's enactment of proposed amendments to Act 281, Public Acts of Michigan, 1967, as amended (the "Income Tax Act"), to delay until July 1, 2004, a previously authorized rollback of the State's income tax (from 4% to 3.9%) scheduled to take effect on January 1, 2004. Accordingly, on December 23, 2003 the Governor signed into law Act 239, Public Acts of Michigan, 2003 ("Act 239") to effectuate the delay of the authorized income tax rollback on January 1, 2004. Act 239, together with the Executive Order, bring the State's fiscal year 2004 general fund budget back into balance.

The City's revenue sharing payments for the fiscal year ended June 30, 2004 totaled \$285.7 million.

The State's ability to make revenue sharing payments to the City in the amounts and at the times anticipated could be affected by the State's financial condition and its ability to finance any temporary cash flow deficiencies. The distribution of sales tax revenues to the City may also be affected by changes in the City's population after 2007.\* It is also possible that future legislative changes could reduce revenue sharing distributed to the City.

State Equity Package

The State Equity Package was initiated in fiscal 1977 to reimburse the City and, subsequently, other municipalities for providing services determined to be of general benefit to residents of the State, including many cultural, educational and recreational services provided by and located in and around the City. The program was subject to annual appropriation by the State, and funding for the program was reduced after 1990. In 1996, this program was discontinued and replaced with a statewide art and cultural grants program. It is anticipated that only the Detroit Institute of Arts, the Detroit Historical Museum and the Detroit Zoological Institute (the "Detroit Zoo") will receive significant levels of future funding from such program. However, the Detroit Main Library grant is still being received from an alternate funding program provided by the State. The following table shows the amounts received from the State Equity Package and successor programs for the fiscal years ended June 30, 2000 through 2004.

**Table 12-State Equity Package Revenues**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions)				
Main Library <sup>(1)</sup> .....	\$7.1	\$7.8	\$8.3	\$7.7	\$6.6
Detroit Historical Museum .....	0.4	-	-	0.2	0.3
Police (special events) .....	-	-	-	0.9	0.2
Detroit Zoo.....	<u>1.1</u>	<u>-</u>	<u>-</u>	<u>1.0</u>	<u>1.6</u>
Total.....	<u>\$8.6</u>	<u>\$7.8</u>	<u>\$8.3</u>	<u>\$9.8</u>	<u>\$8.7</u>

SOURCE: Derived by the Finance Department from audited financial statements.

<sup>(1)</sup> Not accounted for in the General Fund.

\* SOURCE: Michigan State Senate Fiscal Agency: <http://senate.michigan.gov/sfa/>

### Sales and Charges for Services

Receipts for sales and charges for services include such items as maintenance and construction charges, electrical fees, recreation fees, property tax collection fees and personal service fees. Actual receipts decreased from \$176.9 million in fiscal year 2000 to \$176.0 million in fiscal year 2004.

### Other Revenue, Grants and Other Financing Sources

Other revenue and other financing sources generally consist of fines, inspection fees, interest on investments, real estate rentals, sales of property and transfers.

General Fund expenditures include the federal share of the cost of services for personnel employed in various General Fund agencies. The Community Development Block Grants and a small amount under the Job Training Partnership Act fund the federal share.

The grants listed under "Other Grants" (which are usually for health-related activities or community development projects) are generally received on a drawdown basis. Increases or decreases in expenditures would not have a direct effect on fund balances, since revenues would likewise be increased or decreased. The annual budget contains the full amount of an expected grant even though total expenditures may not be anticipated during the year.

### *Recent Budget Results of the General Fund*

The General Fund results for fiscal 2002, 2003 and 2004 and the General Fund Budget for fiscal 2005 are discussed below. The proposed fiscal 2006 Executive Budget and amendments to it adopted by the City Council on May 24, 2005, as well as the possibilities of a Mayoral veto of the amendments and of a City Council vote to override such veto, also are discussed below.

#### Fiscal 2002

The fiscal 2002 General Fund Budget of \$1.5 billion represented a 6.7% increase over 2001. At the time the budget was adopted, the City believed that revenues were set to attainable levels. Based on the City's economic forecasting model, income tax receipts were estimated to increase 2.4% over fiscal 2001 estimates. The continued slowdown in local economic activity challenged the City's efforts to achieve its income tax collection goal. Due to the severity of the economic slowdown, actual income tax collections of \$323 million were 16% lower than budgeted estimates of \$385 million. Income tax rates were statutorily reduced by 0.1% for residents and 0.05% for non-residents. Corporate tax rates were also reduced by 0.1%.

Property tax receipts were expected to increase 6.6% over fiscal 2001 collections, reflecting the higher taxable values in the City. Actual property tax receipts were \$170 million, representing a 2.3% decrease from the final budgeted 2002 property tax receipts of \$174 million, but an 11.2% increase over actual collections for 2001. State Revenue Sharing funds were frozen in fiscal 2002 at \$332 million. Gaming excise tax to be collected from licensed casinos was budgeted at \$95.8 million, but additional wagering taxes of \$13.7 million over this amount were collected.

The fiscal 2002 Budget provided funding to accommodate wage adjustments with the City's bargaining units. Additions were made to city-supported positions where additional revenues would support the position or additional resources were necessary to enhance service delivery. The Budget included an additional 43 positions in Health for the Lead Abatement Program and to address State accreditation; 22 positions in the Fire Department for 2 additional EMS units; and 20 positions in the Police Department for the operation of the 311 non-emergency phone service.

The fiscal 2002 Budget provided for technology funding, including \$4.2 million for a Fixed Assets Module of Detroit Resource Management System ("DRMS") and general replacement of computers. The fiscal 2002 Budget also provided for new Vehicle Management and Facilities Management programs.

The fiscal 2002 Budget again made contributions to certain City Enterprise Funds. The subsidy to the Transportation Fund and the Detroit Transportation Corporation of \$84.8 million in fiscal 2002 represented amounts necessary to provide service at existing levels. Of this amount, \$11.4 million in fiscal 2002 was allocated to support the Detroit Transportation Corporation, operator of the Detroit People Mover. This subsidy was increased from prior years due to discontinuation of funding from the City of Detroit Downtown Development Authority and increasing maintenance demands on the system. The Budget also provided a subsidy of \$2.1 million to the Detroit City Airport.

At the beginning of fiscal 2002, it became clear that the income tax receipt projections would not be achieved due to worsening economic conditions. To compensate for this shortfall citywide expenditures were reduced by 5%, a reduction in staff overtime was implemented, a delinquent property tax amnesty program was initiated for the month of April, and encumbrances were reviewed and adjusted where appropriate. As a result of these changes, the General Fund for fiscal 2002 ended with a small surplus of \$1.6 million.

### Fiscal 2003

The fiscal 2003 General Fund Budget of \$1.4 billion represented a 5.9% decrease over the fiscal 2002 budget. The Budget was based on conservative revenue estimates due to a downturn in the economy, continuation of the cap on State Revenue Sharing (the City's second largest revenue source) and controlled spending assumptions. Detroit's State Revenue Sharing payment, including the Library's share, set by statute at \$333.9 million, was cut with the passage of Public Act 679 of 2002, to \$322.2 million and was further reduced by passage of Act 168 to \$319.1 million.

Income tax was budgeted at \$323.5 million, a less than 1% decrease from fiscal year 2002 projections. This was due to an anticipated stabilization in the economy and the 1/10<sup>th</sup> of 1% decrease in the income tax rate. The actual income tax collected was \$310.9 million.

Property tax was budgeted at \$174.7 million, an increase of 11.02% over the fiscal 2002 estimates. This was based on a 4.4% increase on the ad valorem roll and assumed a 5.1% overall increase when industrial facilities and neighborhood enterprise zone rolls were included. The actual property tax receipts were \$166.3 million.

The wagering tax was budgeted at \$105.0 million, which was 9.6% higher than the fiscal 2002 projections. Actual wagering tax receipts for fiscal 2003 amounted to \$111.3 million, a 1.6% increase over fiscal 2002 results.

The fiscal 2003 Budget did not include provisions for a wage adjustment with the City's bargaining units. In general, vacant positions were eliminated from the Budget, reflecting 549 fewer budgeted positions than fiscal 2002. The Airport budget reflected a reduction of 17 positions due to the loss of an air carrier. The Police Department budget reflected a net reduction of 121 uniform positions, primarily due to loss in grant funding. The Library Department lost 61 positions due to reduction in State funding.

The fiscal 2003 Budget again included contributions to some enterprise funds. The Airport subsidy was \$2.4 million, a \$360,000 increase over fiscal 2002, also due to the loss of a major carrier. The subsidy to the Department of Transportation was \$4.6 million less, at \$69.4 million, than fiscal 2002, due primarily to an increase in fares of 25 cents. The Detroit People Mover subsidy also decreased by \$568,000, to \$10.8 million.

The City's Housing Fund accounted for the public housing function administered through the Detroit Housing Commission ("DHC"). In June 2003, the Michigan Supreme Court unanimously affirmed the opinion of the Michigan Court of Appeals in ruling that the 1996 amendments to the Michigan Housing Facilities Act severed by operation of law the City's employment relationship with personnel assigned to and employed by the DHC, to be effective July 1, 2003. This confirmed DHC's status as a separate and autonomous entity without need for legislative action by the Detroit City Council.

Two post-year end events contributed \$55 million of the \$69 million deficit: a write off of \$18 million of account receivable owed by the Detroit Housing Commission, then an enterprise fund, and an additional \$37 million contribution (representing a \$35 million judgment plus \$2 million in interest) to the Police and Fire Pension Funds as a result of a lawsuit. Should the judgment be overturned on appeal, the entire amount, plus accrued interest, will be returned to the City. See "LITIGATION" in the Offering Circular which precedes this Appendix. A deficit elimination plan was filed with the State of Michigan and actions were undertaken in fiscal 2004 to eliminate the deficit.

#### Fiscal 2004

The fiscal 2004 General Fund Budget of \$1.5 billion represented a 5.5% increase over the fiscal 2003 Budget. The fiscal 2004 Budget was based on assumptions of continuing slow growth in the local economy, cuts in State Revenue Sharing and controlled spending. Detroit's total revenue sharing payments for fiscal 2004 were expected to amount to \$290.3 million. This was a \$43.6 million or 13.1% reduction from the prescribed amount pursuant to the 1998 Amendments. Actual payments received for fiscal 2004 were \$287.4 million.

Income tax collections for fiscal 2004 were budgeted at \$300.4 million, representing a 3.4% decrease from the prior year, reflecting once again the economic challenges in the City's and State's economies, as well as the 1/10<sup>th</sup> of 1% reduction in the income tax rate. In December 2003, the City requested and received approval from the State of Michigan to suspend its income tax rate reduction for a one-year period concluding July 1, 2005. Actual payments received for fiscal 2004 were \$290.6 million.

Property tax was budgeted at \$188.2 million, a 7.7% increase over fiscal 2003. The City contracted with an outside collection firm to collect delinquent property taxes, income taxes and water/sewerage bills. Property tax collections for fiscal 2004 amounted to \$184.8 million, which included the payment of \$37.4 million received from Wayne County upon the transfer of fiscal 2003 delinquent real property taxes to Wayne County for collection.

The wagering tax was budgeted for a small increase of \$5 million or 4.8% over the fiscal 2003 budget. Actual wagering tax collections for fiscal 2004 were \$116.1 million, a \$4.8 million increase from actual collections in fiscal 2003.

While budget expenditures were reduced in a number of major categories, there were some significant adjustments related to personnel costs. The fiscal 2004 Budget included a proposed wage increase of 5% for uniformed employees, a 2% increase for civilian employees and special pay adjustments for certain employee categories. Employee benefits experienced a significant increase due to higher health insurance costs and pension contributions for both uniform and civilian employees. Offsetting these increases was the overall reduction of 138 General Fund budgeted positions.

The fiscal 2004 Budget again included contributions to some enterprise funds. The Airport subsidy was \$2.8 million, a \$258,000 increase over 2003, reflecting increased personnel costs. The subsidy to the Department of Transportation remained at \$68.2 million. The Detroit People Mover subsidy decreased by \$0.5 million to \$10.3 million.

There were some positive steps contained in the fiscal 2004 Budget. A Program Management Office was established to assist the City administration in managing large projects as well as restructuring city operations in order to improve efficiency and effectiveness of City services. The Grants Acquisition Office was established to help coordinate and improve the City's efforts in identifying, applying for, and securing grants.

For fiscal 2004, the City administration withdrew \$8.5 million from its Budget Stabilization Fund, reducing it to a zero balance, sold \$61 million in Fiscal Stabilization Bonds, and reported for fiscal 2004 a budget deficit of \$95 million. This fiscal 2004 deficit amount is not cumulative with the prior year's deficit, but represents a new deficit which, in total, is \$26 million larger than the deficit reported in fiscal 2003. This

deficit increase was a result of revenue shortfalls in income tax, utility user's tax and state revenue sharing collections, in addition to unexpected increases in pension and employee benefits, and unbudgeted expenses related to the 800-megahertz radio system. A budget deficit elimination plan was filed with the State of Michigan and actions were undertaken in fiscal 2005 to eliminate the deficit, as described below.

#### Fiscal 2005 Budget

The fiscal year 2005 General Fund Budget of \$1.6 billion reflected the continuing slow growth in the local economy, cuts in State revenue sharing and controlled spending assumptions. The City's total revenue sharing payments for fiscal 2005 were budgeted at \$287.7 million. This was a \$46.2 million or 13.8% reduction from the amounts prescribed pursuant to the 1998 Amendments. The fiscal 2005 Budget included a \$61.1 million financing to fund a payment to the Risk Management Fund and an \$80.1 million benefit from the potential issuance of the Certificates of Participation that are the subject of the Offering Circular which precedes this Appendix.

Income tax collections for fiscal 2005 were budgeted at \$311 million, a 3.5% increase over the prior fiscal year. This increase was due to a one-year suspension of the 1/10<sup>th</sup> of 1% rate reduction permitted under Act 500, Public Acts of Michigan, 1998, if the City met three out of four conditions set forth in such Act for the year. However, income tax collections continued to decline and are expected to yield \$275.5 million for fiscal 2005.

Property tax revenues were budgeted at \$215.7 million, an increase of 14.6% over fiscal 2004. This increase is due primarily to the transfer of delinquent real property taxes to Wayne County. See "FINANCIAL OPERATIONS – General Fund Revenue Categories: Property Taxes." Fiscal 2005 Taxable Value has increased by 6.3% on the ad valorem roll and decreased 5.9% on the industrial facilities and neighborhood enterprise zone tax rolls. The fiscal 2005 Budget included an additional \$3.5 million from a personal property tax audit.

The wagering tax was budgeted at \$117.6 million, a \$7.6 million increase over the prior fiscal year, but is expected to yield approximately \$139 million in fiscal 2005. Based on a comparative study by consultants hired by the City which recommended increases in various user fees charged by the City, the fiscal 2005 Budget includes an increase of \$4 million in user fees.

On the expenditure side, the fiscal 2005 Budget reflects a reduction of 997 positions, including 377 layoffs, elimination of 263 vacant positions, and 357 housing positions no longer reflected in the City's budget. The fiscal 2005 Budget included a pay raise of 2% for civilian employees and 5% for uniform employees. Pension and health care costs increased. Contractual services, operating supplies and capital equipment were reduced by a total of \$14.2 million (9.6%) from the prior fiscal year. The fiscal 2005 Budget includes contributions to certain Enterprise Funds. The Airport subsidy was \$2.5 million, a reduction of \$200,000 from fiscal 2004. The Detroit People Mover subsidy was reduced by \$2.5 million from fiscal 2004. The Buildings and Safety Engineering Department subsidy of \$1.9 million has been eliminated. The Transportation Department subsidy was \$71.2 million, an increase of \$3.4 million.

The fiscal 2005 Budget also included many new initiatives. The Department of Administrative Hearings was established to strengthen code enforcement efforts by assessing and collecting civil fines and costs for blight violations. This Budget reflects a reduction of 57% in take-home vehicles. A new policy was implemented that provided vehicles to employees on an economic and business basis rather than as a fringe benefit. Professional facility managers are conducting a review of citywide leases with a view towards consolidating and re-negotiating a number of the City's leases.

In response to the recognition of a projected deficit for fiscal 2005, additional mid-year layoffs of 686 employees were implemented in March 2005, as well as the elimination of 237 vacant positions. Additional cuts in salaries expenses were instituted beginning with a 10% reduction in salary for mayoral appointees and non-union employees. The 10% salary reduction for non-union employees, while approved, has not yet been

put into effect. Vendors were asked to take a 10% reduction in contractual costs. Other expenditure reductions were made, including overtime costs; the elimination of non-essential purchases and restrictions on travel. \$71 million from the sale of bonds will be applied to fund expenditures accrued in fiscal 2004 and 2005 on the 800-megahertz radio system. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES – Prospective Indebtedness." Assuming the accuracy of the City's revenue and expenditure estimates and the sale of these bonds, the City estimates that it will finish fiscal 2005 with a General Fund deficit of approximately \$67 million or approximately \$28 million lower than the \$95 million deficit for fiscal 2004.

#### Proposed Fiscal 2006 Budget

On April 12, 2005, the Mayor presented a proposed fiscal 2006 Executive Budget to the City Council. On May 24, 2005, the City Council amended the budget presented by the Mayor by adopting amendments to the Executive Budget (the "Council Amendments") by a unanimous vote of 8-0.

The Mayor may veto the Council Amendments, in whole or in part, in his discretion by June 2, 2005. If the Mayor vetoes any Council Amendments, the City Council may override the veto by a two-thirds vote of all its members by the third calendar day or second business day (whichever provides the greater number of business days) following the date of the Mayoral veto. If there is no Mayoral veto of any Council Amendments, or if the City Council overrides a Mayoral veto of any Council Amendments, such Council Amendments will become effective as part of the City's fiscal 2006 Budget. See "FINANCIAL PROCEDURES – Budget Process."

As of the date of the Offering Circular which precedes this Appendix, the Mayor has publicly declared his intention to exercise his line-item veto powers with respect to the Council Amendments, but it is not possible to know precisely what will be the City's fiscal 2006 Budget. The fiscal 2006 Budget is required to be adopted by June 6, 2005, and by law it must be a balanced budget.

Summaries of both the proposed fiscal 2006 Executive Budget and the Council Amendments are set forth below.

#### Proposed Fiscal 2006 Executive Budget

On April 12, 2005, the City administration presented a proposed fiscal 2006 Executive Budget to City Council that confronts a carryover undesignated General Fund deficit from fiscal 2005 of \$67 million. The fiscal 2006 Executive Budget projects a balanced budget that includes broad-based expenditure reductions, the introduction of new revenue sources and the reorganization of City government.

The fiscal 2006 Executive Budget of \$1.4 billion represents a 10.6% decrease from the fiscal 2005 Budget. The 2006 Executive Budget assumes continued slow growth in the local economy, lower estimated tax revenues and controlled spending assumptions. The City's total revenue sharing payments for fiscal 2006 are estimated to be \$285.1 million. This is a \$2.6 million, or 0.9%, reduction from the fiscal 2005 Budget, even though no additional cuts were proposed in the State of Michigan's Executive Budget for revenue sharing in fiscal year 2006. The fiscal 2006 Executive Budget includes new tax revenues of \$15 million from a proposed prepared food tax and a proposed property transfer tax. Both of these new taxes require State Legislature and local electorate approval. The administration will implement additional expenditure reductions if these revenues are not realized.

Income tax collections for fiscal 2006 are budgeted at \$272.6 million, a 12.3% decrease from the prior fiscal year. This decrease reflects the continued decline in the local economy and employment. The City was again granted by the State a one-year suspension of the 1/10<sup>th</sup> of 1% income tax rate reduction permitted under Act 500, Public Acts of Michigan, 1998. Also included in the fiscal 2006 income tax revenue estimate is a reduction of the personal exemption from \$750 to \$600.

Property tax is budgeted at \$188.2 million, a decrease of 12.8% from fiscal 2005 due to a reduction in estimated delinquent tax collections. Taxable valuation estimates have increased by 5.0% on the ad valorem

roll, a decrease of 11.5% on the industrial facilities roll and an increase of 19.3% on the neighborhood enterprise zone tax roll. The fiscal 2006 Executive Budget includes delinquent tax collections from Wayne County and from professional collectors.

The wagering tax is budgeted at \$153 million, a \$35 million increase over the prior year's budgeted amount due to a State increase in the wagering tax of 2% as of September 1, 2004, and the receipt of an additional 1%, commencing January 1, 2006, pursuant to agreements with the casinos in the City.

The fiscal 2006 Executive Budget includes plans for sweeping reductions of expenditures to address escalating costs. A total of 1,978 budgeted positions, including 686 mid-fiscal 2005 layoffs, were eliminated from fiscal 2005 to fiscal 2006. A 10% reduction in salary costs is proposed for fiscal 2006 for non-uniformed employees, and no wage increases are included in the fiscal 2006 Executive Budget for either civilian or uniformed employees. The 10% salary reduction is to be achieved for the City's unionized civilian employees by requiring days off without pay. A study of health care benefits was performed by the Mercer Group, which identified cost savings in the areas of hospitalization, dental and vision benefits. The renegotiation of employee health care benefits is expected to generate significant cost savings of \$47 million. These proposed salary and health care reductions must be approved by the City's unions. The City administration has determined that if the proposals are not approved, it will further reduce the City's work force to realize the necessary savings. The issuance in fiscal 2005 of the Certificates of Participation that are the subject of the Offering Circular which precedes this Appendix provides additional savings to address rising pension requirements.

The fiscal 2006 Executive Budget continues reductions in take-home vehicles; a total of 62 general assigned vehicles have been eliminated, as well as 100 police general assigned vehicles. All eliminated vehicles are scheduled to be sold at auction. In addition, no appropriations were recommended in the General Fund for vehicle fleet replacement.

The City administration has completed its study of the re-engineering of several large departments begun in the previous fiscal year and with this fiscal 2006 Executive Budget implements the consolidation and reorganization of these activities. The Department of Public Works, Department of Environmental Affairs and the Public Lighting Department are consolidated as the new Municipal and Environmental Services Department. This action is expected to increase efficiencies in future years as administrative and support functions are streamlined. All agency security staff in the fiscal 2006 Executive Budget are consolidated under the Office of Homeland Security to provide a more strategic and standardized approach to securing municipal facilities and city borders. The Recreation, Senior Citizens, Culture Arts and Tourism-Eastern Market and arts grants activity, as well as the Human Services Department-Youth Advocacy grant program, are all to be merged into the Community Services Department. This action is expected to improve the focus of the department on core programs and community outreach. A new General Services Department is created with the fiscal 2006 Executive Budget that centralizes facilities and ground management functions from various City agencies. The park maintenance activity is transferred from the Recreation Department and the fleet management and the 311-call center are to be transferred from the Department of Public Works in order to achieve efficiencies and allow agencies to focus on their core business. Also included in the fiscal 2006 Executive Budget is business process redesign involving a new centralized mailroom to achieve savings in postage costs across the City, centralization of document production and the elimination of bulk refuse collection during slow winter months based on a best practices study.

Anticipated in the fiscal 2006 Executive Budget is the reduction of subsidies (a savings of approximately \$5.5 million) to agencies that will be spun off to others' control. This assumes increased support from nonprofit support societies and will help eliminate the need for General Fund subsidies to the Detroit Historical Museum and the Detroit Zoological Institute. The Health and Wellness Promotion Department anticipates for fiscal 2006 the creation of an intergovernmental agreement with Wayne County to enforce food sanitation standards, including licensing and issuance of violations. A memorandum of agreement with the Michigan Humane Society is being sought in this fiscal 2006 Executive Budget for the collection of stray animals.

The fiscal 2006 Executive Budget includes contributions to some Enterprise Funds. The Transportation Department subsidy is \$62.7 million, a decrease of \$8.5 million from the fiscal 2005 budgeted amount, which assumes the creation of a regional authority to absorb the cost for operating the Department of Transportation. This is also assumed for the operations of the Civic Center-Cobo Hall convention facility, a \$6 million reduction in appropriations. There is no Detroit City Airport subsidy for fiscal 2006, a decrease of \$2.5 million. The fiscal 2006 Executive Budget assumes the management of airport operations under a leasing agent.

City Council Amendments to Proposed Fiscal 2006 Executive Budget

By its action adopting the Council Amendments on May 24, 2005, the City Council has accepted the proposed fiscal 2006 Executive Budget except as thus specifically amended. The Council Amendments result in an \$18.5 million net reduction from the overall Executive Budget.

The Council Amendments revise the Executive Budget's projected \$67 million carryover undesignated General Fund deficit from fiscal 2005 and increase it by \$34.4 million to \$101.4 million. The fiscal 2005 deficit is required to be covered by an appropriation in the fiscal 2006 Budget.

The following descriptions of particular changes effected by the Council Amendments are always in comparison to (*i.e.*, always describe changes from) the fiscal 2006 Executive Budget presented by the Mayor to the City Council on April 12, 2005.

The Council Amendments delete new tax revenues totaling \$15 million from the proposed prepared food tax and proposed property transfer tax included in the fiscal 2006 Executive Budget. For the Utility Users Tax, the Council Amendments change the projected revenues, reducing the collections by \$6.3 million due to the City Council's budgeted reductions of police personnel. See "Utility Users Tax" under "FINANCIAL OPERATIONS – General Fund Revenue Categories." The Council Amendments delete \$1.6 million of projected revenues for the Detroit Historical Museum (referred to further below). The Council Amendments include no other changes to the revenues included in the fiscal 2006 Executive Budget.

There are additional reductions in expenditures in the Council Amendments beyond those included in the Executive Budget, affecting primarily the Police Department and Fire Department. The Council Amendments include a \$22.9 million (10%) reduction in wage costs for uniformed police and fire personnel, which is not included in the Executive Budget. These wage reductions must be approved by the police and fire unions and are further subject to arbitration under the State compulsory arbitration act. In addition to the foregoing, the Council Amendments reduce the funding for the Police and Fire Departments, by \$53.7 million in the Police Department budget and \$15.1 million in the Fire Department budget, which does not require approval by the police or fire unions.

The Council Amendments increase the subsidies for agencies which the Executive Budget plans will be transferred to the control of others. The subsidy for the Detroit Historical Museum is restored by \$1.6 million and the food sanitation inspection function is maintained by the City at a cost of \$0.5 million. The Council Amendments restore \$20.8 million of the General Fund subsidy to the Department of Transportation, based on the assumption that a regional transportation authority will not be created during fiscal 2006. Further, subsidies are restored for the Civic Center-Cobo Hall convention facility at \$4.5 million and for the Detroit City Airport at \$2.5 million, based on the assumption that these operations will remain with the City for the full 2006 fiscal year.

In addition, the Council Amendments remove the Mayor's proposed reorganization of several large City departments pending future receipt and approval by the City Council of an Executive Organization Plan.

Additional City Council actions include increasing by \$12.5 million the deposit to the City's self-insurance fund and restoring \$4.2 million in appropriations for the 36<sup>th</sup> District Court. Five of the ten Neighborhood City Halls under the Mayor's Office and other expenses of the Mayor's Office are eliminated



for a reduction of \$2.4 million. The planning and development agencies are reduced by an additional \$2.1 million.

The following table compares budgeted and actual revenues and expenditures for certain major General Fund categories for the fiscal years ended June 30, 2001 through 2004. Also included are the budget amounts for fiscal years 2005 and 2006 (based on the proposed fiscal 2006 Executive Budget before the Council Amendments).

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Table 13-Comparison of Major Budget Classifications-General Fund

Category	Fiscal Year Ended or Ending On June 30										
	2002		2003		2004		2005		2006		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget (1)	Actual	Budget (3)	Actual	
Revenues											
Property tax .....	\$ 174.0	\$ 169.7	\$ 174.7	\$ 166.3	\$ 188.2	\$ 184.8	\$ 215.7	\$ 188.2	\$ 188.2	\$ 188.2	
Municipal income tax .....	384.8	323.5	323.5	310.9	300.4	290.6	311.0	272.6	272.6	272.6	
State revenue sharing .....	332.0	333.8	332.0	319.1	310.8	286.5	286.1	283.5	283.5	283.5	
Utility Users Tax .....	54.6	52.1	54.7	55.3	54.6	50.5	55.0	56.0	56.0	56.0	
Wagering tax .....	95.8	109.4	105.0	111.3	110.0	116.1	117.6	153.0	153.0	153.0	
State equity package .....	2.5	3.6	2.5	2.1	2	2	3.5	6	6	6	
Total	<u>\$1,043.7</u>	<u>\$992.1</u>	<u>\$992.4</u>	<u>\$965.0</u>	<u>\$964.2</u>	<u>\$928.7</u>	<u>\$988.9</u>	<u>\$953.9</u>	<u>\$953.9</u>	<u>\$953.9</u>	
Total General Fund Revenues	\$1,508.6	\$1,470.5	\$1,419.4	\$1,379.9	\$1,497.8	\$1,375.1	\$1,587.5	\$1,419.2	\$1,419.2	\$1,419.2	
% of Total General Fund	69.2%	67.5%	69.9%	69.9%	64.4%	67.5%	62.3%	67.2%	67.2%	67.2%	
Expenditures											
Police .....	\$412.2	\$362.5	\$349.5	\$362.4	\$ 418.0	\$462.6	\$470.9	\$405.4	\$405.4	\$405.4	
Department of Public Works .....	266.4	226.9	203.3	188.0	171.6	168.1	174.6	114.5	114.5	114.5	
Fire .....	158.6	151.2	147.2	161.2	182.7	182.2	205.4	181.5	181.5	181.5	
Public Lighting .....	65.4	64.4	66.1	61.9	64.7	61.5	61.5	66.6	66.6	66.6	
Recreation .....	66.0	53.9	73.1	59.3	51.6	53.5	46.7	22.5	22.5	22.5	
Total	<u>\$ 968.6</u>	<u>\$858.9</u>	<u>\$839.2</u>	<u>\$832.8</u>	<u>\$888.6</u>	<u>\$927.9</u>	<u>\$959.1</u>	<u>\$790.4</u>	<u>\$790.4</u>	<u>\$790.4</u>	
Total General Fund Revenues	\$1,508.6	\$1,441.5	\$1,419.4	\$1,463.6	\$1,497.8	\$1,577.6	\$1,587.5	\$1,419.2	\$1,419.2	\$1,419.2	
% of Total General Fund	64.2%	59.6%	59.1%	56.9%	59.3%	58.8%	60.4%	55.7%	55.7%	55.7%	

SOURCE: Budget Department and Finance Department.

(1) City's Budget as adopted. The City's Budget is revised from time to time to reflect carry-forward amounts, as well as amendments during the course of the year. Property Taxes budget was amended in fiscal year 2005 to reflect the revenues from Wayne County as current instead of delinquent property tax revenues.

(2) City's Executive Budget as submitted to City Council. The City's Budget is to be adopted on or before June 6, 2005. Departments have been reorganized and/or consolidated, and so expenditure categories may no longer be comparable.

## *Other Funds of the City*

### General Debt Service Funds

Debt service on limited tax general obligation bonds is funded from property taxes levied within constitutional, statutory and Charter limitations or other unrestricted moneys of the City. Debt service on unlimited tax general obligation bonds is funded from ad valorem property taxes levied without limitation as to rate or amount specifically for that purpose. The City, by State law, must provide a separate fund for debt retirement moneys. All general City property taxes are collected by the Treasurer and deposited in the general and debt service accounts according to the proper distribution percentage.

### Enterprise Funds

The City currently has seven enterprise funds of which three are or are intended to be self-supporting, and four generally need some level of General Fund support. The revenues of the enterprise funds are not available to pay principal of and interest on bonds other than those issued by or on behalf of a particular enterprise operation. Individual financial statements for the enterprise funds described below have not been included in this Official Statement. The Comprehensive Annual Financial Reports of the City (which contain complete financial statements for the enterprise funds) are available on the City's web site.

The self-supporting funds include Water Supply and Sewage Disposal. The Sewage Disposal and Water Supply Systems, which serve a significant portion of Southeastern Michigan, have an aggregate of approximately \$4.17 billion in outstanding revenue bonds (net revenue pledge). The General Fund bears no liability for funding any expenses not covered by self-generated revenues for these systems and has never made a subsidy payment to the Water or Sewage Disposal Systems.

The City's Parking System is intended to be, but since fiscal 2003 has not been, self-sufficient. The City is legally responsible for payment of operation and maintenance expenses of the system, and the General Fund is reimbursed for payment of such expenses from funds generated from the system, if available. System revenues were inadequate to make such reimbursement in full in fiscal years 2003 and 2004. The City is not in compliance with its continuing bond covenant to maintain parking system rates at a level sufficient to pay or reimburse the City for payment of Parking System operating, maintenance, and repair expenses, but the City is complying with the related remedial bond covenant.

Other funds receiving General Fund support are Transportation, Airport, Detroit Transportation Corporation and GDRRA. The Transportation Fund accounts for the operation of the Transportation Department that operates the bus-oriented mass transit system, and receives a substantial portion of its operating revenues from regional allocation of federal and State moneys and from self-generated revenues. However, as a result of a continuing gap between operating revenues and rising expenditures, the fund has also received General Fund subsidies. Prior to 1986, the General Fund advanced moneys to the Transportation Fund to ease cash flow problems created by the lag in receipt of moneys from the State and federal governments. In recent years, because of the significant amount of General Fund subsidy, no "cash flow" advances were required. The following table indicates the amount of General Fund subsidy since fiscal 2000.

**Table 14-Transportation Fund Subsidies**

<b><u>Fiscal Year</u></b> <b><u>ended June 30,</u></b>	<b><u>Subsidy</u></b> <b>(in millions)</b>
2000	\$53.4
2001	\$74.2
2002	\$79.4
2003	\$75.5
2004	\$74.3

SOURCE: Finance Department.

The City's Airport Fund accounts for the operations of Detroit City Airport. The Airport is capable of accommodating commercial jet carrier service although no commercial airline currently provides passenger service. The Airport is currently not self-sufficient and has required General Fund subsidies ranging between \$1 million and \$2.5 million per year.

In addition, the General Fund provides significant financial support to two discretely presented component unit enterprise operations: the GDRRA and the Detroit Transportation Corporation. GDRRA receives monies from the General Fund through tipping fees paid for disposal of waste collected by the City. The City's obligation to pay such tipping fees is a full faith and credit, limited tax, general obligation of the City. It is also secured by Distributable Aid. See "FINANCIAL PROCEDURES - Other Funds of the City." The GDRRA is responsible for disposal of essentially all residential solid waste and a small fraction of commercial waste collected in the City.

Since 1991, the GDRRA waste incineration facility (the "Facility") has been operating in conformance with its operating permits. Previous to that time, however, the Facility experienced certain operational problems during the start up and testing phase. The Facility was originally scheduled to be complete and fully operational in 1989. Additional pollution control equipment was financed from proceeds of revenue bonds issued by The Economic Development Corporation of the City of Detroit ("EDC"), and the outstanding balance was refinanced in the first quarter of fiscal year 2002. The retrofit was completed in 1996 and the Facility is operating well within all permit restrictions.

GDRRA has approximately \$183.0 million of bonds outstanding as of May 1, 2005, which were issued to refund bonds originally issued to finance construction of the Facility. GDRRA is responsible for making payments to the EDC for debt service on \$63.9 million of bonds outstanding as of May 1, 2005, which were issued to refund bonds originally issued to finance additional pollution control equipment. Both debt obligations are payable primarily from energy revenues to be paid by DTE Energy for the purchase of electricity and moneys to be paid by the City as tipping fees for waste disposal.

The Facility essentially covers operating expenses through the sale of steam and electricity and from revenue sources other than the City. The City's tipping fee payments have been, and are expected to remain, approximately equal to the debt service requirements on the outstanding GDRRA bonds and the GDRRA related EDC bonds. The operations and performance of the Facility are guaranteed in certain respects by the lessee of the Facility; however, the City assumes the risk of environmental law changes and of insufficient quantity of, and in certain circumstances the composition of, waste. Approximately half of the expenses of GDRRA are currently being supported from revenue sources other than the City. The gross future tipping fees to be paid by the City are expected to be stable and, if GDRRA's revenues remain stable, approximately equal to debt service on the GDRRA bonds.

While the City has no reason to believe that the Facility will not operate as designed in the future, additional restrictions could be imposed by regulatory agencies and those restrictions could adversely impact financial operations of the Facility. Under certain extraordinary circumstances (such as the Facility being permanently closed or destroyed beyond repair), GDRRA (and therefore the City) could be subject to special

annual payment obligations. While such an event is thought to be very remote, the amount of such annual payments that are secured by Distributable Aid could be as high as approximately \$10.21 million at an assumed interest rate of 18%. The Facility is currently operating as expected.

In 1986, the City, through the Detroit Transportation Corporation (a non-profit corporation formed by the City), took over responsibility for the Downtown People Mover. Construction of the project was funded primarily through a combination of federal and State transportation moneys. At this time, the project is not self-supporting and approximately \$6.2 million was budgeted for fiscal year 2006 to support its operations.

Other Funds

The following table lists the other funds of the City and their revenues and expenditures for fiscal year 2004. For audited basic financial information as of and for the fiscal year ended June 30, 2004, see APPENDIX C.

**Table 15-Revenues and Expenditures of Other Funds**

**Fiscal Year Ended June 30, 2004**

<u>Funds</u>	<u>Revenues/ Expenditures</u> (\$ in millions)	<u>Purpose</u>	<u>Major Funding Sources</u> (in millions)
<b>Special Revenue Funds</b>			
Community Development Block Grant	60.5 / 51.1	Economic Development	Federal Government - 59.7
Construction Code Fund	20.3 / 31.1	Building Permit and Inspections	User Fees - 15.7
Detroit Building Authority	1.2 / 1.2	Special Maintenance	Other Income - 1.2
Drug Law Enforcement	5.0 / 2.7	Narcotics Law Enforcement	Fines and Forfeitures - 3.8
Employment & Training	95.6 / 95.6	Work Force Development	Federal Government - 90.1
Empowerment Zone	15.0 / 15.0	Economic Development	Federal Government - 20.3
Targeted Business Development	- / -	Casino Agreements	Casinos - 30.0
Major and Local Streets	77.0 / 80.0	Infrastructure Improvements	Gas and Weight Tax - 77.0
Human Services	77.0 / 77.0	Social Welfare Programs	Federal Government - 3.2
Supportive housing and homeless initiatives	7.1 / 7.1	Help of the Homeless	Federal Government - 4.9
Capital projects including Urban Renewal)	45.6 / 115.9	Capital Projects	GO Bonds - 45.0
<b>Fiduciary Funds</b>			
Pension Funds	952.2 / 510.3	Employee Retirement and Benefits	City Contributions - 418.0 Plan Member Contributions - 57.7

SOURCE: Derived by Finance Department from audited fiscal year 2004 financial statements.

**ASSESSED VALUATION AND PROPERTY TAXES**

*Property Valuation and Tax Rate*

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature, by statute, has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1995, taxable property has two valuations--State Equalized Valuation ("SEV") and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b) the property's current SEV. Therefore, the Taxable Value of property may be different from the same property's SEV.

This constitutional amendment and the implementing legislation based the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the City Assessor. Any property owner may appeal the assessment to the City Assessor, the Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the City Assessor is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. The City Assessor establishes assessments initially. City assessments are then equalized to the 50% levels as determined by the County's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying *ad valorem* property taxes, because of its indirect measure of total true cash value contained in the City, its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits. Property that is exempt from property taxes, *e.g.*, churches, government property and public schools, is not included in the SEV and Taxable Value. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax-abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Official Statement except as noted. The assessments of, and the tax levies on abated properties are not reflected in Table 18, "Tax Rates and Levies," below.

#### ***Industrial Facilities Tax***

Act 198 provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plant and equipment that received an abatement certificate prior to January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993. For new facility tax abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as ad valorem property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility tax abatements granted after 1993, the State Treasurer may permit

abatement of all, none or one-half of the mills levied under the State Education Tax Act. Ad valorem property taxes on land are not reduced in any way since land is specifically excluded under Act 198.

### ***Payment and Lien***

Property taxes are due on July 1 of the fiscal year and are payable in full without penalty either on or before August 31 or, at the taxpayer's option, one-half may be paid on or before August 15, with the other half paid on or before January 15. Pursuant to Act 246, Public Acts of Michigan, 2003, the City returns uncollected delinquent property taxes levied after December 31, 2002 to the County for collection on each March 1. The City receives full funding for such taxes from the County's delinquent tax revolving fund. If such delinquent real property taxes remain uncollected after three years from the date on which such taxes become delinquent, the County may charge the respective amount of such taxes back to the City. Delinquent real property taxes for tax year 2003 will be collected in accordance with Act 123, Public Acts of Michigan, 1999, which may result in foreclosure if not paid by March 31, 2006. Tangible personal property may also be seized and sold to satisfy a personal property tax lien.

As shown in Table 19, "Tax Levies and Collections" below, the rate of current collections to the adjusted levy has increased from 89.39% in fiscal year 2000 to 95.81% in fiscal year 2004. The City has taken steps designed to improve collections, including a more aggressive foreclosure policy and the implementation of a program that offers negotiated payment plans to delinquent taxpayers. Additionally, the City may attach personal property of real property owners to satisfy real property delinquencies of such owners.

### ***Personal Property Tax Assessments and Appeals***

Since the 1960s, Michigan personal property tax assessments have been based on the use of one or more of several different multiplier tables, formulated by the State Tax Commission, against taxpayer-reported original cost, depending upon the assessor's view of the average life of the personal property. The State Tax Commission has approved revisions to the State's personal property tax tables which became effective for the year 2000 and which may reduce overall personal property tax revenues in some jurisdictions. The State Tax Tribunal has informally indicated that it may allow the new multipliers to be applied retroactively in pending personal property tax appeals. In anticipation of the new multiplier, many personal property taxpayers filed appeals of their existing tax assessments. In an unpublished, non-precedential opinion, the Michigan Court of Appeals, in *Valassis Communications v. City of Livonia*, affirmed a decision of the State Tax Tribunal that the personal property multipliers, which became effective in 2000, could be retroactively applied and used to determine the true cash value of the subject property for the 1999 tax year. In its unpublished opinion, the court held that the controlling factor is whether the method used most accurately reflects the property's true cash value. The court in *Valassis* determined that based upon the facts of the case, the old multipliers (in effect for the 1999 tax year) did not accurately reflect the property's true cash value and that the 2000 multipliers more accurately reflected the property's true cash value. In January 2004, the Michigan Court of Appeals, in *County of Wayne v. Michigan State Tax Commission*, affirmed the use of at least one of the revised multiplier tables by the State Tax Tribunal in determining personal property tax appeals. The Court of Appeals upheld a recent Tax Tribunal ruling authorizing the use of the revised multiplier developed by the State Tax Commission to determine the true cash value of public-utility electric transmission and distribution property on the grounds that the multiplier tables, as finalized, did not violate the State constitutional requirements for personal property tax valuation. The financial impact of the revised public-utility multiplier, changes in other multipliers and any appeals, if successful, on the City's general operating revenues is unknown at this time. The City intends to make certain adjustments as necessary to maintain a balanced budget.

### ***Valuations***

The following table shows State Equalized Valuations and Taxable Valuations for the most recent five fiscal years. Because the State has applied an equalization factor of 1.0x for each of these years, SEV is equal to the valuations as determined by City assessing officials.

**Table 16—State Equalized Valuations and Taxable Valuations**

Fiscal Year	State Equalized Valuation			Annual Change %	Taxable Valuation(1)	
	Real Property	Personal Property	Total		Total Valuation	% Annual Change
2001	\$ 8,106,178,450	\$1,718,118,920	\$ 9,824,297,370	13.9%	\$7,204,381,125	5.1%
2002	\$ 9,319,364,300	\$1,656,437,990	\$10,975,802,290	11.7%	\$7,639,805,283	6.0%
2003	\$10,298,344,200	\$1,749,983,210	\$12,048,327,410	9.8%	\$7,976,048,523	4.4%
2004	\$10,668,533,845	\$1,373,222,411	\$12,041,756,256	-0.1%	\$7,844,209,593	-1.7%
2005	\$11,177,226,045	\$1,536,422,432	\$12,713,648,477	5.6%	\$8,335,777,304	6.3%

SOURCE: Finance Department, Assessments Division.

(1) Limited by State law. See "ASSESSED VALUATION AND PROPERTY TAXES - Property Valuation and Tax Rate."

*Valuation by Type of Property*

**Table 17—Breakdown of State Equalized Valuation**

	Fiscal Year Ended June 30				
	2001	2002	2003	2004	2005
<b>By Use (Real Property only)</b>					
Residential .....	65.7%	65.6%	65.8%	65.6%	64.5%
Commercial.....	23.5%	24.3%	24.1%	21.9%	22.0%
Industrial.....	10.8%	10.1%	10.1%	12.5%	13.5%
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%
<b>By Class (Total State Equalized Valuation)</b>					
Real property .....	82.5%	85.0%	85.5%	88.5%	87.9%
Personal property .....	17.5%	15.0%	14.5%	11.5%	12.1%
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: Finance Department, Assessments Division. Totals may not add up due to rounding.

*Valuation and Tax Levies*

The following table shows the tax rates and levies in the City for City, School and County purposes for the last five fiscal years.



Table 18—Tax Rates and Levies (1)

TAXING ENTITY:	Fiscal Year 2001		Fiscal Year 2002		Fiscal Year 2003		Fiscal Year 2004		Fiscal Year 2005	
	Millage	Levy	Millage	Levy	Millage	Levy	Millage	Levy	Millage	Levy
<b>CITY OF DETROIT</b>										
General Fund	19.962	\$143,813,856	19.962	\$152,505,793	19.962	\$159,217,881	19.962	156586112	19.962	\$166,399,036
Debt Service	8.722	62,836,612	8.9437	68,328,127	7.9217	63,183,864	7.9245	62,161,439	7.4796	62,348,373
Garbage Levy	2.994	21,572,078	2.994	22,875,869	2.9943	23,882,682	2.9943	23,487,917	2.9943	24,959,855
Library	<u>3.633</u>	<u>26,174,237</u>	<u>3.633</u>	<u>27,756,177</u>	<u>3.6331</u>	<u>28,977,782</u>	<u>3.6331</u>	<u>28,498,798</u>	<u>3.6331</u>	<u>30,84,758</u>
Total City	35.311	\$254,396,784	35.533	\$271,465,965	34.5111	\$275,262,208	34.5139	\$270,734,265	34.069	\$283,992,022
<b>SCHOOLS</b>										
Debt Service	7.000	50,430,668	7.740	59,132,093	12.990	\$103,608,870	13.000	\$101,974,725	13.000	\$108,365,267
Judgment	-	-	-	-	0.200	1,595,210	0.800	6,275,368	-	-
Non-Homestead Tax	<u>18.000</u>	<u>82,357,628</u>	<u>18.000</u>	<u>82,357,628</u>	<u>18.000</u>	<u>143,568,873</u>	<u>18.000</u>	<u>141,195,773</u>	<u>18.000</u>	<u>150,044,216</u>
Total Schools	25.000	\$132,788,296	25.740	\$141,489,721	31.19	\$248,772,953	31.800	\$249,445,865	31.000	\$258,409,484
<b>STATE EDUCATION TAX</b>	6.000	43,226,287	6.000	45,838,832	6.000	47,856,291	6.000	47,065,258	6.000	50,014,739
<b>WAYNE COUNTY</b>										
General Fund	6.665	48,017,921	6.656	50,847,488	6.6380	52,945,010	6.6380	52,069,863	6.6380	55,332,973
Regional Educational Service	1.979	14,256,750	1.975	15,090,907	3.4643	27,631,425	3.4643	27,174,695	3.4643	28,877,677
Operational Agency	1.000	7,204,381	2.500	19,095,693	2.4862	19,830,052	2.4862	19,502,274	2.4844	20,709,436
Community College	0.248	1,784,525	0.247	1,889,324	0.2459	1,961,310	0.2459	1,928,891	0.2459	2,049,771
Wayne County Parks	0.220	1,586,405	0.219	1,669,843	0.2170	1,730,803	0.2161	1,695,134	0.2154	1,795,529
Huron-Clinton Metro Authority	<u>0.945</u>	<u>6,805,258</u>	<u>0.943</u>	<u>7,205,864</u>	<u>0.9381</u>	<u>7,482,331</u>	<u>0.9381</u>	<u>7,358,653</u>	<u>0.9381</u>	<u>7,819,804</u>
Public Safety	11.057	\$ 79,655,240	12.540	\$ 95,799,120	13.9895	\$111,580,931	13.9886	\$109,729,510	13.9861	\$116,585,190
Total Wayne County	<u>77.368</u>	<u>\$510,066,607</u>	<u>79.813</u>	<u>\$554,593,638</u>	<u>85.691</u>	<u>\$683,472,384</u>	<u>86.303</u>	<u>\$676,974,898</u>	<u>71.069</u>	<u>\$709,001,434</u>
<b>Total Tax Rate and Levy</b>	<u>77.368</u>	<u>\$510,066,607</u>	<u>79.813</u>	<u>\$554,593,638</u>	<u>85.691</u>	<u>\$683,472,384</u>	<u>86.303</u>	<u>\$676,974,898</u>	<u>71.069</u>	<u>\$709,001,434</u>
<b>Total Homestead Rate</b>	<u>59.368</u>		<u>61.813</u>		<u>67.691</u>		<u>68.303</u>		<u>53.069</u>	
<b>Total Non-Homestead Rate</b>	<u>77.368</u>		<u>79.813</u>		<u>85.691</u>		<u>86.303</u>		<u>71.069</u>	

SOURCES: Finance Department, Assessments Division and Wayne County Treasurer's Office. Totals may not add up due to rounding.

***Tax Levies and Collections***

The following table shows tax collections of current taxes during each fiscal year and collections of current and delinquent taxes, penalties and interest for City operating, refuse collection and disposal, debt service and library purposes for each of the past five fiscal years.

**Table 19–Tax Levies and Collections–2000 to 2004**

<b>Year Ended June 30,</b>	<b>Adjusted Tax Levy(1)</b>	<b>Collections of Current Levy During Year</b>		<b>Total Collections Through Fiscal Year Ended June 30, 2004</b>	
		<b><u>Amount</u></b>	<b><u>Ratio to Adj. Levy</u></b>	<b><u>Amount</u></b>	<b><u>Ratio to Adj. Levy</u></b>
(all dollars in thousands)					
2000 .....	\$235,818	\$210,805	89.39%	\$228,411	96.86%
2001 .....	\$249,917	\$218,915	87.60%	\$234,769	93.94%
2002 .....	\$238,517	\$212,435	88.39%	\$235,868	98.89%
2003 .....	\$241,183	\$207,628	86.08%	\$224,291	95.99%
2004 .....	\$241,824	\$231,696	95.81%	\$249,373	103.12%

SOURCE: Finance Department, Treasury Division.

(1) The levy is adjusted from the original levy for cancellations and assessment adjustments.

In an effort to increase its realization of tax revenues, the City entered into a three-year contract with MBIA Muniservices, Inc. (“MBIA”) to collect its delinquent property taxes, and income taxes. The MBIA contract expires in FY 2006. MBIA also collects water and sewer receivables for the City. In addition, the collection of real property taxes was transferred to Wayne County in fiscal 2003 for collection of fiscal 2003 and future taxes. See “FINANCIAL OPERATIONS – General Fund Revenue Categories: Property Taxes.”

**Largest Taxpayers**

Listed below are the ten largest property taxpayers in the City and their Taxable Valuations.

**Table 20—Ten Largest Taxpayers  
Fiscal Year Ended June 30, 2004**

	<b>Taxable Valuation</b>		
	<u>Real Estate</u>	<u>Personal Property</u>	<u>Total</u>
DaimlerChrysler AG (1).....	\$ 128,767,660	\$ 610,099,600	\$ 738,867,260
DTE Energy.....	52,924,711	453,910,762	506,835,473
General Motors Corporation (1) .....	49,134,783	129,078,070	178,212,853
Riverfront Holdings Inc.....	123,150,856	-	123,150,856
American Axle & Manufacturing.....	16,901,259	75,052,600	91,953,859
One Detroit Center.....	53,207,221	108,030	53,315,251
Cingular Wireless .....	-	47,738,424	47,738,424
Kewadin Greektown Casino.....	28,426,871	11,949,480	40,376,351
Detroit Entertainment LLC.....	16,845,374	20,290,190	37,135,564
MGM Grand Detroit LLC .....	<u>23,640,083</u>	<u>12,551,330</u>	<u>36,191,413</u>
Total.....	<u>\$ 492,998,818</u>	<u>\$ 1,360,778,486</u>	<u>\$ 1,853,777,304</u>
 Total City Taxable Valuation	 <u>\$6,828,590,407</u>	 <u>\$ 1,507,199,386</u>	 <u>\$ 8,335,789,793</u>
Ten Largest Taxpayers as a % of Total City Taxable Valuation	7.22%	90.29%	22.24%

SOURCE: Finance Department, Assessments Division.

(1) Includes Rehabilitation Districts.

**Tax-Exempt Property**

A significant amount of real property (such as government facilities, schools, churches and hospitals) located within the City is exempt from taxation. In addition to tax-exempt real property, much personal property is also exempt, including household property, licensed motor vehicles, manufacturing tools held for use, mechanic's tools, pollution control facilities, property stored while in transit and business inventory, as well as the property of publicly owned and tax-exempt private institutions. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures and equipment.

**INDEBTEDNESS OF THE CITY AND RELATED ENTITIES**

**Capital Financing Policies**

Unlimited Tax Bonds

In accordance with the State Constitution, unlimited tax general obligation bonds must be voter approved before issuance. General Fund departments have traditionally relied on unlimited tax general obligation bonds of the City for capital programs. In accordance with State law, the City is obligated to levy and collect taxes without regard to any constitutional, statutory or Charter tax rate limitations for payment of such obligations. The City has followed a policy of scheduling bond referenda to coincide with regularly scheduled elections. Since 1987, the City has issued and expects to continue to issue unlimited tax general obligation bonds annually as described in

“INDEBTEDNESS OF THE CITY AND RELATED ENTITIES–Prospective Indebtedness” below. The following table shows the City’s authorized but unissued unlimited tax general obligation debt for capital programs as of May 1, 2005.

**Table 21–Authorized but Unissued Debt  
As of May 2, 2005**

<u>General Obligation (Unlimited Tax) Bonds</u>	<u>Date of Voter Approval</u>	<u>Remaining Authorization</u>
Sewer Construction (1)	08/02/1960	\$24,000,000
Public Safety	11/04/1997	625,000
Public Safety	11/07/2000	1,500,000
Public Safety	11/02/2004	120,000,000
Municipal Facilities	11/07/2000	5,120,000
Neighborhood/Economic Development	11/07/2000	4,105,000
Neighborhood/Economic Development	11/02/2004	19,000,000
Public Lighting	11/07/2000	7,935,000
Public Lighting	11/02/2004	22,000,000
Recreation, Zoo, and Cultural	11/07/2000	19,195,000
Recreation, Zoo, and Cultural	11/02/2004	22,000,000
Detroit Institute of Arts	11/07/2000	4,850,000
Detroit Historical Museum	11/06/2001	17,200,000
African American Museum	04/29/2003	500,000
Transportation	11/02/2004	<u>32,000,000</u>
		<u>\$300,030,000</u>

SOURCE: Finance Department.

(1) Not expected to be issued.

Limited Tax Bonds

The City may issue limited tax general obligation bonds or other obligations without the vote of the electors. However, taxes may not be levied in excess of constitutional, statutory or Charter limitations for the payment thereof. Such bonds are payable from general non-restricted moneys of the City. Certain of such limited tax obligations are secured with a first lien on specific revenues such as Distributable Aid. The City has utilized limited tax obligations to finance vehicle purchases, general capital improvements, deficit elimination and the City’s Risk Management Fund. See “INDEBTEDNESS OF THE CITY AND RELATED ENTITIES – Tax Supported and Revenue Debt” below.

Revenue and Special Obligation Bonds

There are generally no voter approval requirements for the issuance of revenue bonds. The City issues revenue bonds to finance and refinance various capital projects for water and sewage and, through the City of Detroit Building Authority, parking. Additional revenue bonds may be issued for these systems provided certain specific additional bonds tests are met under applicable bond documents.

Other Capital Financing Sources

The City also receives State and federal funds which finance certain construction and capital projects. These include State Gas and Motor Vehicle Registration for street improvements, federal Community Development Block Grant revenues largely for continuing urban renewal projects and funds through the State and federal government for transportation purposes. In addition, the City periodically receives capital grants as a result of certain Tax Supported and Revenue Debt.

The following table sets forth the outstanding direct tax-supported and revenue indebtedness of the City.

**Table 22—Statement of Direct Tax-Supported and Revenue Indebtedness  
May 2, 2005**

<b>Tax Supported Debt:</b>		
Unlimited Tax		
General Obligation Bonds (general purpose)	\$ 543,095,000	
Distributable State Aid General Obligation Bonds	<u>\$ 36,755,000</u>	\$ 579,850,000
Limited Tax		
Self-Insurance Bonds	\$ 161,180,000	
General Obligation Bonds (limited tax)	140,835,000	
Greater Detroit Resource Recovery Authority Bonds	183,000,000	
Detroit Building Authority Bonds (Madison Center)	9,967,338	
Economic Development Corporation (Resource Recovery)	<u>63,980,000</u>	<u>558,962,338</u>
Total tax supported debt		\$1,138,812,338
<b>Revenue and Other Debt:</b>		
Water Supply System Bonds	\$ 1,991,615,000	
Sewage Disposal System Bonds	2,748,774,306	
Detroit Building Authority Bonds (Parking & Arena System)	60,845,000	
Federal Section 108 Loans	20,006,000	
Convention Facility Revenue Bonds (Cobo Hall Expansion)	125,013,138	
DDA Tax Increment Bonds	166,473,198	
LDFA Tax Increment Bonds (Chrysler Project)	<u>86,210,000</u>	
Total revenue and other projects		<u>5,198,936,642</u>
<b>Gross Direct Debt</b>		<b>\$6,337,748,980</b>
Deductions		
Revenue and Other Debt	\$5,198,936,642	
Greater Detroit Resource Recovery Authority Bonds—Reserve Account Balance	<u>26,249,817</u>	
Total Deductions		<u>5,225,186,459</u>
<b>Net Direct Debt</b>		<b><u>\$1,112,562,521</u></b>

SOURCE: Finance Department.

***Overlapping Debt***

Property in the City is currently taxed for a proportionate share of outstanding general obligation debt of overlapping governmental entities including the School District of the City of Detroit, Wayne County, Regional Educational Service Agency, Wayne County Community College and the Detroit-Wayne Joint Building Authority. The table below shows the City's share of outstanding tax-supported overlapping debt as of May 2, 2005. See "GOVERNMENTAL STRUCTURE – Other Governmental Entities."

**Table 23—City’s Share of Overlapping Debt  
As of May 31, 2005**

<u>Issuer</u>	<u>Outstanding Debt</u>	<u>Detroit’s Share</u>	
		<u>Percent</u>	<u>Amount</u>
The School District of the City of Detroit .....	\$1,466,816,577	100.00%	\$1,466,816,577
Wayne County <sup>(1)</sup> .....	115,053,753	18.39%	21,158,385
Wayne County Community College .....	67,830,000	29.16%	19,779,228
Wayne Intermediate School District	-	18.14%	-
Net Overlapping Debt .....			<u>\$1,507,754,190</u>

SOURCE: Municipal Advisory Council of Michigan.

(1) This debt is a general obligation of the County but is payable from assessments against municipalities in the County, other than the City, as well as from the County General Fund.

*Summary of Debt Statement*

The following table shows the City’s net direct and overlapping debt as of May 2, 2005.

**Table 24—Direct and Overlapping Debt  
As of May 2, 2005**

Direct debt:		
Gross principal amount.....	\$6,337,748,980	
Less amount payable from other sources .....	5,198,936,642	
Net direct debt .....		\$1,138,812,338
Overlapping debt:		
Net overlapping debt .....		<u>1,507,754,190</u>
Net direct and overlapping debt <sup>(1)</sup> .....		<u>\$2,646,566,528</u>

SOURCE: Finance Department and Municipal Advisory Council of Michigan.

<sup>(1)</sup> This amount is larger than the corresponding amount presented in Table 22 because the amount shown here does not give credit for the debt service reserve account balance related to the Greater Detroit Resource Recovery Bonds.

*Legal Debt Margin*

Article VII, Section 21 of the State Constitution establishes the authority, subject to constitutional and statutory prohibitions, for municipalities to incur debt for public purposes. In accordance with the authority granted to the State Legislature, Act 279, Public Acts of Michigan, 1909, as amended (“Act 279” or the “Home Rule City Act”) was enacted. Pursuant to the power conferred by Act 279, the electorate of the City adopted the City Charter. The City Charter provides that the City may borrow money for any purpose within the scope of its power, may issue bonds or other evidence of indebtedness therefor, and may, when permitted by law, pledge the full faith, credit and resources of the City for the payment of those obligations. Act 279 limits the debt a city may have outstanding at any time by providing that the net indebtedness incurred for all public purposes may not exceed the greater of 10% of the assessed value of all the real and personal property in the City or 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities. The definition of assessed value for the debt limit computation under Act 279 includes certain assessed value equivalents not otherwise included in assessed valuation.

Pursuant to Act 279, significant exclusions to the debt limitations have been permitted for the following purposes: special assessment bonds and motor vehicle highway fund bonds, even though they are a general obligation of the City; revenue bonds payable from revenues only, whether or not secured by a mortgage; bonds, contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage, refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; bonds issued to acquire housing for which certain rent subsidies will be received by the City or an agency thereof; bonds issued to refund money advanced or paid for certain special assessments; and self-insurance bonds.

The maximum amount of general obligation debt (both unlimited tax and limited tax) the City may have outstanding at any time is limited by State law. The limit is set at 10% of the City's State Equalized Valuation (adjusted for certain assessed value equivalents) or 15% if that portion which exceeds 10% is used solely for construction or renovations of hospital facilities. However, certain general obligation debt (including the Greater Detroit Resource Recovery Authority and Self-Insurance Bonds debt) is excluded from this limit. The limit and the outstanding general obligation debt subject to the limit are shown in the following table:

**Table 25—Legal Debt Margin Subject to State Limitation  
As of May 2, 2005**

Assessed Value Fiscal Year 2004-05 (State equalized).....	\$12,713,648,477	
Add: Allowance under Act 228, Mich. 1975 .....	718,498,590	
Allowance under Act 198, Mich. 1974 .....	361,731,928	
Allowance under Act 147, Mich. 1992 .....	26,933,794	
Allowance under Act 376, Mich. 1996 .....	<u>86,672,803</u>	
	\$13,907,485,592	
General Purpose Limit (10% x \$13,907,485,592) .....		\$1,390,748,559
Less Outstanding Debt:		
General Obligation Bonds .....	\$ 543,095,000	
Distributable State Aid Bonds .....	36,775,000	
Limited Tax Bonds .....	140,835,000	
Detroit Building Authority (District Court Madison Center Bonds).....	<u>9,967,338</u>	<u>730,672,338</u>
General Debt Margin .....		\$ 660,076,221
Additional Hospital Limit (5% x \$13,907,485,592) .....		<u>695,374,280</u>
Total Legal Debt Margin (General and Hospital).....		<u>\$1,355,450,501</u>

SOURCE: Finance Department.

**Table 26 - General Obligation Cumulative Principal Amortization  
As of May 2, 2005**

Fiscal Year Ending <u>June 30,</u>	<u>Unlimited Tax GO</u>		<u>Limited Tax GO</u>		<u>Total GO Debt</u>	
	<u>Principal</u>	<u>Percent</u>	<u>Principal</u>	<u>Percent</u>	<u>Principal</u>	<u>Percent</u>
2005	\$ -	-	\$ 45,385	0.01%	\$ 45,385	-
2006	30,855,000	5.32%	90,469,790	16.19%	121,324,790	10.66%
2007	34,180,000	11.22%	94,907,163	33.17%	129,087,163	21.99%
2008	38,040,000	17.78%	99,870,000	51.04%	137,910,000	34.10%
2009	42,320,000	25.07%	135,330,000	75.25%	177,650,000	49.70%
2010	43,660,000	32.60%	27,170,000	80.11%	70,830,000	55.92%
2011	42,300,000	39.90%	28,365,000	85.19%	70,665,000	62.13%
2012	39,820,000	46.77%	29,640,000	90.49%	69,460,000	68.23%
2013	39,165,000	53.52%	31,050,000	96.04%	70,215,000	74.39%
2014	32,870,000	59.19%	13,925,000	98.53%	46,795,000	78.50%
2015	30,455,000	64.44%	980,000	98.71%	31,435,000	81.26%
2016	27,085,000	69.11%	1,040,000	98.90%	28,125,000	83.73%
2017	28,500,000	74.03%	1,100,000	99.09%	29,600,000	86.33%
2018	28,865,000	79.01%	1,165,000	99.30%	30,030,000	88.97%
2019	28,370,000	83.90%	1,230,000	99.52%	29,600,000	91.57%
2020	27,020,000	88.56%	1,300,000	99.75%	28,320,000	94.05%
2021	27,700,000	93.34%	1,375,000	100.00%	29,075,000	96.61%
2022	19,400,000	96.68%			19,400,000	98.31%
2023	11,570,000	98.68%			11,570,000	99.33%
2024	<u>7,675,000</u>	100.00%			<u>7,675,000</u>	100.00%
	<u>\$579,850,000</u>		<u>\$558,962,338</u>		<u>\$1,138,812,338</u>	

SOURCE: Finance Department



**Table 27—Total Outstanding Debt Service Requirement Schedule**  
As of May 2, 2005

Fiscal Year Ending June 30,	General Obligation Bonds						Revenue and Other Bonds <sup>(1)(2)</sup>			Requirements G.O. (Unlimited), G.O. (Limited), Revenue and Other
	Unlimited Tax			Limited Tax			Principal	Interest	Total	
	Principal	Interest	Total	Principal	Interest	Total				
2005	\$ -	\$ -	\$ -	\$ 45,385	\$ 4,598	\$ 49,983	\$ -	\$ -	\$ -	\$ 49,983
2006	30,855,000	29,669,382	60,524,382	90,469,790	27,198,973	117,668,764	106,645,000	226,054,280	332,699,280	510,892,425
2007	34,180,000	28,189,932	62,369,932	94,907,163	22,756,981	117,664,145	112,395,000	227,425,249	339,820,249	519,854,325
2008	38,040,000	26,464,827	64,504,827	99,870,000	17,797,050	117,667,050	111,199,128	223,674,231	334,873,359	517,045,236
2009	42,320,000	24,517,802	66,837,802	135,330,000	12,098,958	147,428,958	121,035,000	216,263,109	337,298,109	551,564,868
2010	43,660,000	22,350,424	66,010,424	27,170,000	6,520,871	33,690,871	126,717,471	211,388,469	338,105,939	437,807,234
2011	42,300,000	20,152,051	62,452,051	28,365,000	5,323,367	33,688,367	134,071,483	205,350,257	339,421,740	435,562,158
2012	39,820,000	18,077,226	57,897,226	29,640,000	4,048,431	33,688,431	128,361,694	198,822,462	327,184,156	418,769,812
2013	39,165,000	16,056,586	55,221,586	31,050,000	2,638,260	33,688,260	129,422,224	195,881,385	325,303,608	414,213,455
2014	32,870,000	14,017,250	46,887,250	13,925,000	1,120,306	15,045,306	131,840,242	189,847,524	321,687,766	383,620,322
2015	30,455,000	12,310,771	42,765,771	980,000	435,038	1,415,038	132,000,954	188,940,734	320,941,688	365,122,497
2016	27,085,000	10,719,624	37,804,624	1,040,000	376,963	1,416,963	136,524,826	184,395,882	320,920,708	360,142,295
2017	28,500,000	9,298,853	37,798,853	1,100,000	316,125	1,416,125	135,959,562	174,731,729	310,691,290	349,906,268
2018	28,865,000	7,807,595	36,672,595	1,165,000	252,422	1,417,422	141,094,293	169,033,023	310,127,316	348,217,333
2019	28,370,000	6,284,554	34,654,554	1,230,000	185,063	1,415,063	146,759,899	163,535,244	310,295,143	346,364,759
2020	27,020,000	4,831,529	31,851,529	1,300,000	113,906	1,413,906	151,141,533	157,518,964	308,660,498	341,925,933
2021	27,700,000	3,445,891	31,145,891	1,375,000	38,672	1,413,672	154,323,035	151,512,088	305,835,123	338,394,686
2022	19,400,000	2,047,191	21,447,191				148,035,788	145,670,152	293,705,941	315,153,132
2023	11,570,000	993,073	12,563,073				166,894,137	131,035,740	297,929,876	310,492,949
2024	7,675,000	397,835	8,072,835				163,030,495	123,586,155	286,616,650	294,689,485
2025							181,504,111	115,589,631	297,093,741	297,093,741
2026							173,854,770	107,418,366	281,273,135	281,273,135
2027							194,915,000	95,620,225	290,535,225	290,535,225
2028							207,325,000	86,230,526	293,555,526	293,555,526
2029							217,465,000	76,410,555	293,875,555	293,875,555
2030							222,240,000	66,589,692	288,829,692	288,829,692
2031							230,425,000	56,839,294	287,264,294	287,264,294
2032							239,630,000	46,905,279	286,535,279	286,535,279
2033							249,885,000	35,323,405	285,208,405	285,208,405
2034							260,920,000	25,789,615	286,709,615	286,709,615
2035							206,495,000	15,132,900	221,627,900	221,627,900
2036							216,820,000	5,176,986	221,996,986	221,996,986
	\$579,850,000	\$257,632,396	\$837,482,396	\$558,962,338	\$101,225,983	\$660,188,321	\$5,178,930,642	\$4,217,693,149	\$9,396,623,791	\$10,894,294,508

Note: Totals may not add up due to rounding. (1) Includes debt service for the Water and Sewerage Systems and for the Detroit Building Authority (Parking System), DDA, LDFA, Cobo Hall revenue debt. The totals do not reflect Section 108 loans. Includes SRF debt calculated at the amount approved and not at the actual amount borrowed. (2) The Water and Sewerage system revenue bond debt service is presented here on a basis consistent with that contained in the City's Annual CAFR, and is not attributable to the fiscal year in the manner required by the respective bond ordinances.

**Table 28--Per Capita Debt and Debt Ratios**

<u>As of June 30,</u>	<u>Population Estimate<sup>(1)</sup></u>	<u>Net Direct Debt (000)</u>	<u>Per Capital Net Direct Debt</u>	<u>Ratio to True Cash Value<sup>(2)</sup></u>	<u>Net Direct and Overlapping Debt (000)</u>	<u>Per Capita Net and Overlapping Debt</u>	<u>Ratio to State Equalized Valuation<sup>(2)</sup></u>
2000	951,270	\$1,021,005	\$1,073	5.9%	\$1,482,878	\$1,559	17.2%
2001	933,827	\$ 983,080	\$1,033	5.0%	\$1,591,378	\$1,704	15.0%
2002	921,759	\$ 962,133	\$1,044	4.4%	\$1,452,049	\$1,575	14.3%
2003	911,402	\$ 909,624	\$ 998	3.8%	\$2,717,111	\$2,981	22.6%
2004	911,402	\$1,104,034	\$1,211	4.3%	\$2,625,218	\$2,880	21.8%

SOURCE: Finance Department.

(1) Population estimates are from the U.S. Department of Commerce, Bureau of Census, Current Population Reports.

(2) By law, State Equalized Valuation ("SEV") represents 50% of True Cash Value. True Cash Value used is based on the SEV set on December 31 of the fiscal year which determines property taxes levied in the following year, and is referred to as the following year's SEV. See "ASSESSED VALUATION AND PROPERTY TAXES."

***Short-Term Indebtedness***

Under the provisions of State law, a municipality, by resolution of its governing body and without a vote of its electors, but subject to the prior approval of the Department of Treasury or an exception therefrom, may borrow money and issue its notes in anticipation of the collection of the taxes and certain other revenues for its current fiscal year or its next succeeding fiscal year. In addition, a municipality, by resolution of its governing body and without a vote of its electors, may borrow money and issue its notes in anticipation of the receipt of payments under the provisions of the State Revenue Sharing Act for its current fiscal year or its next succeeding fiscal year. Tax anticipation notes and revenue sharing anticipation notes issued under this Act are limited tax general obligations of a municipality. The City did not issue short-term debt in fiscal years 2000 through 2004. In 2005 the City expects to issue \$55 million of revenue sharing anticipation notes secured by Distributable Aid for cash flow purposes.

***Prospective Indebtedness***

*Unlimited Tax Obligations.* The City expects to issue \$50 million of unlimited tax general obligation bonds in fiscal 2006. Additional unlimited tax general obligation bonds are expected to be issued in future years to finance a continuing capital improvement program. The City currently plans a bonding program averaging approximately \$50 million annually. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES--Capital Financing Policies" and "--Legal Debt Margin."

*Limited Tax Obligations.* The City expects to issue \$87 million of limited tax general obligation capital improvement bonds to finance a portion of the costs of an 800 MHz radio communication system project and to refund prior limited tax general obligation bonds.

*Revenue Obligations.* The City intends to issue revenue bonds periodically to finance improvements to self-supporting systems, including its Water Supply System and its Sewage Disposal System.

## EMPLOYEE BARGAINING UNITS

As of May 1, 2005, the City employed approximately 15,725 employees (including part-time and seasonal employees). Approximately 10% of these employees are non-union, and the remaining 90% are represented by one of the City's 48 bargaining units. The largest bargaining units are: The American Federation of State, County and Municipal Employees ("AFSCME"); the Detroit Police Officers Association ("DPOA"); the Detroit Fire Fighters Association ("DFFA"); the Teamsters; and the Amalgamated Transit Union ("ATU"). The City's current four-year agreement with AFSCME, its largest union, began July 1, 2001. Historically, the City's other non-uniform (*i.e.*, not police or fire) unions have followed the AFSCME contract, with only minor variations. The collective bargaining agreements for AFSCME and the other non-uniform unions and nearly all other City bargaining units will expire on June 30, 2005, and the City has begun opening negotiations toward successor contracts.

The City's most recent agreement with DPOA expired on June 30, 2004. As the parties did not reach a new agreement, the City and DPOA are in an Act 312 binding arbitration proceeding for a successor agreement. Meanwhile, they continue to operate in accordance with the expired DPOA agreement. (Act 312, Public Acts of Michigan, 1969, provides for compulsory arbitration of labor disputes in municipal police and fire departments when negotiations reach an impasse, since the options of a strike or lockout are forbidden with respect to such workers essential to public safety.)

Historically, the DFFA agreements provide for automatic parity of DFFA with DPOA with respect to wages and benefits. Accordingly, although there has been no effective DFFA agreement since June 30, 2001, DFFA members continue to receive the same wage and health care and pension benefits as in the DPOA agreement that expired June 30, 2004. The City and DFFA also are in an Act 312 mandatory binding arbitration proceeding for a successor agreement. The Lieutenants and Sergeants Association ("LSA") agreement expires June 30, 2006.

The City has no reason to believe that its outstanding labor negotiations will result in any interruption of service from the unionized work force.

## RETIREMENT SYSTEMS

The City has two retirement systems. The General Retirement System covers all employees other than policemen and firemen, who are covered by the Police and Fire Retirement System. Each system has a separate board of trustees that administers the respective Pension Fund. The City annually charges its pension contributions to expense. Each system provides for allowances consisting of City-financed pensions and employee-financed annuities. The State Constitution requires that accrued financial benefits of the City's retirement systems be contractual obligations, which cannot be diminished or impaired by the action of its officials or governing body. It also requires that benefits arising on account of service rendered in a given year are to be funded during that year and that such funding shall not be used for financing unfunded accrued liabilities.

The most recent annual actuarial reports available for the Retirement Systems are as of June 30, 2004. As of June 30, 2004, the two Systems had combined total net assets held for benefits of approximately \$5,544,760,059 and covered 16,851 active employees and 19,639 retirees and their beneficiaries. According to the actuarial study of Gabriel, Roeder, Smith and Company ("Actuary") for fiscal year 2004, the GRS was 73.0% funded and the PFRS was 79.7% funded.

Actuarial studies are done annually by the Actuary, and the City Charter provides that the assumptions used to value the liabilities of both Systems are to be studied in depth every five years. Actuarial assumptions were revised following the 1997-2002 in-depth experience study. Both Systems use the entry age normal actuarial cost methodology to determine age and service liabilities, vested liabilities, casualty liabilities and normal cost. As of the June 30, 2004 actuarial reports, the following significant assumptions are utilized in calculating the present value of vested benefits and the actuarially determined prior service cost: (1) the future

investment return rate is assumed to be 7.9% per annum for the GRS and 7.8% per annum for the PFRS; (2) the GRS assumes that total active member payroll expense will increase 4% annually, while the PFRS assumes that payroll expense will increase 4.8% annually; and (3) the GRS unfunded accrued actuarial liabilities (“UAALs”) are amortized over a period of 20 years and the PFRS UAALs are amortized over a closed period, with 13 years remaining as of June 30, 2004.

On May 4, 2005, the GRS Board adopted a resolution that implemented a 20-year amortization period for funding GRS UAALs. The proposed final GRS actuarial report reflects this recent determination. Prior to this resolution the stated GRS policy for funding UAALs of that System had four distinct categories of UAAL with somewhat differing amortization periods for each, and the Board has not yet determined how it will apply its new amortization period determination to these categories. The current stated PFRS Retirement Board policy is to amortize UAALs of that System over a closed period with 13 years remaining as of June 30, 2004. Both Systems amortize their respective UAALs to produce contribution amounts (principal and interest) which are a level percentage of payroll contributions. On May 16, 2005, the Wayne County Circuit Court granted summary disposition in the City’s favor in a lawsuit with the PFRS Board over the appropriate amortization period for funding PFRS UAALs. See “Recent Pension Litigation” below and “LITIGATION” in the Offering Circular which precedes this Appendix.

The mortality table for both Systems is 90% of the 1983 Group Annuity Mortality Table (adopted June 30, 1998 for the PFRS, and June 30, 2003 for the GRS), and the probabilities of retirement and separation from service (including death in service and disability) were revised (based on the 1997-2002 in-depth experience study) for the June 30, 2003 valuations for both Systems. Valuation assets recognize investment returns above or below the actuarial assumed rate over a three-year period.

The following table sets forth the contributions of the City to the General Retirement System and the Police and Fire Retirement System for fiscal year 2000 through fiscal year 2004.

Table 29 -- Contributions to Retirement Systems

	For the Fiscal Year Ended June 30,				
	2000	2001	2002	2003	2004
<b>General Retirement System:</b>					
Number of Active Employees ....	12,147	12,744	12,639	12,833	11,791
Number of Retirees and Beneficiaries .....	14,480	11,450	11,363	11,322	11,311
Number of Deferred Vested Beneficiaries .....	1,472	1,635	1,439	1,424	1,442
Percentage of Payroll for Normal Cost .....	9.2%	9.2%	9.2%/8.7% <sup>D</sup>	8.8%	9.0%
Percentage of Payroll for UAAL Amortization Amount	4.15%	5.1%	9.8%/9.3% <sup>D</sup>	13.9%	14.2% <sup>B</sup>
Total Percentage of Payroll	13.4%	14.3%	19.1%/18.1% <sup>D</sup>	22.7%	23.2%
City Contributions .....	\$66,681,049	\$68,139,535	\$67,791,488	\$72,859,246	\$95,876,076 <sup>A</sup>
<b>Police and Fire Retirement System:</b>					
Number of Active Employees ....	5,481	5,585	5,382	5,257	5,060
Number of Retirees and Beneficiaries .....	8,079	8,166	8,179	8,277	8,328
Number of Deferred Vested Beneficiaries	40	41	35	35	32
Percentage of Payroll for Normal Cost .....	26%/27.3% <sup>D</sup>	27.2%	27.7%/23.4% <sup>D</sup>	24.8%	24.8%
Percentage of Payroll for UAAL Amortization Amount	(26%)/(20.6% <sup>D</sup> )	(14.2%)	(3.9%)/(0.1% <sup>D</sup> )	19.1%	29.6% <sup>C</sup>
Total Percentage of Payroll <sup>E</sup>	0%/6.7% <sup>D</sup>	13.0%	23.8%/23.3% <sup>D</sup>	43.9%	54.4%
City Contributions .....	\$19,972,058	\$14,443,382	\$8,449,645	\$66,843,029	\$69,475,202 <sup>A</sup>

<sup>A</sup> At June 30, 2004, \$7,651,462 and \$69,475,202 of the annual required contributions noted above were not yet received by the GRS and PFRS, respectively. Contribution receivables in the same amount have been recorded.

<sup>B</sup> Determined using the newly adopted 20-year amortization period as of June 30, 2004.

<sup>C</sup> Amounts determined using a closed amortization period with 13 years remaining as of June 30, 2004.

<sup>D</sup> Due to a change in actuarial assumptions during the year, the first and second numbers represent the contribution rates under the prior assumptions and the new assumptions, respectively.

<sup>E</sup> The PFRS Board claims that the City's contribution amount does not include the full funding credit offset, and so the Board claims that the City's contribution percentage is to be based on the normal cost calculations for 2000-02. This matter is currently being litigated. See "Recent Pension Litigation" below.

SOURCES: Derived by Finance Department from annual actuarial reports (including the proposed final, but not yet adopted, actuarial report for the GRS for the fiscal year ended June 30, 2004).

The present value of unfunded actuarial accrued liabilities based upon actuarial valuations by the City's consulting actuary, is as follows:

**Table 30 -- Unfunded Actuarial Accrued Pension Liabilities**

	<b>Valuation Date <u>June 30,</u></b>	<b>Accrued Actuarial Liabilities <u>(Millions)</u></b>	<b>Available for Benefits <u>(Millions)</u></b>	<b>Assets as a Percent of Accrued Actuarial <u>Liabilities</u></b>
General Retirement System	2000	\$3,077.0	\$2,902.4	94.3%
	2001	\$3,179.6	\$2,912.1	91.6%
	2002	\$3,276.6	\$2,761.2	84.3%
	2003	\$3,270.6	\$2,537.7	77.6%
	2004	\$3,383.9	\$2,470.2	73.0%
Police and Fire Retirement System	2000	\$3,342.1	\$3,964.2	118.6%
	2001	\$3,463.2	\$3,900.0	112.6%
	2002	\$3,523.4	\$3,635.1	103.2%
	2003	\$3,721.6	\$3,205.5	86.1%
	2004	\$3,857.5	\$3,074.5	79.7%

SOURCE: Derived by Finance Department from annual actuarial reports (except that the proposed, but not yet adopted, final actuarial report for the General Retirement System for the fiscal year ended June 30, 2004, was used).

***Recent Pension Litigation***

In a lawsuit filed in July 2003 by the PFRS Retirement Board against the City, the Wayne County (Michigan) Circuit Court ruled in December 2003 that the City should contribute an additional \$35 million into the PFRS for the fiscal year ended June 30, 2003, plus more than one year's interest thereon at 7.8% per annum (totaling approximately \$37.75 million). The City has filed a pending appeal from that decision with the Michigan Court of Appeals, but has meanwhile paid the disputed amount to the PFRS pursuant to a written agreement with the Retirement Board that if the decision is ultimately reversed on appeal, the payment will be refunded to the City with interest at the actuarially determined rate.

In a second similar lawsuit filed in July 2004 by the PFRS Retirement Board seeking approximately \$10 million in additional contributions from the City for the fiscal year ended June 30, 2004, the Wayne County Circuit Court ruled in December 2004 in favor of the PFRS Retirement Board, based in part on the *collateral estoppel* effect of its prior decision. The City has also filed a pending appeal from that decision, and the appeals in both cases have been consolidated for hearing by the Michigan Court of Appeals. At issue in each case is whether the amount the City is obligated to contribute to the PFRS is the amount determined by the actuary or the amount set by the PFRS Retirement Board based on that actuarial determination.

On May 16, 2005, the Wayne County Circuit Court granted the City's motion for summary disposition, closing a lawsuit filed against the City by the PFRS Retirement Board in June 2004. The PFRS Retirement Board had sought a declaratory judgment that it could require a shorter amortization period for UAALs than the City claimed is permitted by Michigan statute and the pension provisions of the Detroit City Charter and Code. The effect of the Court's decision is to require the City's contribution obligation to be determined using a 20-year amortization period, substantially longer than the amortization period imposed by the Board, resulting in a lower required annual contribution amount from the City than if the Board had prevailed. The period during which the Board may file an appeal has not yet expired, and no appeal was filed before the date of this Offering Circular. See "LITIGATION" in the Offering Circular.

The City is seeking to enforce two Act 312 arbitration awards it won against the DPOA and LSA requiring that management and unions be equally represented on the Board of the PFRS. Currently, the union members are in the majority. The lawsuit was filed in Wayne County Circuit Court in October 2003 seeking to

have the award enforced against the other two uniformed unions. The City initially prevailed, but the Judge reversed himself and the matter is currently on appeal.

## CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION

### *General*

The City of Detroit is located in Southeastern Michigan and is the nation's tenth largest city. It is the central city of a metropolitan area that has a population of over four million people. Detroit is the largest city in Michigan and comprises almost one-half of Wayne County's population. Established in 1701 and incorporated in 1815, Detroit encompasses an area of 138 square miles. Like other older, major cities in the Northeast, Detroit has experienced a significant decline in population since 1950, and an erosion of its economic base. Since the mid-1970s, the City, as well as private interests, have made substantial investments which have led to additional economic diversification and development during the last several years. The City is a major manufacturing center for the United States, and a regional center of finance, commerce and tourism. The City is located in a regional economy that, although diversifying, remains susceptible to swings in the national economy due to its concentration of employment in the durable goods industries, particularly the automobile industry.

Economically, Detroit relates primarily to the Tri-County area of Wayne, Oakland and Macomb counties. Officially, however, it is a part of a Primary Metropolitan Statistical Area (the "Detroit PMSA") that includes the Tri-County area, plus Monroe, Livingston, Lapeer and St. Clair counties.

### *Population*

The City's population count (established by U.S. Census) determines its legislative apportionment in Congress and in the State Legislature, and has a direct impact on Federal and State programs allocated in whole or in part on a *per capita* basis. While population growth in the Detroit PMSA significantly outpaced the national rate in the 1950s, the region's total population expanded more slowly in the 1960s and contracted (reflecting a significant net out-migration) in the 1970s and 1980s. Net population losses in the region were primarily concentrated in the City. The remainder of the Detroit PMSA continued to experience population growth throughout the 1970s and 1980s. Originally consisting of the Tri-County Area, the region considered the metropolitan area was expanded geographically for U.S. statistical purposes, as population and industry dispersed, to add Lapeer, Livingston and St. Clair counties in 1973 and Monroe County in 1983.

Between 1950 and 2000, the City experienced substantial changes in the characteristics of its population, with differing migration patterns resulting in a net decline of 49% of its total population during the fifty-year period. Detroit's share of total State and metropolitan area population fell significantly.

**Table 31--Population Trends, 1950-2000**

<u>Year</u>	<u>City of Detroit</u>		<u>Wayne County</u>		<u>Detroit PMSA<sup>(1)</sup></u>		<u>U.S.</u>
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>% Change</u>
1950	1,849,568	-	2,435,235	-	3,169,649	-	-
1960	1,670,144	-9.70%	2,666,297	9.49%	4,050,840	27.80%	18.50%
1970	1,511,482	-9.50%	2,666,751	0.02%	4,549,869	12.32%	13.40%
1980	1,203,339	-20.39%	2,337,891	-12.33%	4,488,072	-1.36%	11.40%
1990	1,027,974	-14.57%	2,111,687	-9.68%	4,382,299	-2.36%	10.20%
2000	951,270	-7.46%	2,061,162	-2.39%	4,441,551	1.35%	13.20%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

(1) Consists of Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair and Wayne counties in Michigan.

**Table 32—Distribution of Population by Age, 2000**

<u>Age in Years</u>	<u>Population</u>	<u>% of Total</u>
Under 5 .....	76,232	8.0%
5 to 9 .....	93,882	9.9
10 to 14 .....	83,361	8.8
15 to 19 .....	68,707	7.2
20 to 24 .....	65,654	6.9
25 to 34 .....	144,323	15.2
35 to 44 .....	136,695	14.4
45 to 54 .....	115,971	12.2
55 to 59 .....	38,045	4.0
60 to 64 .....	29,344	3.1
65 to 74 .....	52,863	5.6
75 to 84 .....	35,213	3.7
85 years and over .....	<u>10,980</u>	<u>1.2</u>
Total .....	<u>951,270</u>	<u>100.0%</u>

SOURCE: U.S. Department of Commerce, Bureau of the Census.

**Table 33—Households by Type, 1970-2000**

	1970		1980		1990		2000	
	<u>Number of Households</u>	<u>% of Total</u>	<u>Number of Households</u>	<u>% of Total</u>	<u>Number of Households</u>	<u>% of Total</u>	<u>Number of Households</u>	<u>% of Total</u>
	(number of households in thousands)							
Family households	370.0	74.3	289.3	66.7%	244.3	65.3%	218.5	64.9
Married-couple households	286.8	%	173.2	40.0	109.8	29.4	89.7	%
With single male head	16.4	57.6	18.4	4.2	21.2	5.7	22.4	26.7
With single female head	66.8	3.3	97.7	22.5	113.2	30.3	106.4	6.6
Non-family households		13.4						31.6
Householder living alone	127.8	25.7	144.2	33.3	129.7	34.7	117.9	35.1
Total households	<u>N.A.</u>	<u>N.A.</u>	<u>125.3</u>	<u>28.9</u>	<u>111.3</u>	<u>29.8</u>	<u>99.9</u>	<u>29.7</u>
	<u>497.8</u>	<u>100%</u>	<u>433.5</u>	<u>100%</u>	<u>374.1</u>	<u>100%</u>	<u>336.4</u>	<u>100%</u>

SOURCE: U.S. Department of Commerce, Bureau of the Census.

N.A. = Not Available. Family households consist of two or more related persons. Data may not add up to totals due to rounding.

***Employment and Economic Base***

The economy of the City is influenced by trends in the durable goods industry and in particular the domestic automobile industry. Over the past two decades, all three major automotive companies have, at times, experienced financial problems adversely affecting the economy of the Detroit area. General Motors and DaimlerChrysler represent over 12% of the City's State Equalized Valuation and are major employers in the City. Among the complex factors affecting the automotive industry are: national consumer spending patterns (related, among other things, to consumer confidence, disposable income, credit availability and



interest rates); the value of the U.S. dollar relative to foreign currencies; foreign trade restrictions; federal and state regulatory policies with respect to auto imports, safety, fuel efficiency and pollution emissions; the availability and price of gasoline; and organizational demand for fleet or specialized vehicles.

The following table sets forth certain information on total employment by industry group for the Detroit PMSA and the U.S. The region has in the past consistently maintained a greater percentage of persons employed in the manufacturing sector of the economy than the nation as a whole, which reflected the area's dependence on the automotive industry. The high percentage, however, has shown a decline in recent years such that the PMSA employment breakdown now is more similar to national statistics.

**Table 34—Annual Average Wage and Salary Employment by Place of Work (Non-Agricultural)**

Industry Group:	Detroit PMSA							
	1980		1990		2000		2003	
	(000)	%	(000)	%	(000)	%	(000)	%
Manufacturing.....	\$ 491	29.3	\$ 444	22.9	\$ 458	20.7	\$ 321	15.6
Wholesale and retail trade.....	364	21.7	474	24.4	508	23.0	322	15.6
Services.....	346	20.7	521	26.9	701	31.7	873	42.4
Transportation, public utilities.....	81	4.8	89	4.6	98	4.4	105	5.1
Finance, insurance, real estate.....	89	5.3	113	5.8	112	5.1	118	5.7
Construction.....	52	3.1	63	3.2	93	4.2	84	4.1
Mining.....	1	0.1	1	0.1	1	-	-	-
Government.....	<u>251</u>	<u>15.0</u>	<u>235</u>	<u>12.1</u>	<u>237</u>	<u>10.7</u>	<u>237</u>	<u>11.5</u>
Totals.....	<u>\$ 1,675</u>	<u>100.0</u>	<u>\$ 1,940</u>	<u>100.0</u>	<u>\$ 2,208</u>	<u>100.0</u>	<u>\$ 2,060</u>	<u>100.0</u>

Industry Group:	U.S.							
	1980		1990		2000		2003	
	(000)	%	(000)	%	(000)	%	(000)	%
Manufacturing.....	\$20,285	22.4	\$19,062	17.3	\$ 18,437	14.0	\$ 14,524	11.2
Wholesale and retail trade.....	20,310	22.5	26,149	23.7	30,198	23.0	20,435	15.7
Services.....	17,890	19.8	28,209	25.6	40,388	30.7	53,289	41.0
Transportation, public utilities.....	5,146	5.7	5,839	5.3	6,993	5.3	4,763	3.7
Finance, insurance, real estate.....	5,160	5.7	6,832	6.2	7,618	5.8	7,974	6.1
Construction.....	4,346	4.8	5,204	4.7	6,688	5.1	6,722	5.2
Mining.....	1,027	1.1	735	0.7	538	0.4	571	0.4
Government.....	<u>16,241</u>	<u>18.0</u>	<u>18,291</u>	<u>16.6</u>	<u>20,576</u>	<u>15.7</u>	<u>21,576</u>	<u>16.6</u>
Totals.....	<u>\$90,405</u>	<u>100.0</u>	<u>\$110,321</u>	<u>100.0</u>	<u>\$131,427</u>	<u>100.0</u>	<u>\$129,854</u>	<u>100.0</u>

SOURCE: Michigan Employment Security Agency for Detroit PMSA; U.S. Bureau of Labor Statistics, Employment and Earnings, for U.S.

Totals may not add due to rounding.

The following table shows the annual average unemployment rates for the City, the Detroit-Warren-Livonia CBSA, and the U.S. in recent years.

**Table 35--Civilian Unemployment Rates, 2001 to 2005**

	<u>City of Detroit</u>	<u>Detroit- Warren-Livonia CBSA</u>	<u>U.S.</u>
2001 .....	9.8%	5.1%	4.8%
2002 .....	11.9%	6.2%	5.8%
2003 .....	14.6%	7.3%	6.0%
2004 .....	14.0%	7.0%	5.6%
2005 .....	14.8%	8.0%	5.3%

SOURCE: Michigan Department of Labor & Economic Growth; U.S. Department of Labor, Bureau of Labor Statistics. For 2005, derived from monthly average through March (not seasonally adjusted).

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit-Warren-Livonia MSA for calendar years 2000 through 2004.

**Table 36 – Manufacturing Wage and Salary Employment**

<b>Industry Group:</b>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(In Thousands)				
Durable goods industries .....	333.7	305.1	280.8	262.6	253.0
Nondurable goods industries	<u>54.5</u>	<u>50.8</u>	<u>48.6</u>	<u>46.8</u>	<u>44.7</u>
Total manufacturing employment .....	388.2	355.9	329.4	309.4	297.7

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information.

**Construction**

The following data shows trends in construction permits in the City.

**Table 37--Trends in Construction Permits, 2000 to 2004**

	<u>Value (in millions)</u>			
	<u>New Construction</u>		<u>Alterations/Additions</u>	
	<u>Residential</u>	<u>Non-Residential</u>	<u>Residential</u>	<u>Non-Residential</u>
2000 .....	\$ 29.8	\$ 475.4	\$ 72.8	\$ 458.6
2001 .....	\$ 34.3	\$ 336.6	\$ 75.7	\$ 662.0
2002 .....	\$ 10.6	\$ 385.8	\$ 42.9	\$ 372.3
2003 .....	\$ 55.2	\$ 339.8	\$ 79.0	\$ 610.7
2004 .....	\$ 71.0	\$ 280.1	\$ 124.0	\$ 330.8

SOURCE: City of Detroit Department of Buildings and Safety Engineering.

NOTE: Residential includes single and multiple family dwellings.

**Housing Characteristics**

Trends in the housing stock of the City have a direct impact on the City's collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES--Valuation by Type of Property" above).

The number of housing units in the City fell 29% between 1970 and 2000. Net losses have been concentrated in owner-occupied units, 16% of which were lost to the housing market in the 1970s, 21% of which were lost in the 1980s and 7% lost in the 1990s. Owner occupancy rates in the City declined from 60.0% in 1970 to 49% in 2000. Since 1990, the City has experienced a significant increase in the construction of new housing units. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION – Major Projects and Developments." Trends in the housing stock of the City have a direct impact on the City's collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES – Valuation by Type of Property" above).

**Table 38–Housing Inventory, 1970 to 2000**

<u>Occupancy Status</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
	(in thousands)			
Owner-occupied	298.6	250.9	197.9	184.6
Renter-occupied	199.1	182.6	176.1	151.8
Vacant	<u>31.3</u>	<u>37.7</u>	<u>36.0</u>	<u>38.7</u>
Total housing units	529.0	471.2	410.0	375.1

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Note: Data may not add up due to independent recording. Excludes seasonal housing.

**Table 39–Housing Characteristics, 2000**

	<u>City of Detroit</u>	<u>Wayne County</u>	<u>Detroit PMSA</u>	<u>United States</u>
Percent owner-occupied.....	54.9%	66.6%	72.4%	66.2%
Rental vacancy.....	8.3%	7.2%	6.4%	6.8%
Median value of owner-occupied units.....	\$ 63,600	\$ 96,200	\$ 127,800	\$ 119,600
Median contract rent.....	\$ 486	\$ 428	\$ 502	\$ 602
Persons per household.....	2.77	2.64	2.58	2.59

SOURCE: U.S. Department of Commerce, Bureau of Census.

Note: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value, and therefore is not directly comparable to the State Equalized Value.

***Largest Employers***

Below is a listing of the largest private sector employers by company and by number of employees actually or estimated to be employed within the City at the end of calendar year 2003. The City and the School District are each major Detroit employers, employing approximately 18,155 and 26,000, respectively, as of June 30, 2004.

**Table 40–Largest Private Employers**

<u>Company</u>	<u>Detroit Employment</u>
Detroit Medical Center .....	11,627
DaimlerChrysler AG.....	10,172
Henry Ford Health System .....	6,261
General Motors Corporation.....	6,226
St. John Health System .....	5,941
American Axle & Manufacturing Holdings Inc. ....	4,600
DTE Energy Co. ....	4,006
Compuware Corp.....	4,000
Blue Cross and Blue Shield of Michigan .....	2,864
Motor City Casino .....	2,800

SOURCE: Crain’s *Book of Lists, 2005 Edition*, December 2004.

***Port of Detroit***

The Detroit/Wayne County Port Authority (“DWCPA”) is a public agency responsible for promoting trade and freight transportation through the Port of Detroit (the “Port”), which provides direct water service to world markets via the Great Lakes/St. Lawrence Seaway. The Port has five privately-owned and operated full-service terminals, a liquid bulk terminal and bulk facility, and a single dock facility with capacity for 14 ocean-going vessels. In addition, more than 30 industries located on the Detroit and Rouge Rivers have their own port facilities. A variety of ship repair services are available. The Detroit area, which is the largest foreign trade zone in the United States, provides financial advantages related to federal taxes and customs duties at subzones throughout the City and region. The Port is a principal port of entry for trade with Canada via bridge, vehicular tunnel, rail tunnel and barge service. Steel and scrap steel are the principal export products of the Port, handled for the three local steel mills. General cargo constitutes a minor portion of total tonnage due to the lack of regularly scheduled shipping service. See “CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments.”

**Table 41–Waterborne Commerce of the Port of Detroit  
(millions of short tons of 2,000 pounds)**

FISCAL YEARS	Foreign			Domestic <u>Total</u>	Grand <u>Total</u>
	<u>Canadian</u>	<u>Overseas</u>	<u>Total</u>		
1991 .....	1.5	0.9	2.4	11.9	14.3
1992 .....	2.0	1.4	3.4	13.0	16.4
1993 .....	2.4	0.9	3.3	13.9	17.2
1994 .....	4.5	1.5	6.0	12.7	18.7
1995 .....	2.6	1.0	3.7	15.2	18.9
1996 .....	4.6	1.7	6.3	12.3	18.6
1997 .....	4.8	1.3	6.1	12.0	18.1
1998 .....	5.0	1.9	6.9	12.5	19.4
1999 .....	3.5	1.1	4.6	12.3	16.9
2000 .....	4.1	1.1	5.2	12.0	17.2
2001 .....	4.3	0.4	4.7	12.3	17.0
2002 .....	3.7	0.7	4.4	12.9	17.3
2003 .....	3.5	0.4	3.9	10.4	14.3

SOURCE: Detroit/Wayne County Port Authority.

***Transportation Network***

Five major rail lines provide direct service to the Detroit area by such railroad companies as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargoes handled by the rail lines in the Detroit area include automobiles, auto parts, steel, chemicals and food products.

Air transportation service is provided to the City at the Detroit City Airport, with general aviation, cargo and scheduled passenger services, and at the Detroit Metropolitan Wayne County Airport, the nation's 10th largest international airport and the largest hub for Northwest Airlines. More than 30 other scheduled airlines provided domestic and international service with more than 1 million annual passenger enplanements and 137,000 tons of annual enplaned cargo.

This area's extensive toll-free highway system, which includes the I-94, I-75, I-96 and I-696 interstate highways and Canadian 401, provides one-day access, based on a 500-mile day, to 48% (by population) of the U.S. market and to the Province of Ontario, Canada.

***Major Projects and Developments***

A number of major developments have been completed during the past three years, and others are in various stages of construction in the City. Most of the projects represent joint efforts between the public and private sector. Below are brief descriptions of the major developments, including announced financing sources.

**Campus Martius Development**

A \$1 billion development located on a 9.2-acre site in downtown Detroit has been completed. The development includes the corporate offices of Compuware, retail space and 2,700 parking spaces. Nearby is the \$20 million Campus Martius Park, about the size of 1-½ football fields and includes an outdoor-refrigerated skating rink, outdoor eating areas, portable stages, waterfalls and a year-round café.

### Merchants Row

Merchants Row, a \$30 million redevelopment project of eight 1910 era buildings adjacent to Compuware, includes 163 loft condominiums, a 264-space parking garage and 28,400 square feet of retail and restaurant space.

### 1001 Woodward

This 26-story, twin office tower, adjacent to the Campus Martius project, is undergoing a \$20 million renovation, along with the addition of a \$10 million 500-space parking structure.

### Ford Center for the Fine and Performing Arts

The second phase of an \$80 million restoration and expansion of Orchestra Hall was completed in spring 2004. The third phase of the development adds a high school for the fine, performing and broadcast arts completed in winter 2005.

### GM Global Headquarters

General Motors completed a \$100 million hotel renovation to its global headquarters including the addition of 100 square feet of meeting space, and improvements to the main entrance of the facility. A riverside promenade is currently under construction.

### Downtown YMCA

Construction continues on a \$38 million 5-story YMCA recreational facility located in the City's downtown area. The new facility will house an auditorium, a swimming pool, health and fitness center, wellness center, parking garage and a childcare center. Completion is expected in late 2005.

### Woodward Millennium

A \$37 million mixed-use development is being constructed in the medical center area. Construction is expected to be completed in summer 2005. The development will include 180 units of loft-style condominiums and garden-style apartments, a parking garage and retail space.

### St. Anne's Gate

This new housing development is being built in southwest Detroit near the Ambassador Bridge and consists of new single and multi-family homes. The total project cost is expected to be \$41 million.

### Tri-Centennial Village

A \$19 million housing development is being constructed on Detroit's west side. The development will include 165 single-family homes, 85 of which will be constructed by Habitat for Humanity.

### Woodward Place at Brush Park

Woodward Place at Brush Park – Phase 1 construction of 100 town homes, is complete. Construction will continue over the next three years ultimately adding up to 700 new housing units to Brush Park. The condominiums average 1,800 square foot. The project also involves the renovation of several historic homes for residential use. The total cost of the project is \$75 million.

### Brush Park Manor

A 91,000 square foot senior apartment residence on 3.3 acres of land on Brush Street was recently completed. The 3-story complex consists of 113 apartments. The estimated cost of the project is \$9.9 million.

### Greyhaven Shorepoint Village

Greyhaven Marina Village is being constructed in phases on a 15-acre site on the Detroit River. Phase one consisted of 190 apartments and town homes overlooking the Detroit River. Phase two consists of 144 condominium units. The total cost of the development was \$21 million. A third phase under development is the \$25 million Shorepoint Village consisting of 57 single-family homes.

### Woodbridge Estates

The \$98 million project includes 247 rental units, 101 new homes, town homes and duplex condominiums and 297 enhanced service units on a former public site. In addition, the project will include retail space and a community center. The project is being funded with both public and private funds.

### Lawndale Station

A \$15.8 million mixed-use development in southwest Detroit is being completed in phases. The first phase of construction, which included 54 apartment units and 14,000 square feet of commercial space, was completed in January 2004. The second phase of construction will include 34 additional apartment units and approximately 6,500 square feet of commercial space.

### Federal Reserve Bank

The 79.5 million reserve branch 220,000 square foot Detroit branch northeast of downtown is expected to employ 275 workers handling check clearing, currency processing, economic analysis and conferences and serves Michigan's Lower Peninsula. Its state-of-the-art design and equipment will allow its operations to be among the most efficient in the Federal Reserve System and is scheduled for completion in September 2005.

### New Center Lofts

This \$14.28 million residential project includes 102 loft-style, 2-story townhouses located in northwest Detroit. Later phases will include 3-story townhouses.

### American Axle

American Axle is completing a second building phase in its \$30 million research and training center complex next to its headquarters. The complex is to open in stages, beginning in 2006.

### Morningside Commons

Located on the City's east side, this \$30 million housing development is being constructed in phases. The first phase of the development consisted of 40 new single-family homes. The second phase consisted of a 64-unit multi-family townhouse development. Currently under construction, phase three will consist of the construction of 50 new single-family homes and the rehabilitation of 10 existing single-family homes.

### Lombardo Heritage

A \$197.7 million dollar housing complex is being constructed in phases on a 10.5 acre parcel on the City's east side. Once complete, the complex will include 126 condominium homes with basements.

### Palmer Street Redevelopment

Located near the Wayne State University district, this \$10 million project consists of the rehabilitation of 9 existing buildings along with the construction of new townhouses into a total of 115 housing units.

#### The PricewaterhouseCoopers Building

The accounting firm PricewaterhouseCoopers is constructing an 115,000 square foot, five-story office building adjacent to the Ford Field at a cost estimated at \$26 million. PricewaterhouseCoopers will occupy the first four floors of the building with the fifth floor being available for lease to a future tenant. A 1,200-stall parking garage will be constructed immediately north of the building on an adjacent parcel of land.

#### St. John Detroit Riverview Hospital

Groundbreaking has occurred for a \$12 million 62,300 sq. ft medical office building on the eastside campus for completion by May 2006. The building will house physicians and outpatient services.

#### The Salvation Army Southeast Adult Rehabilitation Center

The Salvation Army Southeast Adult Rehabilitation Center in downtown Detroit has begun a \$26 million renovation. The 200-bed facility will add 100 beds, renovate offices, add a dining room and move its thrift store.

#### Detroit-Wayne County Port Authority

The Detroit/Wayne County Port Authority (DWCPA) financed a \$43 million mixed-use facility on the east riverfront in downtown Detroit scheduled for completion in September 2006. The project consists of 18,000 square feet of ground floor retail space and upper floors and a parking garage with 1,174 parking spaces.

The DWCPA will be constructing a \$11.25 million state-of-the-art Public Dock and Terminal west of the Renaissance Center that will further establish Detroit's Riverfront as a tourist destination. Great Lakes cruise ships, dinner cruisers, tour boats, tall ships and other vessels will be able to dock at the facility, which also includes a new headquarters for the DWCPA. To fund the project, the DWCPA received \$7.5 million in federal and state grants under the Transportation Equity Act for the 21<sup>st</sup> Century; \$3 million from the State's Clean Michigan Initiative, Water Redevelopment Grant and \$750,000 from the City. The project is scheduled to be completed in July 2005. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Port of Detroit."

#### Kennedy Square Office Building

This \$54 million project is being built on top of an existing underground garage in the downtown area. Expected to be completed in June 2006, the 10-story 240,000-sq. ft. office building will offer ground floor retail space and house up to 1,300 workers.

#### Casino Development

A recent court settlement has paved the way for the construction of three permanent casinos in the City of Detroit. Each casino will expand in or near its current temporary location at a cost of about \$200 million each. Each casino will have a minimum of 100,000 sq. ft. of gaming space, a 400-room hotel and additional parking and restaurants. See "FINANCIAL OPERATIONS - General Fund Revenue Categories."



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**APPENDIX C**

**City of Detroit, Michigan  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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**INDEPENDENT  
AUDITORS'  
REPORT**

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KPMG LLP  
Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

## Independent Auditors' Report

To the Honorable Mayor Kwame Kilpatrick  
and Members of the City Council  
City of Detroit:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School District of the City of Detroit, the Downtown Development Authority, the Economic Development Corporation, the Museum of African American History, the Detroit Transportation Corporation, the Detroit Housing Commission, and the Greater Detroit Resource Recovery Authority, which represent 97.9% and 96.5%, respectively, of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the Retirement Systems, which represent 93.1% and 36.8%, respectively, of the assets and expenses/expenditures/deductions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in note 3(B)1(c), the financial statements of the Detroit Housing Commission Component Unit did not include a liability to the Department of Housing and Urban Development in the amount of \$14,236,946 related to unallowable costs claimed for federal reimbursement. Accounting principles generally accepted in the United States of America require that all liabilities that are probable and can be estimated should be recorded as liabilities, which would increase expenses and decrease net assets.



In our opinion, based on our audit and the reports of other auditors, except for the effects of not recording the liability of the Detroit Housing Commission Component Unit as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the City of Detroit, Michigan as of June 30, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1(C), the City changed the reporting of the Detroit Housing Commission from a proprietary fund to a discretely presented component unit as of July 1, 2003.

The City has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedules of employer contributions and the schedules of funding progress on page 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

Detroit, Michigan  
March 21, 2005

**BASIC  
FINANCIAL  
STATEMENTS  
(BFS)**



City of Detroit, Michigan  
**STATEMENT OF NET ASSETS**  
June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents.....	\$ 49,366,275	\$ 8,042,755	\$ 57,409,030	\$ 20,226,370
Investments.....	278,478,406	55,398,148	333,876,554	228,646,426
Escrow Deposits.....	-	-	-	52,444,684
<b>Accounts and Contracts Receivable:</b>				
Internal Balances.....	(986,712)	986,712	-	-
Due from Primary Government.....	-	-	-	18,272,467
Due from Component Units.....	19,847,369	-	19,847,369	-
Due from Other Governmental Agencies.....	186,403,316	20,494,877	206,898,193	292,559,450
Other Receivables - Net.....	61,678,985	214,775,510	276,454,495	94,617,846
Total Accounts and Contracts Receivable - Net.....	266,942,958	236,257,099	503,200,057	405,449,763
Inventories.....	37,557,354	27,620,127	65,177,481	11,355,046
Prepaid Expenses.....	127,636	320,687	448,323	4,561,167
Short-Term Loans and Advances to Component Units.....	358,205	-	358,205	-
Total Current Assets.....	632,830,834	327,638,816	960,469,650	722,683,456
<b>Non-Current Assets:</b>				
<b>Restricted Assets:</b>				
Cash and Cash Equivalents.....	69,361,602	53,622,374	122,983,976	8,357,104
Investments.....	64,620,924	943,746,429	1,008,367,353	732,870,459
Restricted Loans and Notes Receivable.....	-	-	-	68,642,830
Total Non-Current Restricted Assets.....	133,982,526	997,368,803	1,131,351,329	809,870,393
Deferred Charges.....	-	-	-	1,719,417
<b>Capital Assets:</b>				
Non-Depreciable.....	538,406,664	1,930,743,648	2,469,150,312	558,683,239
Depreciable, Net.....	655,643,141	2,662,710,878	3,318,354,019	1,402,955,477
Total Capital Assets, Net.....	1,194,049,805	4,593,454,526	5,787,504,331	1,961,638,716
Other Assets.....	14,238,261	59,878,846	74,117,107	15,881,346
Total Non-Current Assets.....	1,342,270,592	5,650,702,175	6,992,972,767	2,789,109,872
Total Assets.....	1,975,101,426	5,978,340,991	7,953,442,417	3,511,793,328

The accompanying notes are an integral part of the financial statements.

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts and Contracts Payable.....	172,892,718	58,855,488	231,748,206	167,492,022
Due to Other Governmental Agencies.....	49,076,833	-	49,076,833	-
Due to Primary Government.....	-	-	-	21,607,800
Due to Component Units.....	11,957,828	5,526,824	17,484,652	-
Deposits and Refunds.....	29,774,963	93,067	29,868,030	-
Accrued Interest Payable.....	13,300,998	60,160,084	73,461,082	23,770,338
Loans and Advances from Primary Government.....	-	-	-	358,205
Accrued Salaries and Wages.....	48,008,494	6,078,401	54,086,895	93,017,407
Deferred Revenue.....	2,711,367	122,331	2,833,698	9,810,804
Other Current Liabilities.....	50,252,146	13,021,194	63,273,340	281,149,623
<b>Restricted Liabilities:</b>				
Accounts Payable.....	3,503,843	110,945,867	114,449,710	-
<b>Accrued Public Liability and</b>				
<b>Worker's Compensation.....</b>	<b>22,704,836</b>	<b>-</b>	<b>22,704,836</b>	<b>-</b>
<b>Other Liabilities.....</b>	<b>690,683</b>	<b>-</b>	<b>690,683</b>	<b>-</b>
<b>Total Restricted Liabilities.....</b>	<b>26,899,362</b>	<b>110,945,867</b>	<b>137,845,229</b>	<b>-</b>
Bonds, Notes and Other Debt Payable - Current.....	72,033,883	73,520,000	145,553,883	2,195,542,696
Unamortized Premium and Defeasances.....	-	-	-	33,919,892
<b>Bonds, Notes and Other</b>				
<b>Debt Payable - Current-Net.....</b>	<b>72,033,883</b>	<b>73,520,000</b>	<b>145,553,883</b>	<b>112,460,920</b>
Accrued Compensated Absences.....	4,236,630	19,391,069	23,627,699	2,803,205
Accrued Public Liability and Workers' Compensation.....	-	6,658,418	6,658,418	324,506
<b>Total Current Liabilities.....</b>	<b>481,145,222</b>	<b>354,372,743</b>	<b>835,517,965</b>	<b>712,794,830</b>
<b>Long-Term Liabilities:</b>				
Bonds, Notes and Other Debt Payable.....	977,371,156	4,082,167,599	5,059,538,755	2,195,542,696
Deferred Swap Termination Fees.....	-	31,000,000	31,000,000	-
<b>Unamortized Premium/(Discount) and</b>				
<b>Loss (Gain) on Defeasances.....</b>	<b>22,615,806</b>	<b>(66,239,165)</b>	<b>(43,623,359)</b>	<b>33,919,892</b>
<b>Bonds, Notes and Other Debt Payable -Net.....</b>	<b>999,986,962</b>	<b>4,046,928,434</b>	<b>5,046,915,396</b>	<b>2,229,462,588</b>
Accrued Compensated Absences.....	136,234,385	13,001,247	149,235,632	150,074,583
Accrued Public Liability and Workers' Compensation.....	164,585,116	17,997,269	182,582,385	56,665,005
<b>Total Long-Term Liabilities.....</b>	<b>1,300,806,463</b>	<b>4,077,926,950</b>	<b>5,378,733,413</b>	<b>2,436,202,176</b>
<b>Total Liabilities.....</b>	<b>1,781,951,685</b>	<b>4,432,299,693</b>	<b>6,214,251,378</b>	<b>3,148,997,006</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt.....	423,118,665	1,063,418,365	1,486,537,030	541,600,728
<b>Restricted for:</b>				
<b>Endowments and Trust (Non-Expendable).....</b>	<b>1,237,820</b>	<b>-</b>	<b>1,237,820</b>	<b>-</b>
<b>Capital Projects.....</b>	<b>31,229,238</b>	<b>-</b>	<b>31,229,238</b>	<b>31,082,216</b>
<b>Debt Service.....</b>	<b>52,782,890</b>	<b>199,037,340</b>	<b>251,820,230</b>	<b>24,241,754</b>
<b>Unrestricted (Deficit).....</b>	<b>(315,218,872)</b>	<b>283,585,593</b>	<b>(31,633,279)</b>	<b>(248,370,403)</b>
<b>Total Net Assets.....</b>	<b>\$ 193,149,741</b>	<b>\$ 1,546,041,298</b>	<b>\$ 1,739,191,039</b>	<b>\$ 362,796,322</b>

City of Detroit, Michigan  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
Public Protection.....	\$ 755,816,119	\$ 88,817,490	\$ -
Health.....	172,601,779	11,875,150	128,616,159
Recreation and Culture.....	82,148,669	10,363,646	-
Economic Development.....	102,680,484	20,512,694	60,709,539
Educational Development.....	95,655,097	-	95,579,152
Housing Supply and Conditions.....	21,190,178	16,617,400	7,105,957
Physical Environment.....	267,232,775	85,667,448	-
Transportation .....	49,857,971	-	8,364,954
Development and Management.....	350,969,773	84,682,688	14,946,203
Interest on Long-Term Debt.....	58,080,402	-	-
<b>Total Governmental Activities.....</b>	<b>1,956,233,247</b>	<b>318,536,516</b>	<b>315,321,964</b>
<b>Business-type Activities:</b>			
Sewage Disposal.....	186,979,859	195,947,900	-
Transportation.....	206,319,905	24,712,839	89,345,418
Water.....	198,120,130	223,092,260	-
Automobile Parking.....	21,990,714	19,618,019	-
Airport.....	4,030,607	972,659	-
<b>Total Business-type Activities.....</b>	<b>617,441,215</b>	<b>464,343,677</b>	<b>89,345,418</b>
<b>Total Primary Government.....</b>	<b>\$ 2,573,674,462</b>	<b>\$ 782,880,193</b>	<b>\$ 404,667,382</b>
<b>Component Units:</b>			
Brownfield Redevelopment Authority.....	\$ 200,328	\$ 139,463	\$ 104,070
Detroit Public Library.....	37,989,764	304,294	5,712,417
Downtown Development Authority.....	62,463,896	11,095,995	-
Economic Development Authority.....	12,227,756	17,123,677	-
Detroit Housing Commission.....	66,240,398	69,036,445	-
Local Development Finance Authority.....	14,513,509	-	6,950,000
Museum of African American History.....	6,834,923	1,583,936	5,075,412
Detroit Public Schools.....	1,777,402,877	7,580,249	525,155,465
Tax Increment Finance Authority.....	11,636,682	-	-
Detroit Transportation Corporation.....	18,881,512	367,012	9,621,165
Greater Detroit Resource Recovery Authority.....	116,723,107	43,792,111	71,146,881
<b>Total Component Units.....</b>	<b>\$ 2,125,114,752</b>	<b>\$ 151,023,182</b>	<b>\$ 623,765,410</b>

<b>General Revenues:</b>	
Property Taxes, levied for General Purposes.....	
Property Taxes, levied for Debt Service Purposes.....	
Municipal Income Tax.....	
Utility Users Tax.....	
Wagering Tax.....	
Hotel and Liquor Tax.....	
Other Taxes.....	
Shared Taxes.....	
Interest and Penalties on Taxes.....	
Investment Earnings.....	
Miscellaneous.....	
Gain (Loss) on Disposal of Capital Assets.....	
Transfers.....	
<b>Total General Revenues and Special Item.....</b>	
Change in Net Assets.....	
Net Assets-Beginning of the Year, as Restated.....	
Net Assets-End of Year.....	

The accompanying notes are an integral part of the financial statements.

**Net (Expense) Revenue and Changes in Net Assets**

Capital Grants and Contributions	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
\$ -	\$ (666,998,629)	\$ -	\$ (666,998,629)	\$ -
3,970,591	(28,139,879)	-	(28,139,879)	-
-	(71,785,023)	-	(71,785,023)	-
43,401,679	21,943,428	-	21,943,428	-
-	(75,945)	-	(75,945)	-
-	2,533,179	-	2,533,179	-
-	(181,565,327)	-	(181,565,327)	-
68,156,341	26,663,324	-	26,663,324	-
-	(251,340,882)	-	(251,340,882)	-
-	(58,080,402)	-	(58,080,402)	-
<u>115,528,611</u>	<u>(1,206,846,156)</u>	-	<u>(1,206,846,156)</u>	-
-	-	8,968,041	8,968,041	-
29,420,774	-	(62,840,874)	(62,840,874)	-
4,038,816	-	29,010,946	29,010,946	-
-	-	(2,372,695)	(2,372,695)	-
299,161	-	(2,758,787)	(2,758,787)	-
<u>33,758,751</u>	-	<u>(29,993,369)</u>	<u>(29,993,369)</u>	-
<u>\$ 149,287,362</u>	<u>(1,206,846,156)</u>	<u>(29,993,369)</u>	<u>(1,236,839,525)</u>	-
\$ -	-	-	-	43,205
-	-	-	-	(31,973,053)
-	-	-	-	(51,367,901)
-	-	-	-	4,895,921
-	-	-	-	2,796,047
-	-	-	-	(7,563,509)
-	-	-	-	(175,575)
-	-	-	-	(1,244,667,163)
-	-	-	-	(11,636,682)
-	-	-	-	(8,893,335)
-	-	-	-	(1,784,115)
<u>\$ -</u>	-	-	-	<u>(1,350,326,160)</u>
.....	189,273,351	-	189,273,351	156,517,515
.....	64,607,621	-	64,607,621	104,758,050
.....	290,614,837	-	290,614,837	-
.....	47,422,918	-	47,422,918	-
.....	116,145,598	-	116,145,598	-
.....	16,217,263	-	16,217,263	-
.....	4,337,425	-	4,337,425	12,324,026
.....	286,479,535	-	286,479,535	935,142,434
.....	13,780,520	-	13,780,520	1,108,699
.....	4,500,270	12,516,207	17,016,477	9,830,412
.....	13,624,695	3,812,743	17,437,438	25,976,014
.....	(451,750)	-	(451,750)	-
.....	(77,108,036)	77,108,036	-	-
.....	<u>969,444,247</u>	<u>93,436,986</u>	<u>1,062,881,233</u>	<u>1,245,657,150</u>
.....	<u>(237,401,909)</u>	<u>63,443,617</u>	<u>(173,958,292)</u>	<u>(104,669,010)</u>
.....	<u>430,551,650</u>	<u>1,482,597,681</u>	<u>1,913,149,331</u>	<u>467,465,332</u>
.....	<u>\$ 193,149,741</u>	<u>\$ 1,546,041,298</u>	<u>\$ 1,739,191,039</u>	<u>\$ 362,796,322</u>

**City of Detroit, Michigan**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2004**

	Primary Government		
	General Fund	Other Governmental Funds	Total
<b>ASSETS</b>			
Cash and Cash Equivalents.....	\$ 15,264,299	\$ 34,101,976	\$ 49,366,275
Investments.....	19,894,600	258,583,806	278,478,406
Accounts and Contracts Receivable:			
Due from Other Funds.....	21,530,355	9,099,438	30,629,793
Due from Fiduciary Funds.....	4,495,129	-	4,495,129
Due from Component Units.....	19,818,618	28,751	19,847,369
Due from Other Governmental Agencies.....	147,674,929	38,728,387	186,403,316
Estimated Withheld Income Taxes Receivable.....	26,684,072	-	26,684,072
Utility Users' Taxes Receivable.....	1,267,347	-	1,267,347
Other Receivables.....	27,026,133	860,766	27,886,899
Total Accounts and Contracts Receivable.....	248,496,583	48,717,342	297,213,925
Allowance for Uncollectible Accounts.....	(13,614,758)	(452,744)	(14,067,502)
Total Accounts and Contracts Receivable - Net.....	234,881,825	48,264,598	283,146,423
Advances to Component Units.....	-	358,205	358,205
Land Contracts Receivable.....	6,224,469	-	6,224,469
Inventory-Forfeited Property.....	-	572,568	572,568
Inventories.....	36,543,693	441,093	36,984,786
Prepaid Expenditures.....	-	127,636	127,636
Property Tax Receivable, Net.....	15,803,134	5,730,160	21,533,294
Income Tax Assessments, Net.....	40,250,167	-	40,250,167
Special Assessments, Net.....	1,370,579	335,844	1,706,423
Interest and Penalties.....	5,530,000	2,000,000	7,530,000
Working Capital Advances to Other Funds.....	3,557,000	-	3,557,000
Restricted Assets:			
Cash and Cash Equivalents.....	1,251,069	68,110,533	69,361,602
Investments.....	64,620,924	-	64,620,924
Due from Other Funds.....	22,418,119	-	22,418,119
Total Restricted Assets.....	88,290,112	68,110,533	156,400,645
Other Advances.....	5,000	-	5,000
Other Assets.....	9,014	-	9,014
Total Assets.....	<u>\$ 467,623,892</u>	<u>\$ 418,626,419</u>	<u>\$ 886,250,311</u>

The accompanying notes are an integral part of the financial statements.

**City of Detroit, Michigan**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2004**

	Primary Government		
	General Fund	Other Governmental Funds	Total
<b>LIABILITIES</b>			
Accounts and Contracts Payable.....	\$ 17,460,868	\$ 35,176,838	\$ 52,637,706
Due to Other Funds.....	37,752,259	18,772,806	56,525,065
Due to Fiduciary Funds.....	76,510,398	-	76,510,398
Loans and Other Advances from Other Funds.....	-	997,000	997,000
Due to Other Governmental Agencies.....	17,914,031	16,925,856	34,839,887
Due to Component Units.....	11,957,828	-	11,957,828
Accrued Salaries and Wages.....	23,137,821	2,138,438	25,276,259
Fringes Benefits Payable.....	4,196,493	10,263	4,206,756
Payroll Deductions Payable.....	18,525,479	-	18,525,479
Accrued Compensated Absences.....	706,105	-	706,105
Income Tax Refunds Payable.....	11,087,702	-	11,087,702
Deposits from Vendors and Customers.....	15,761,654	2,925,607	18,687,261
Accrued Liabilities.....	34,254,603	9,490,011	43,744,614
Other Liabilities.....	48,824,932	1,427,214	50,252,146
<b>Liabilities Payable from Restricted Assets:</b>			
Accounts and Contracts Payable.....	3,503,843	-	3,503,843
Accrued Public Liability.....	6,148,836	-	6,148,836
Accrued Worker's Compensation Payable.....	2,656,180	-	2,656,180
Due to Other Funds.....	69,559	-	69,559
Other Liabilities.....	690,683	-	690,683
<b>Total Liabilities Payable from Restricted Assets.....</b>	<b>13,069,101</b>	<b>-</b>	<b>13,069,101</b>
Deferred Revenue.....	67,248,349	12,113,460	79,361,809
<b>Total Liabilities.....</b>	<b>398,407,623</b>	<b>99,977,493</b>	<b>498,385,116</b>
<b>FUND BALANCES</b>			
<b>Reserved Fund Balance:</b>			
Reserved for Inventory.....	36,543,693	1,013,661	37,557,354
Reserved for Encumbrances.....	48,922,088	12,404,738	61,326,826
Reserved for Short-Term Loans and Advances to Other Funds.....	3,557,000	-	3,557,000
Reserved for Risk Management Operations.....	35,917,561	-	35,917,561
Reserved for Motor Vehicle Operations.....	39,303,450	-	39,303,450
Reserved for Endowments and Trusts.....	5,000	1,232,820	1,237,820
Reserved for Debt Service.....	-	70,466,781	70,466,781
Reserved for Capital Projects.....	-	159,136,549	159,136,549
<b>Total Reserved Fund Balance.....</b>	<b>164,248,792</b>	<b>244,254,549</b>	<b>408,503,341</b>
<b>Unreserved Fund Balance (Deficit):</b>			
<b>Undesignated, Reported In:</b>			
General Fund Operations (Deficit).....	(95,032,523)	-	(95,032,523)
Special Revenue Funds.....	-	74,394,377	74,394,377
<b>Total Unreserved Fund Balance (Deficit).....</b>	<b>(95,032,523)</b>	<b>74,394,377</b>	<b>(20,638,146)</b>
<b>Total Fund Balances.....</b>	<b>69,216,269</b>	<b>318,648,926</b>	<b>387,865,195</b>
<b>Total Liabilities, and Fund Balances.....</b>	<b>\$ 467,623,892</b>	<b>\$ 418,626,419</b>	<b>\$ 886,250,311</b>

City of Detroit, Michigan  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2004

Fund balances - total governmental funds \$ 387,865,195

Amounts reported for governmental activities in the statement  
of net assets are different because

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the governmental fund

Governmental capital asset	\$ 2,381,753,466	
Less accumulated depreciation	<u>(1,187,703,661)</u>	1,194,049,805

Other assets used in governmental activities are not financial resources  
and therefore are not reported in the governmental fund

Bond Costs	27,798,281	
Less accumulated amortization	<u>(13,574,034)</u>	14,224,247

Receivables applicable to governmental activities are not due  
and collectible in the current period and therefore are deferred  
in governmental funds

14,819,129

Long term liabilities, including bonds payable are not due and payable  
in the current period and therefore are not reported in the governmental fund

Governmental long term debt payable	(1,049,405,039)	
Premium	(24,246,370)	
Loss on Advance Refunding	1,630,564	
Grant Audit Amount Due to Other Governments	(14,236,946)	
Accrued interest payable	(13,300,998)	
Compensated Absences	(139,764,910)	
Public Liability and Workers Compensation	<u>(178,484,936)</u>	<u>(1,417,808,635)</u>

Net assets of governmental activities \$ 193,149,741

The accompanying notes are an integral part of the financial statements.

**City of Detroit, Michigan**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2004**

	Primary Government		
	General Fund	Other Governmental Funds	Total
<b>REVENUES:</b>			
<b>Taxes:</b>			
Property Taxes.....	\$ 184,765,334	\$ 64,607,621	\$ 249,372,955
Municipal Income Tax.....	290,614,837	-	290,614,837
Utility Users' tax.....	50,473,815	-	50,473,815
Wagering Taxes.....	116,145,598	-	116,145,598
Gas and Weight Tax.....	-	65,806,351	65,806,351
Other Taxes and Assessments.....	12,004,503	2,906,653	14,911,156
State Hotel and Liquor Tax.....	-	16,217,263	16,217,263
State Shared Taxes.....	286,479,535	-	286,479,535
Shared Taxes-Liquor and Beer Licenses.....	528,355	-	528,355
Interest and Penalties on Taxes.....	13,969,136	-	13,969,136
Licenses, Permits and Inspection Charges.....	9,390,863	20,073,051	29,463,914
<b>Intergovernmental:</b>			
Federal.....	3,066,675	250,554,178	253,620,853
State.....	51,477,038	13,230,137	64,707,175
State Equity Grant.....	982,701	-	982,701
Other.....	24,026,485	12,189,505	36,215,990
Sales and Charges for Services.....	176,033,663	14,894,475	190,928,138
Ordinance Fines.....	23,433,745	4,804,153	28,237,898
Revenue from Use of Assets.....	26,136,815	2,559,616	28,696,431
Earnings on Investments.....	1,467,561	3,032,709	4,500,270
Other Revenue.....	104,070,617	20,716,987	124,787,604
<b>Total Revenues.....</b>	<b>1,375,067,276</b>	<b>491,592,699</b>	<b>1,866,659,975</b>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
Public Protection.....	704,456,041	33,874,791	738,330,832
Health.....	88,874,154	83,427,373	172,301,527
Recreation and Culture.....	73,769,563	-	73,769,563
Economic Development.....	24,138,733	72,133,726	96,272,459
Educational Development.....	-	95,579,152	95,579,152
Housing Supply and Conditions.....	14,044,090	7,105,957	21,150,047
Physical Environment.....	232,268,536	-	232,268,536
Transportation Facilitation.....	-	49,857,971	49,857,971
Development and Management.....	387,713,093	-	387,713,093
<b>Debt Service:</b>			
Principal.....	-	81,450,470	81,450,470
Interest.....	-	53,075,658	53,075,658
Bond Issuance Costs.....	3,367,420	2,224,008	5,591,428
Capital Outlay.....	48,930,333	113,663,461	162,593,794
<b>Total Expenditures.....</b>	<b>1,577,561,963</b>	<b>592,392,567</b>	<b>2,169,954,530</b>
Excess (Deficiency) of Revenues Over Expenditures.....	(202,494,687)	(100,799,868)	(303,294,555)
<b>OTHER FINANCING SOURCES (USES):</b>			
<b>Sources:</b>			
Transfers In.....	31,638,974	131,044,568	162,683,542
Proceeds of Capital Leases.....	24,541,150	-	24,541,150
Proceeds from Debt Issuance.....	201,725,000	145,673,138	347,398,138
Premium from Debt Issuance.....	8,160,573	10,410,102	18,570,675
<b>Uses:</b>			
Transfers Out.....	138,383,434	101,408,144	239,791,578
Principal Paid to Bond Agent for Refunded Bonds.....	40,880,000	79,845,000	120,725,000
Interest Paid to Bond Agent for Refunded Bonds.....	523,744	2,323,938	2,847,682
<b>Total Other Financing Sources (Uses).....</b>	<b>86,278,519</b>	<b>103,550,726</b>	<b>189,829,245</b>
<b>SPECIAL ITEM - Casino Development Revenue.....</b>	<b>38,250,000</b>	<b>-</b>	<b>38,250,000</b>
<b>Net Change in Fund Balances.....</b>	<b>(77,966,168)</b>	<b>2,750,858</b>	<b>(75,215,310)</b>
Fund Balance at Beginning of Year.....	140,304,407	316,090,868	456,395,275
Increase (Decrease) in Inventories.....	6,878,030	(192,800)	6,685,230
<b>Fund Balance at End of Year.....</b>	<b>\$ 69,216,269</b>	<b>\$ 318,648,926</b>	<b>\$ 387,865,195</b>



City of Detroit, Michigan  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
June 30, 2004

Change in fund balances - total governmental funds	\$	(75,215,310)
Amounts reported for governmental activities in the statement of net assets are different because		
Governmental funds report capital outlays as expenditure. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	\$ 153,535,315	
Less current year depreciation	<u>(75,549,376)</u>	77,985,939
Gain on sale of capital assets is reported in the statement of activities, whereas in the governmental funds, the gain from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold		
		(451,750)
Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds		
		(36,981,496)
Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities		
Inventory		6,685,230
Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.		
		202,175,469
Bond and note proceeds and provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of bond issuance cost and premiums that must be amortized over the life of the bond		
		(384,918,535)
Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Increase in Due to Other Governments - Grant Audits	(14,236,946)	
Increase in accrued interest expense	(2,157,061)	
Increase in accrued compensated absences	(4,825,206)	
Increase in accrued public liability and workers compensation	(7,451,909)	
Amortization of current year bond premium and defeasances	4,261,094	
Amortization of current year bond cost	<u>(2,271,428)</u>	<u>(26,681,456)</u>
Change in net assets of governmental activities	\$	<u>(237,401,909)</u>

The accompanying notes are an integral part of the financial statements.

**City of Detroit**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE — BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
<b>Taxes:</b>				
Property Taxes.....	\$ 188,159,810	\$ 188,159,810	\$ 184,765,334	\$ (3,394,476)
Municipal Income Tax.....	311,080,000	311,080,000	290,614,837	(20,465,163)
Utility Users' Tax.....	55,200,000	55,200,000	50,473,815	(4,726,185)
Wagering Taxes.....	110,000,000	110,000,000	116,145,598	6,145,598
Other Taxes and Assessments.....	11,909,513	11,909,513	12,004,503	94,990
Interest and Penalties on Taxes.....	11,000,000	11,000,000	13,969,136	2,969,136
<b>Total Taxes, Assessments, Interest and Penalties.....</b>	<b>687,349,323</b>	<b>687,349,323</b>	<b>667,973,223</b>	<b>(19,376,100)</b>
<b>Licenses, Permits and Inspection Charges:</b>				
Business Licenses.....	1,330,000	1,330,000	1,913,369	583,369
Permits.....	1,535,000	1,535,000	1,331,395	(203,605)
Inspection Charges.....	8,588,313	8,588,313	6,066,829	(2,521,484)
Other Licenses.....	95,364	95,364	79,270	(16,094)
<b>Total Licenses, Permits and Inspection Charges.....</b>	<b>11,548,677</b>	<b>11,548,677</b>	<b>9,390,863</b>	<b>(2,157,814)</b>
<b>Shared Taxes:</b>				
Liquor and Beer License.....	545,000	545,000	528,355	(16,645)
State Shared Tax.....	311,494,672	311,494,672	286,479,535	(25,015,137)
<b>Total Shared Taxes.....</b>	<b>312,039,672</b>	<b>312,039,672</b>	<b>287,007,890</b>	<b>(25,031,782)</b>
<b>Intergovernmental:</b>				
Federal.....	8,023,229	31,598,379	3,066,675	(28,531,704)
State.....	57,164,548	112,033,054	51,477,038	(60,556,016)
State Equity Grant.....	2,339,600	2,339,600	982,701	(1,356,899)
Other Grants.....	3,340,190	42,601,598	24,026,485	(18,575,113)
<b>Total Grants.....</b>	<b>70,867,567</b>	<b>188,572,631</b>	<b>79,552,899</b>	<b>(109,019,732)</b>
<b>Sales and Charges for Services:</b>				
Maintenance and Construction.....	1,414,540	1,414,540	216,634	(1,197,906)
Other Labor and Materials.....	215,000	215,000	5,081	(209,919)
Electrical.....	47,190,000	47,190,000	44,471,502	(2,718,498)
Steam.....	630,900	630,900	772,045	141,145
Sanitation Charges.....	778,600	778,600	573,071	(205,529)
Recreation Fees.....	6,686,980	6,457,814	4,982,591	(1,475,223)
Collection Fees.....	5,607,000	5,637,000	3,452,267	(2,184,733)
Other Fees.....	35,087,402	35,201,289	37,901,639	2,700,350
Personal Services.....	64,046,761	63,725,305	58,519,619	(5,205,686)
Other Departmental Sales.....	36,674,387	39,846,823	25,139,214	(14,707,609)
<b>Total Sales and Charges for Services.....</b>	<b>198,331,570</b>	<b>201,097,271</b>	<b>176,033,663</b>	<b>(25,063,608)</b>
<b>Ordinance Fines.....</b>	<b>25,975,517</b>	<b>25,975,517</b>	<b>23,433,745</b>	<b>(2,541,772)</b>
<b>Revenue from Use of Assets:</b>				
Earnings on Investments.....	2,643,000	2,608,685	1,467,561	(1,141,124)
Real Estate Rentals.....	7,859,939	7,859,939	6,693,751	(1,166,188)
Concessions.....	4,784,804	4,784,804	3,282,317	(1,502,487)
Sale of Real Property.....	13,534,041	13,534,041	16,160,747	2,626,706
<b>Total Revenue from Use of Assets.....</b>	<b>28,821,784</b>	<b>28,787,469</b>	<b>27,604,376</b>	<b>(1,183,093)</b>
<b>Other Revenue.....</b>	<b>156,390,554</b>	<b>102,240,592</b>	<b>104,070,617</b>	<b>1,830,025</b>
<b>Total Revenues.....</b>	<b>1,491,324,664</b>	<b>1,557,611,152</b>	<b>1,375,067,276</b>	<b>(182,543,876)</b>

(Continued)

**City of Detroit**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE — BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
<b>Public Protection:</b>				
Consumer Affairs.....	1,661,811	1,661,811	1,331,712	330,099
Fire.....	182,245,549	184,545,119	182,240,815	2,304,304
Human Rights.....	2,474,211	2,518,211	2,248,191	270,020
Ombudsman.....	1,566,079	1,566,079	1,498,440	67,639
Parking Enforcement.....	9,720,356	9,720,356	9,086,959	633,397
Police.....	434,999,479	485,977,121	462,645,107	23,332,014
36th District Court.....	47,044,713	47,086,545	45,404,817	1,681,728
<b>Total Public Protection.....</b>	<b>679,712,198</b>	<b>733,075,242</b>	<b>704,456,041</b>	<b>28,619,201</b>
Health.....	99,789,054	144,200,497	88,874,154	55,326,343
<b>Recreation and Culture:</b>				
Arts.....	642,975	642,975	643,544	(569)
Cultural Affairs.....	1,884,807	2,423,026	1,649,883	773,143
Historical.....	3,449,789	3,451,213	3,525,076	(73,863)
Recreation.....	54,779,568	66,265,568	53,550,033	12,715,535
Senior Citizens.....	1,190,399	2,026,146	1,012,608	1,013,538
Zoological Park.....	14,855,382	15,361,382	13,388,419	1,972,963
<b>Total Recreation and Culture.....</b>	<b>76,802,920</b>	<b>90,170,310</b>	<b>73,769,563</b>	<b>16,400,747</b>
Economic Development — Civic Center.....	26,845,141	26,830,829	24,138,733	2,692,096
<b>Housing Supply and Conditions:</b>				
Planning and Development.....	11,569,597	23,510,673	14,044,090	9,466,583
<b>Total Housing Supply and Conditions.....</b>	<b>11,569,597</b>	<b>23,510,673</b>	<b>14,044,090</b>	<b>9,466,583</b>
<b>Physical Environment:</b>				
Environmental Affairs.....	3,196,285	3,821,251	2,722,564	1,098,687
Public Lighting.....	68,222,263	68,194,879	61,493,752	6,701,127
Public Works.....	178,109,675	178,014,280	168,052,220	9,962,060
<b>Total Physical Environment.....</b>	<b>249,528,223</b>	<b>250,030,410</b>	<b>232,268,536</b>	<b>17,761,874</b>
<b>Development and Management:</b>				
Auditor General.....	3,462,645	3,377,646	2,648,510	729,136
Budget.....	3,403,140	3,418,432	3,138,420	280,012
City Clerk.....	4,630,024	4,619,024	4,155,691	463,333
City Council.....	20,853,258	20,848,683	13,969,551	6,879,132
Communications & Creative Services.....	2,285,760	2,198,030	2,031,734	166,296
Election.....	8,691,046	8,726,046	6,088,909	2,637,137
Finance.....	50,381,667	50,168,111	41,674,999	8,493,112
Law.....	32,582,259	32,844,657	28,497,965	4,346,692
Mayor's Office.....	11,456,278	11,716,401	9,979,579	1,736,822
Human Resources.....	30,540,945	30,540,945	26,258,463	4,282,482
Information Technology Services.....	35,938,416	38,499,538	26,798,893	11,700,645
Zoning Appeals Board.....	1,057,476	1,057,476	892,449	165,027
Employment & Training.....	2,944	606,339	5,951	600,388
Human Services.....	6,482,136	9,419,930	5,640,332	3,779,598
Non Departmental.....	214,103,228	275,785,407	215,931,647	59,853,760
<b>Total Development and Management.....</b>	<b>425,871,222</b>	<b>493,826,665</b>	<b>387,713,093</b>	<b>106,113,572</b>
Capital Outlay.....	75,185,951	87,117,421	48,930,333	38,187,088

(Continued)

**City of Detroit**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE — BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>Debt Service:</b>				
Bond Issuance Costs.....	24,000	721,336	3,367,420	(2,646,084)
<b>Total Debt Service.....</b>	<b>24,000</b>	<b>721,336</b>	<b>3,367,420</b>	<b>(2,646,084)</b>
<b>Total Expenditures.....</b>	<b>1,645,328,307</b>	<b>1,849,483,383</b>	<b>1,577,561,963</b>	<b>271,921,420</b>
<b>Excess (Deficiency) of Revenues Over Expenditures.....</b>	<b>(154,003,643)</b>	<b>(291,872,231)</b>	<b>(202,494,687)</b>	<b>89,377,544</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
<b>Sources:</b>				
Transfers In.....	35,454,845	114,689,313	31,638,974	(83,050,339)
Proceeds of Capital Leases.....	24,541,150	24,541,150	24,541,150	-
Premium from Debt Issuance.....	8,160,573	8,160,573	8,160,573	-
Proceeds from Debt Issuance.....	90,698,995	167,265,006	201,725,000	34,459,994
<b>Total Other Financing Sources.....</b>	<b>158,855,563</b>	<b>314,656,042</b>	<b>266,065,697</b>	<b>(48,590,345)</b>
<b>Uses:</b>				
Transfers Out.....	108,522,123	126,454,014	138,383,434	(11,929,420)
Principal Paid to Bond Agent for Refunded Bonds.....	12,280,225	12,280,225	40,880,000	(28,599,775)
Interest Paid to Bond Agent for Refunded Bonds.....	523,744	523,744	523,744	-
<b>Total Other Financing Uses.....</b>	<b>121,326,092</b>	<b>139,257,983</b>	<b>179,787,178</b>	<b>(40,529,195)</b>
<b>Total Other Financing Sources and Uses.....</b>	<b>37,529,471</b>	<b>175,398,059</b>	<b>86,278,519</b>	<b>(89,119,540)</b>
<b>SPECIAL ITEM - Casino Development Revenue.....</b>	<b>38,250,000</b>	<b>38,250,000</b>	<b>38,250,000</b>	<b>-</b>
<b>Net Change in Fund Balance.....</b>	<b>(78,224,172)</b>	<b>(78,224,172)</b>	<b>(77,966,168)</b>	<b>258,004</b>
<b>Fund Balance at Beginning of Year.....</b>	<b>78,224,172</b>	<b>78,224,172</b>	<b>140,304,407</b>	<b>62,080,235</b>
<b>Increase (Decrease) in Inventories .....</b>	<b>-</b>	<b>-</b>	<b>6,878,030</b>	<b>6,878,030</b>
<b>Fund Balance at End of Year.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 69,216,269</b>	<b>\$ 69,216,269</b>

The accompanying notes are an integral part of the financial statements.

**City of Detroit, Michigan**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2004**

ASSETS	Sewage Disposal Fund	Transportation Fund
<b>Current Assets:</b>		
Cash and Cash Equivalents.....	\$ -	\$ 2,367,033
Investments.....	40,242,687	1,643,586
<b>Accounts and Contracts Receivable:</b>		
Due from Other Funds.....	40,413,894	236,405
Due from Other Governmental Agencies.....	-	20,485,453
Other Receivables- Trade.....	190,767,579	707,656
Total Accounts and Contracts Receivable.....	231,181,473	21,429,514
Allowance for Uncollectible Accounts.....	(42,901,655)	(44,290)
Total Accounts and Contracts Receivable - Net.....	188,279,818	21,385,224
Inventories.....	10,890,503	9,897,618
Prepaid Expenses.....	5,880	-
Restricted Cash and Cash Equivalants.....	31,905,215	-
Restricted Investments.....	349,717,460	-
Restricted Due from Other Funds.....	20,688,810	-
<b>Total Current Assets.....</b>	<b>641,730,373</b>	<b>35,293,461</b>
<b>Noncurrent Assets:</b>		
<b>Restricted:</b>		
Investments.....	261,766,757	-
<b>Capital Assets:</b>		
Land.....	13,876,751	4,114,574
Land Improvements.....	-	-
Buildings and Structures.....	891,488,855	65,498,463
Water and Sewer Lines.....	532,455,750	-
Equipment, Machinery, and Fixtures.....	572,095,371	48,489,640
Vehicles and Buses.....	-	148,970,549
Construction Work in Progress.....	1,203,738,078	4,699,876
Total Capital Assets.....	3,213,654,805	271,773,102
Less: Accumulated Depreciation.....	(637,571,035)	(141,287,061)
Net Capital Assets.....	2,576,083,770	130,486,041
<b>Total Non-Current Assets.....</b>	<b>2,837,850,527</b>	<b>130,486,041</b>
<b>Other Assets:</b>		
Bond Issuance Costs.....	31,105,792	-
Other.....	-	650,000
Total Noncurrent Assets.....	2,868,956,319	131,136,041
<b>Total Assets.....</b>	<b>3,510,686,692</b>	<b>166,429,502</b>

(Continued)

**Enterprise Funds**

Water Fund	Automobile Parking Fund	Non-Major Funds	Total
\$ 3,811,324	\$ 1,226,170	\$ 772,417	\$ 8,176,944
13,491,812	20,063	-	55,398,148
30,044,331	779,598	1,037,750	72,511,978
-	-	9,424	20,494,877
94,940,116	1,097,789	831,061	288,344,201
124,984,447	1,877,387	1,878,235	381,351,056
(30,237,264)	-	(385,482)	(73,568,691)
94,747,183	1,877,387	1,492,753	307,782,365
6,832,006	-	-	27,620,127
106,819	119,295	88,693	320,687
21,717,159	-	-	53,622,374
273,615,422	203,360	-	623,536,242
19,027,664	-	-	39,716,474
433,349,389	3,446,275	2,353,863	1,116,173,361
22,769,343	35,674,087	-	320,210,187
6,527,438	7,014,114	5,169,374	36,702,251
96,834,157	214,908	8,020,718	105,069,783
453,406,152	199,088,852	5,272,287	1,614,754,609
689,057,547	-	-	1,221,513,297
492,782,490	2,339,955	1,729,317	1,117,436,773
-	-	1,482,115	150,452,664
679,745,387	5,858,056	-	1,894,041,397
2,418,353,171	214,515,885	21,673,811	6,139,970,774
(647,652,745)	(107,900,645)	(12,104,762)	(1,546,516,248)
1,770,700,426	106,615,240	9,569,049	4,593,454,526
1,793,469,769	142,289,327	9,569,049	4,913,664,713
27,605,624	-	-	58,711,416
-	517,430	-	1,167,430
1,821,075,393	142,806,757	9,569,049	4,973,543,559
2,254,424,782	146,253,032	11,922,912	6,089,716,920

City of Detroit, Michigan  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2004 (Continued)**

LIABILITIES AND NET ASSETS	Sewage Disposal Fund	Transportation Fund
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Book Cash Overdraft .....	134,189	-
Accounts and Contracts Payable.....	13,928,353	14,478,990
Due to Other Funds.....	31,637,856	15,350,255
Due to Fiduciary Funds.....	3,037,250	4,367,232
Due to Component Units.....	-	5,526,824
Refundable Deposits.....	-	-
Accrued Salaries and Wages.....	1,455,830	2,778,992
Accrued Compensated Absences.....	6,051,544	2,984,129
Accrued Public Liability and Workers Compensation.....	1,181,346	709,620
Other Liabilities.....	9,738,648	-
Bonds and Notes Payable .....	44,825,000	-
Accrued Interest on Bonds and Notes Payable.....	25,691,034	-
Restricted Accounts and Contracts Payable.....	78,922,676	-
Restricted Due to Other Funds.....	5,207,146	-
Restricted Other Liabilities.....	-	-
Deferred Revenue.....	-	117,630
<b>Total Current Liabilities.....</b>	<b>221,810,872</b>	<b>46,313,672</b>
<b>Noncurrent Liabilities:</b>		
Bonds and Notes Payable.....	2,330,327,599	-
Unamortized Discount and Gain on Defeasances.....	(8,476,974)	-
Bonds and Notes Payable - Net.....	2,321,850,625	-
Deferred Swap Termination Fees.....	14,056,137	-
Accrued Compensated Absences.....	6,106,719	746,032
Accrued Public Liability and Workers' Compensation.....	4,025,338	2,838,480
Advance From Other Funds.....	-	-
<b>Total Noncurrent Liabilities.....</b>	<b>2,346,038,819</b>	<b>3,584,512</b>
<b>Total Liabilities .....</b>	<b>2,567,849,691</b>	<b>49,898,184</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt.....	610,829,187	130,486,041
Restricted for Debt Service.....	130,303,233	-
Unrestricted (Deficit).....	201,704,581	(13,954,723)
<b>Total Net Assets.....</b>	<b>\$ 942,837,001</b>	<b>\$ 116,531,318</b>

The accompanying notes are an integral part of the financial statements.

**Enterprise Funds**

<u>Water Fund</u>	<u>Automobile Parking Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
-	-	-	134,189
19,127,419	1,672,280	176,652	49,383,694
47,587,676	1,032,376	490,730	96,098,893
1,580,632	467,162	19,518	9,471,794
-	-	-	5,526,824
-	-	93,067	93,067
1,817,697	-	25,882	6,078,401
9,984,576	199,469	171,351	19,391,069
4,756,519	-	10,933	6,658,418
3,068,993	-	213,553	13,021,194
22,440,000	6,255,000	-	73,520,000
32,246,376	2,222,674	-	60,160,084
31,321,660	-	80,000	110,324,336
7,375,701	-	-	12,582,847
621,531	-	-	621,531
-	-	4,701	122,331
<u>181,928,780</u>	<u>11,848,961</u>	<u>1,286,387</u>	<u>463,188,672</u>
1,690,995,000	60,845,000	-	4,082,167,599
(59,570,404)	1,808,213	-	(66,239,165)
<u>1,631,424,596</u>	<u>62,653,213</u>	-	<u>4,015,928,434</u>
16,943,863	-	-	31,000,000
5,604,945	247,624	295,927	13,001,247
11,021,735	-	111,716	17,997,269
-	2,560,000	-	2,560,000
<u>1,664,995,139</u>	<u>65,460,837</u>	<u>407,643</u>	<u>4,080,486,950</u>
<u>1,846,923,919</u>	<u>77,309,798</u>	<u>1,694,030</u>	<u>4,543,675,622</u>
237,151,776	75,382,312	9,569,049	1,063,418,365
68,734,107	-	-	199,037,340
101,614,980	(6,439,078)	659,833	283,585,593
<u>\$ 407,500,863</u>	<u>\$ 68,943,234</u>	<u>\$ 10,228,882</u>	<u>\$ 1,546,041,298</u>



**City of Detroit, Michigan**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2004**

	Sewage Disposal Fund	Transportation Fund
<b>Operating Revenues:</b>		
Sales and Charges for Services.....	\$ 312,798,177	\$ 24,712,839
Rentals, Fees and Surcharges.....	3,155,337	-
Miscellaneous.....	3,856,227	-
<b>Total Operating Revenues.....</b>	<b>319,809,741</b>	<b>24,712,839</b>
<b>Operating Expenses:</b>		
Salaries, Wages and Benefits.....	45,861,755	123,721,317
Contractual Services.....	-	24,875,402
Operating .....	121,556,006	-
Repairs and Maintenance.....	15,566,222	-
Materials, Supplies and Other Expenses.....	-	43,588,697
Depreciation and Amortization.....	50,085,670	14,397,301
<b>Total Operating Expenses.....</b>	<b>233,069,653</b>	<b>206,582,717</b>
<b>Total Operating Income (Loss).....</b>	<b>86,740,088</b>	<b>(181,869,878)</b>
<b>Non-Operating Revenues (Expenses):</b>		
Earnings on Investments.....	8,017,586	49,744
Grants-Federal.....	-	23,160,885
Contributions.....	-	66,184,533
Revenue from Interest Rate Swap.....	-	-
Interest on Bonds and Notes Payable.....	(59,629,554)	-
Gain on Disposal of Assets.....	-	-
Other Revenue.....	-	2,609,933
Other Expenses.....	(4,699,023)	-
<b>Total Non-Operating Revenues (Expenses).....</b>	<b>(56,310,991)</b>	<b>92,005,095</b>
<b>Net Income (Loss) Before Contributions and Transfers.....</b>	<b>30,429,097</b>	<b>(89,864,783)</b>
Capital Contributions.....	-	29,420,774
Transfers In.....	-	74,318,857
<b>Increase (Decrease) in Net Assets.....</b>	<b>30,429,097</b>	<b>13,874,848</b>
<b>Net Assets - Beginning of Year, as Restated.....</b>	<b>912,407,904</b>	<b>102,656,470</b>
<b>Net Assets - End of Year.....</b>	<b>\$ 942,837,001</b>	<b>\$ 116,531,318</b>

The accompanying notes are an integral part of the financial statements.

**Enterprise Funds**

<b>Water Fund</b>	<b>Automobile Parking Fund</b>	<b>Non-Major Funds</b>	<b>Total</b>
\$ 251,697,368	\$ -	\$ 71,677	\$ 589,280,061
-	19,478,139	894,513	23,527,989
<u>3,719,815</u>	-	<u>6,469</u>	<u>7,582,511</u>
<u>255,417,183</u>	<u>19,478,139</u>	<u>972,659</u>	<u>620,390,561</u>
42,072,318	2,283,524	1,697,545	215,636,459
-	3,604,361	-	28,479,763
107,890,191	3,917,705	693,491	234,057,393
-	2,246,365	160,486	17,973,073
2,599,262	242,808	857,384	47,288,151
<u>38,853,740</u>	<u>5,901,177</u>	<u>621,701</u>	<u>109,859,589</u>
<u>191,415,511</u>	<u>18,195,940</u>	<u>4,030,607</u>	<u>653,294,428</u>
<u>64,001,672</u>	<u>1,282,199</u>	<u>(3,057,948)</u>	<u>(32,903,867)</u>
4,223,627	225,250	-	12,516,207
-	-	299,161	23,460,046
-	-	-	66,184,533
-	163,099	-	163,099
(52,210,199)	(3,794,906)	-	(115,634,659)
-	140,012	-	140,012
1,039,710	-	-	3,649,643
-	-	-	(4,699,023)
<u>(46,946,862)</u>	<u>(3,266,545)</u>	<u>299,161</u>	<u>(14,220,142)</u>
17,054,810	(1,984,346)	(2,758,787)	(47,124,009)
4,038,816	-	-	33,459,590
-	-	2,789,179	77,108,036
<u>21,093,626</u>	<u>(1,984,346)</u>	<u>30,392</u>	<u>63,443,617</u>
<u>386,407,237</u>	<u>70,927,580</u>	<u>10,198,490</u>	<u>1,482,597,681</u>
<u>\$ 407,500,863</u>	<u>\$ 68,943,234</u>	<u>\$ 10,228,882</u>	<u>\$ 1,546,041,298</u>

City of Detroit, Michigan  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2004

	Sewage Disposal Fund	Transportation Fund
<b>Cash Flows from Operations:</b>		
Receipts from Customers.....	\$ 323,241,563	\$ 26,602,717
Advances from Other Funds.....	-	-
Repayments from Other Funds.....	-	-
Repayments to Other Funds.....	(3,467,351)	-
Deposits Refunded to Customers.....	-	-
Payments to Suppliers.....	(109,592,661)	(65,848,176)
Payments to Employees.....	(43,049,784)	(123,418,065)
Net Cash Provided by (Used in) Operating Activities.....	<u>167,131,767</u>	<u>(162,663,524)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Grants and Contributions from Other Governments.....	-	91,955,351
Transfers from Other Funds.....	-	79,814,654
Net Cash Provided by Non-Capital Financing Activities.....	<u>-</u>	<u>171,770,005</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital Contributions.....	-	23,944,107
Acquisition and Construction of Capital Assets.....	(354,410,519)	(29,433,117)
Proceeds from Bond and Note Issuances.....	208,532,328	-
Unamortized Discount and Bond Issuance Cost.....	2,644,404	-
Principal Paid on Bonds and Notes.....	(38,745,000)	-
Interest Paid on Bonds - Net.....	(113,346,957)	-
Principal Paid on Refunded Debt.....	(103,845,000)	-
Amount received through Swap Agreement Debt.....	-	-
Swap Termination Fees.....	14,056,137	-
Other Receipts.....	410,035	-
Net Cash Provided by (Used in) Capital and Related Financing Activities.....	<u>(384,704,572)</u>	<u>(5,489,010)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds (Losses) from Sales and Maturities of Investments, Net.....	195,891,333	(1,369,744)
Interest on Investment Securities.....	8,017,587	49,744
Net Cash Provided by (Used in) Investing Activities.....	<u>203,908,920</u>	<u>(1,320,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(13,663,885)	2,297,471
Cash and Cash Equivalents at Beginning of Year, as Restated.....	45,434,911	69,562
Cash and Cash Equivalents at End of Year.....	<u>\$ 31,771,026</u>	<u>\$ 2,367,033</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

Enterprise Funds			
Water Fund	Automobile Parking Fund	Non-Major Funds	Total
\$ 248,883,564	\$ 19,788,804	\$ 886,368	\$ 619,403,016
-	1,310,000	-	1,310,000
-	(447,077)	-	(447,077)
(30,515,991)	(523,276)	(59,045)	(34,565,663)
-	-	2,811	2,811
(109,534,716)	(10,132,891)	(1,344,144)	(296,452,588)
(38,181,938)	(2,117,261)	(1,534,665)	(208,301,713)
70,650,919	7,878,299	(2,048,675)	80,948,786
-	-	289,737	92,245,088
-	-	3,078,916	82,893,570
-	-	3,368,653	175,138,658
4,038,816	-	-	27,982,923
(149,715,214)	(892,957)	-	(534,451,807)
226,410,000	-	-	434,942,328
4,725,892	314,649	-	7,684,945
(19,740,000)	(6,215,000)	-	(64,700,000)
(80,728,302)	(3,811,036)	-	(197,886,295)
(226,410,000)	-	-	(330,255,000)
-	4,077,469	-	4,077,469
16,943,863	-	-	31,000,000
1,039,710	-	-	1,449,745
(223,435,235)	(6,526,875)	-	(620,155,692)
125,994,982	(981,439)	-	319,535,132
4,223,627	225,250	-	12,516,208
130,218,609	(756,189)	-	332,051,340
(22,565,707)	595,235	1,319,978	(32,016,908)
48,094,190	630,935	203,160	94,432,758
\$ 25,528,483	\$ 1,226,170	\$ 1,523,138	\$ 62,415,850

City of Detroit, Michigan  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Continued)**  
For the Year Ended June 30, 2004

	Sewage Disposal Fund	Transportation Fund
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)</b>		
<b>Operating Activities:</b>		
Operating Income (Loss).....	\$ 86,740,088	\$ (181,869,878)
<b>Adjustments to Operating Income (Loss):</b>		
Depreciation and Amortization .....	50,085,670	14,397,301
Allowance for Uncollectible Accounts.....	5,237,411	(7,580)
Late Charges and Other, Net.....	(6,468,196)	-
<b>Changes in Assets and Liabilities:</b>		
Other Receivables - Trade.....	(10,074,723)	1,889,878
Inventories.....	3,365,569	1,655,682
Prepaid Expenses.....	29,477,360	-
Accounts Receivable Expenses.....	-	-
Due from Other Funds.....	-	-
Accounts and Contracts Payable.....	5,412,445	1,062,881
Due to Other Funds.....	(3,467,351)	(1,728,671)
Due to Component Units.....	-	880,571
Due to Governmental Agencies.....	-	-
Other Liabilities.....	4,041,931	-
Accrued Compensated Absences.....	-	(117,814)
Accrued Public Liability and Worker Compensation.....	2,524,033	753,040
Advances from Other Funds.....	-	-
Refundable Deposits.....	-	-
Prepaid Revenue.....	-	-
Accrued Salaries and Wages.....	257,530	421,066
	<u>167,131,767</u>	<u>(162,663,524)</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ 167,131,767</u>	<u>\$ (162,663,524)</u>

The accompanying notes are an integral part of the financial statements.

Enterprise Funds			
Water Fund	Automobile Parking Fund	Non-Major Funds	Total
\$ 64,001,672	\$ 1,282,199	\$ -	\$ (29,845,919)
38,853,740	5,901,177	-	109,237,888
-	-	-	5,229,831
-	-	-	(6,468,196)
(9,800,681)	-	-	(17,985,527)
622,369	-	-	5,643,620
428,602	(201,720)	-	29,704,242
-	310,665	-	310,665
(30,515,991)	(447,077)	2,811	(30,960,257)
3,912,059	80,068	72	10,467,525
-	(523,276)	-	(5,719,298)
-	-	-	880,571
-	-	-	-
-	-	-	4,041,931
-	166,263	(2,048,675)	(2,000,226)
2,922,120	-	-	6,199,193
-	1,310,000	-	1,310,000
-	-	-	-
-	-	-	-
227,029	-	-	905,625
<u>\$ 70,650,919</u>	<u>\$ 7,878,299</u>	<u>\$ (2,045,792)</u>	<u>\$ 80,951,669</u>

**City of Detroit, Michigan**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2004**

ASSETS	Pension and Other Employee Benefit Funds	Agency Funds	Total
Cash and Cash Equivalents.....	\$ 7,972,268	\$ 2,398,727	\$ 10,370,995
Investments at Fair Value:			
Short-Term Investments.....	153,642,872	-	153,642,872
Commercial Paper.....	4,964,125	-	4,964,125
U. S. Government Obligations.....	75,727	-	75,727
Bonds and Stocks.....	4,133,187,361	-	4,133,187,361
Mortgage-Backed Securities.....	152,535,435	-	152,535,435
Mortgage and Construction Loans.....	243,145,421	-	243,145,421
Equity Interest in Real Estate.....	166,362,111	-	166,362,111
Real Estate Investment Trusts Held by Custodian.....	28,522,443	-	28,522,443
Pooled Investments.....	472,759,003	7,108,506	479,867,509
Private Placements.....	302,152,022	-	302,152,022
Total Investments.....	5,657,346,520	7,108,506	5,664,455,026
Accrued Interest Receivable.....	25,454,111	-	25,454,111
Accounts Receivable:			
Due from Primary Government.....	85,796,911	185,281	85,982,192
Due from Component Units.....	1,760,431	-	1,760,431
Other Receivables.....	100,600,019	-	100,600,019
Total Accounts Receivable.....	188,157,361	185,281	188,342,642
Cash and Investments Held as Collateral for Securities Lending.....	889,804,447	-	889,804,447
Other Assets.....	1,138,284	-	1,138,284
Total Assets.....	6,769,872,991	9,692,514	6,779,565,505
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts and Contracts Payable.....	12,104,309	1,758,815	13,863,124
Due to Broker.....	133,277,124	-	133,277,124
Benefits and Claims Payable.....	12,147,545	-	12,147,545
Due to Primary Government.....	4,377,914	117,215	4,495,129
Due to Component Units.....	787,815	-	787,815
Amount Due to Broker for Securities Lending.....	889,804,447	-	889,804,447
Other Liabilities.....	29,245,952	7,816,484	37,062,436
Total Liabilities.....	1,081,745,106	9,692,514	1,091,437,620
Net Assets:			
Net Assets Held in Trust for Pension and Employee Benefits.....	\$ 5,688,127,885	\$ -	\$ 5,688,127,885

(An unaudited Schedule of Employer Contributions and Funding Progress is presented on page 82)

The accompanying notes are an integral part of the financial statements.

**City of Detroit, Michigan**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**For the Year Ended June 30, 2004**

	<u>Pension and Other Employee Benefit Funds</u>
<b>ADDITIONS:</b>	
Employer Contributions.....	\$ 418,018,244
Plan Member Contributions.....	57,700,769
Other Income.....	16,145,774
<b>Total Contributions.....</b>	<b>491,864,787</b>
Investment Gain .....	754,857,358
<b>Total Additions.....</b>	<b>1,246,722,145</b>
<b>DEDUCTIONS:</b>	
Pension and Annuity Benefits.....	357,303,189
Premiums to Insurers and Damage Claims.....	275,675,854
Benefits.....	2,855,837
Refunds.....	145,422,902
General and Administrative Expenses.....	7,590,116
<b>Total Deductions.....</b>	<b>788,847,898</b>
<b>Net Increase.....</b>	<b>457,874,247</b>
<b>Net Assets Held in Trust for Pension and Employee Benefits, Beginning of Year.....</b>	<b>5,230,253,638</b>
<b>Net Assets Held in Trust for Pension and Employee Benefits, End of Year.....</b>	<b>\$ 5,688,127,885</b>

The accompanying notes are an integral part of the financial statements.



City of Detroit, Michigan  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
June 30, 2004

	Brownfield Redevelopment Authority	Detroit Public Library	Downtown Development Authority	Economic Development Corporation	Detroit Housing Commission	Local Development Finance Authority	Museum of African American History
<b>ASSETS:</b>							
Cash and Cash Equivalents.....	\$ 125,218	\$ 68,321	\$ 1,428,134	\$ 3,170,197	\$ 5,239,526	\$ 5,358	\$ 1,037,167
Escrow Deposits-Cash.....	-	-	109,884	48,262,665	4,072,135	-	-
Investments, including Accrued Interest.....	-	3,922,184	118,437,981	18,777,406	-	-	426,082
<b>Accounts and Contracts Receivable:</b>							
Due from Primary Government.....	-	10,019,030	548,778	-	-	1,390,020	-
Due from Other Governments.....	-	1,598,535	-	-	13,324,884	365,548	-
Other Receivables.....	30,167	8,168,188	223,906	1,046,725	736,532	-	20,618
Total Accounts and Contracts Receivable.....	30,167	19,785,753	772,684	1,046,725	14,061,416	1,755,568	20,618
Allowance for Doubtful Accounts.....	-	(5,875,000)	-	-	(1,517,755)	-	-
Total Accounts and Contracts Receivable - Net.....	30,167	13,910,753	772,684	1,046,725	12,543,661	1,755,568	20,618
Inventory.....	-	3,224,483	-	-	-	-	118,798
Prepaid Expenditures/Expenses.....	-	-	109,708	-	438,424	-	42,719
Taxes, Interest, and Penalties Receivable - Net.....	-	795,000	4,748,316	-	16,419	-	-
Loans and Notes Receivable.....	-	-	65,496,225	2,592,196	554,409	-	-
Inventory Net of Allowance.....	-	-	-	-	312,612	-	-
Unamortized Bond and Note Issue Costs- Net.....	-	-	3,631,939	-	-	-	-
Restricted Cash.....	-	1,390,386	-	-	417,123	-	-
Restricted Escrow Deposits-Cash.....	-	-	-	-	1,589,973	-	-
Restricted Investments.....	-	6,451,567	-	-	-	28,134,743	-
<b>Capital Assets:</b>							
Land.....	-	1,371,996	7,544,670	-	15,119,876	-	-
Artwork.....	-	1,230,175	-	-	-	-	-
Plant and Equipment.....	-	160,765,691	26,823,841	-	144,602,286	-	7,204,534
Construction Work in Progress.....	-	-	-	-	23,942,191	-	-
Less: Accumulated Depreciation.....	-	(149,482,798)	(1,291,691)	-	(61,436,801)	-	(1,949,044)
Capital Assets, Net.....	-	13,885,064	33,076,820	-	122,227,552	-	5,255,490
Other.....	-	-	2,556,203	1,009,482	6,639,235	-	-
Deferred Charges.....	-	-	-	-	-	-	-
<b>Total Assets.....</b>	<b>155,385</b>	<b>43,647,758</b>	<b>230,367,894</b>	<b>74,858,671</b>	<b>154,051,069</b>	<b>29,895,669</b>	<b>6,900,874</b>
<b>LIABILITIES:</b>							
<b>Current Liabilities:</b>							
Accounts Payable and Contracts Payable.....	84,765	134,644	1,283,061	48,409,675	3,777,483	295,117	437,641
Interest Payable.....	-	-	6,617,492	248,092	-	819,156	-
Due to Primary Government.....	-	2,016,105	899,109	-	2,971,985	-	3,047
Advances Due to Primary Government.....	-	-	-	358,205	-	-	-
Accrued Salaries and Wages.....	-	774,220	-	-	113,617	-	179,961
Deferred Revenues.....	-	-	-	-	628,301	-	510,000
Other Current Liabilities.....	-	281,061	7,163,135	-	3,426,413	-	-
State Aid Anticipation and Other Notes Payable.....	-	-	-	-	-	-	-
Bonds, Notes, and Other Debt Payables-Current.....	-	-	10,548,000	1,508,185	-	2,190,000	530,732
Unamortized Premiums and Defeasances.....	-	-	(70,303)	-	-	-	-
Bonds, Notes and Other Debt Payable-Current-Net.....	-	-	10,477,697	1,508,185	-	2,190,000	530,732
Accrued Compensated Absences.....	-	189,017	-	-	288,311	-	-
Accrued Public Liability and Workers Compensation.....	-	177,597	-	-	146,909	-	-
<b>Noncurrent Liabilities:</b>							
Bonds, Notes, and Other Debt Payables-Noncurrent.....	-	-	169,273,198	1,255,963	15,343,095	89,211,533	34,543
Unamortized Premiums and Defeasances.....	-	-	(1,492,731)	-	-	-	-
Bonds, Notes and Other Debt Payable-NonCurrent-Net.....	-	-	167,780,467	1,255,963	15,343,095	89,211,533	34,543
Accrued Compensated Absences.....	-	3,723,528	-	-	773,367	-	-
Accrued Public Liability and Workers Compensation.....	-	263,306	-	-	-	-	-
<b>Total Liabilities.....</b>	<b>84,765</b>	<b>7,559,478</b>	<b>194,220,961</b>	<b>51,782,835</b>	<b>27,469,481</b>	<b>92,515,806</b>	<b>1,695,924</b>
<b>NET ASSETS:</b>							
Invested in Capital Assets, Net of Related Debt.....	-	13,885,064	33,076,820	-	122,227,552	-	5,255,490
<b>Restricted for:</b>							
Restricted (Non-Expendable).....	-	7,841,953	-	-	417,123	5,982,951	-
Capital Projects.....	27,199	-	1,622,333	22,890,567	-	-	904,735
Debt Service.....	-	-	1,447,780	-	-	22,798,445	-
Unrestricted (Deficit).....	43,421	14,361,263	-	185,269	3,936,913	(91,401,533)	(955,275)
<b>Total Net Assets (Deficit).....</b>	<b>\$ 70,620</b>	<b>\$ 36,088,280</b>	<b>\$ 36,146,933</b>	<b>\$ 23,075,836</b>	<b>\$ 126,581,588</b>	<b>\$ (62,620,137)</b>	<b>\$ 5,204,950</b>

The accompanying notes are an integral part of the financial statements.

Detroit Public Schools	Tax Increment Finance Authority	Detroit Transportation Corporation	Greater Detroit Resource Recovery Authority	Totals
\$ 8,903,480	\$ -	\$ 248,969	\$ -	\$ 20,226,370
-	-	-	-	52,444,684
82,612,840	-	4,469,933	-	228,646,426
-	-	5,526,824	-	17,484,652
275,287,381	-	2,770,917	-	293,347,265
5,139,584	-	429,012	6,764,908	22,559,640
280,426,965	-	8,726,753	6,764,908	333,391,557
-	-	-	-	(7,392,755)
280,426,965	-	8,726,753	6,764,908	325,998,802
5,185,267	-	2,826,498	-	11,355,046
-	-	751,260	3,219,056	4,561,167
73,891,226	-	-	-	79,450,961
-	-	-	-	68,642,830
-	-	-	-	312,612
-	-	-	1,731,875	5,363,814
-	-	-	4,959,622	6,767,131
-	-	-	-	1,589,973
512,856,242	-	8,637,382	176,790,525	732,870,459
55,427,603	-	5,122,237	8,873,234	93,459,616
-	-	1,986,000	-	3,216,175
1,282,546,054	-	197,657,785	513,623,297	2,333,223,488
432,500,072	-	5,565,185	-	462,007,448
(415,432,011)	-	(128,170,937)	(172,504,729)	(930,268,011)
1,355,041,718	-	82,160,270	349,991,802	1,961,638,716
-	-	-	-	10,204,920
-	-	-	1,719,417	1,719,417
2,318,917,738	-	107,821,065	545,177,205	3,511,793,328
99,496,747	-	1,602,781	11,970,108	167,492,022
14,680,116	-	-	1,405,482	23,770,338
-	-	67,149	15,647,690	21,607,800
-	-	-	-	358,205
91,520,268	-	429,341	-	93,017,407
5,668,253	-	3,004,250	-	9,810,804
1,192,267	-	3,351,942	-	15,414,818
265,734,805	-	-	-	265,734,805
43,208,483	-	-	49,105,000	107,090,400
5,440,823	-	-	-	5,370,520
48,649,306	-	-	49,105,000	112,460,920
2,325,877	-	-	-	2,803,205
-	-	-	-	324,506
1,500,342,500	-	-	420,081,864	2,195,542,696
40,264,803	-	-	(4,852,180)	33,919,892
1,540,607,303	-	-	415,229,684	2,229,462,588
145,366,807	-	210,881	-	150,074,583
56,401,699	-	-	-	56,665,005
2,271,643,448	-	8,666,344	493,357,964	3,148,997,006
228,472,107	-	82,160,270	56,523,425	541,600,728
-	-	-	-	14,242,027
-	-	5,637,382	-	31,082,216
4,699,713	-	-	(4,704,184)	24,241,754
(185,897,530)	-	11,357,069	-	(248,370,403)
\$ 47,274,290	\$ -	\$ 99,154,721	\$ 51,819,241	\$ 362,796,322

City of Detroit, Michigan  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
For the Year Ended June 30, 2004

	Brownfield Redevelopment Authority	Detroit Public Library	Downtown Development Authority	Economic Development Corporation	Detroit Housing Commission
Expenses.....	\$ (200,328)	\$ (37,989,764)	\$ (62,463,896)	\$ (12,227,756)	\$ (66,240,398)
<b>Program Revenues:</b>					
Charges for Services.....	139,463	304,294	11,095,995	17,123,677	69,036,445
Operating Grants and Contributions.....	104,070	5,712,417	-	-	-
Total Program Revenues.....	243,533	6,016,711	11,095,995	17,123,677	69,036,445
Net Program (Expenses) Revenue.....	43,205	(31,973,053)	(51,367,901)	4,895,921	2,796,047
<b>General Revenues:</b>					
Property Taxes - Levied for General Purposes.....	27,199	30,335,182	29,101,165	-	-
Property Taxes - Levied for Debt Service.....	-	-	-	-	-
Investment Income.....	-	193,781	-	1,995	184,916
Interest and Penalties on Taxes.....	216	1,108,483	-	-	-
Shared Taxes.....	-	2,743,305	-	-	-
Other Taxes and Assessments.....	-	1,332,596	-	-	-
Other Non Operating .....	-	1,394,768	674,622	300,000	15,437,432
General Revenues.....	27,415	37,108,115	29,775,787	301,995	15,622,348
Change in Net Assets.....	70,620	5,135,062	(21,592,114)	5,197,916	18,418,395
Net Assets(Deficit) - Beginning of Year, as Restated.....	-	30,953,218	57,739,047	17,877,920	108,163,193
Net Assets (Deficit) - End of Year.....	\$ 70,620	\$ 36,088,280	\$ 36,146,933	\$ 23,075,836	\$ 126,581,588

The accompanying notes are an integral part of the financial statements.

Local Development Finance Authority	Museum of African American History	Detroit Public Schools	Tax Increment Finance Authority	Detroit Transportation Corporation	Greater Detroit Resource Recovery Authority	Totals
\$ (14,513,509)	\$ (6,834,923)	\$ (1,777,402,877)	\$ (11,636,682)	\$ (18,881,512)	\$ (116,723,107)	\$ (2,125,114,752)
-	1,583,936	7,580,249	-	367,012	43,792,111	151,023,182
6,950,000	5,075,412	525,155,465	-	9,621,165	71,146,881	623,765,410
6,950,000	6,659,348	532,735,714	-	9,988,177	114,938,992	774,788,592
(7,563,509)	(175,575)	(1,244,667,163)	(11,636,682)	(8,893,335)	(1,784,115)	(1,350,326,160)
8,438,775	-	76,978,512	11,636,682	-	-	156,517,515
-	-	104,758,050	-	-	-	104,758,050
178,830	5,290	7,896,070	-	4,664	1,364,866	9,830,412
-	-	-	-	-	-	1,108,699
-	-	932,399,129	-	-	-	935,142,434
315,822	-	10,675,608	-	-	-	12,324,026
-	3,357,051	-	-	4,812,141	-	25,976,014
8,933,427	3,362,341	1,132,707,369	11,636,682	4,816,805	1,364,866	1,245,657,150
1,369,918	3,186,766	(111,959,794)	-	(4,076,530)	(419,249)	(104,669,010)
(63,990,055)	2,018,184	159,234,084	-	103,231,251	52,238,490	467,465,332
\$ (62,620,137)	\$ 5,204,950	\$ 47,274,290	\$ -	\$ 99,154,721	\$ 51,819,241	\$ 362,796,322

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**NOTES  
TO BASIC  
FINANCIAL  
STATEMENTS**

## NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Detroit (the City), incorporated in 1806, is a home rule city under State law. The City is organized into two separate branches: (1) the executive branch, which is headed by the Mayor, and (2) the legislative branch, which is composed of the City Council and its agencies. Other agencies (City Clerk and Election) are not classified under the two branches. The City provides the following services as authorized by its charter: public protection, public works, recreation and culture, health, economic development, public lighting, transportation, water and sewage, airport, and parking.

### A. REPORTING ENTITY

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the financial statements of the reporting entity include those of the City (the primary government) and its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The twelve component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### 1. Blended Component Unit:

**Detroit Building Authority (DBA):** The City of Detroit Building Authority (DBA) is included in the operations and activities of the City because it was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, or maintaining a building or buildings (including but not limited to health and public safety facilities), automobile parking lots or structures (independently or adjunct to other buildings), recreational facilities, and the necessary site or sites, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, all for the use of any legitimate public purpose of the City. Financing is provided by the issuance of bonds secured by lease agreements with the City and from grants received by the City.

#### 2. Discretely Presented Component Units:

Component units, which are not blended as part of the primary government, are discretely presented by reporting component unit financial data in a column separate from the financial data of the primary government. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units presented in this manner are the following:

**Detroit Public Library (DPL):** The DPL is a statutory body created by the State of Michigan. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an ad valorem tax of 3.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. City Council is responsible for approving DPL's annual budget.

**Detroit Housing Commission (DHC):** The DHC was established in 1933 under the authority of the Housing Facilities Act, 1933 PA18 (Ex. Sess), MCL 125.651 et.seq. Section 2 of the act provided that any city or incorporated village with population of over 500,000 was authorized "to purchase, acquire, construct, maintain, operate, improve, extend, and/or repair housing facilities and to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, and/or welfare."

Effective July 1, 2003 the Michigan Supreme Court determined that the DHC is a separate legal entity from the City. The Commission is governed by a five (5) member board appointed by the Mayor. A change in the City's reporting entity regarding the DHC is discussed in footnote I-C.

**Downtown Development Authority (DDA):** The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an ad valorem tax of 1.0 mill on real and personal

property in the downtown development district, a levy on the increased assessed value of a tax increment district, and issuance of revenue and tax increment bonds.

**Economic Development Corporation (EDC):** The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

**Local Development Finance Authority (LDFA):** The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. Incremental portions of the City and the County of Wayne (the County) property taxes fund LDFA.

**Museum of African American History (MAAH):** The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage, and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

**School District of the City of Detroit (the District):** The District is a statutory body created by the State of Michigan and functions under the provisions of the Michigan School Code. Funding is provided by an ad valorem tax of 13.19 mills (homestead properties) and 31.19 mills (non-homestead) on real and personal property in the City and a "foundation allowance" provided by the State of Michigan.

**Detroit Brownfield Redevelopment Authority (DBRA):** The City of Detroit Brownfield Redevelopment Authority was created by a Detroit City Council resolution dated April 23, 1998, and approved by the Mayor of the City of Detroit on April 30, 1998, under the provisions of Act 381, Public Acts of Michigan of 1996. DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted, or functionally obsolete property. This is the first year of substantial financial activity for this authority.

**Tax Increment Finance Authority (TIFA):** The TIFA was created to acquire property and provide financing for industrial development programs through issuance of long-term debt secured by a tax increment financing plan.

**Detroit Transportation Corporation (DTC):** The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

**Greater Detroit Resource Recovery Authority (GDRRA):** The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The financing was provided by the issuance of revenue bonds.

Complete financial statements of the individual component units can be obtained directly from the following administrative offices:

Downtown Development Authority  
211 West Fort Street, Suite 900  
Detroit, MI 48226  
(313) 963-2940

Local Development Finance Authority  
211 West Fort Street, Suite 900  
Detroit, MI 48226  
(313) 963-2940

Economic Development Corporation  
211 West Fort Street, Suite 900  
Detroit, MI 48226  
(313) 963-2940

Museum of African American History  
315 East Warren Avenue  
Detroit, MI 48201  
(313) 494-5800



School District of the City of Detroit  
3011 West Grand Blvd.  
11<sup>th</sup> Floor  
Detroit, MI 48202  
(313) 873-4147

Detroit Public Library  
5201 Woodward Avenue  
Detroit, MI 43202  
(313) 833-1000

Brownfield Redevelopment Authority  
500 Griswold, Suite 2200  
Detroit, Michigan 48226  
(313) 237-4616

Detroit Housing Commission  
2211 Orleans Street  
Detroit, Michigan 48207  
(313) 877-8557

Tax Increment Finance Authority  
211 West Fort Street Avenue, Suite 900  
Detroit, MI 48226  
(313) 963-2940

Detroit Transportation Corporation  
1420 Washington Blvd., 3<sup>rd</sup> Floor  
Detroit, MI 48226  
(313) 224-2160

Greater Detroit Resource Recovery Authority  
5700 Russell Street  
Detroit, MI 48211  
(313) 876-0449

**B. JOINT VENTURE**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity, subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

The Detroit-Wayne Joint Building Authority (DWJBA) was created as a corporate instrumentality in 1948 by agreement between the City and the County. All revenues or other monies received by the DWJBA must be disbursed for specific purposes in accordance with agreements with the incorporating units and the holders of the bonds. In March 1988, the City and County agreed to a consent judgment whereby the County's equity in the ownership of a portion of the space in the Coleman A. Young Municipal Center was transferred to the City. As a result, the fixed asset costs are recorded within the City's government-wide financial statements.

The DWJBA is party to a lease agreement that extends to March 1, 2028 for rental of the Coleman A. Young Municipal Center to the City and the County. The lease provides that the DWJBA shall maintain and operate the building, the expenditures of which are to be reimbursed by the City and County on the basis of the building space allocations specified in the lease.

Complete financial statements of the DWJBA may be obtained by writing the DWJBA at the following address:

Detroit-Wayne Joint Building Authority  
 1316 Coleman A. Young Municipal Center (CAYMC)  
 Detroit, MI 48226

**C. CHANGE IN REPORTING ENTITY**

Effective July 1, 2003, in accordance with the Michigan Supreme Court determination that the Detroit Housing Commission (DHC) is legally separate from the City, the DHC is being reported as a discretely presented component unit in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. In previous years, the DHC has been reported as a non-major proprietary fund of the City.

As a result of implementing this change, the beginning net assets have been restated as follows:

	<u>Proprietary Funds</u>	<u>Component Units</u>
Net Assets - Beginning of Year	\$ 1,590,760,874	\$ 359,302,139
Restatement	(108,163,193)	108,163,193
Net Assets - Beginning of Year, as Restated	\$ 1,482,597,681	\$ 467,465,332

**D. BASIS OF PRESENTATION**

The basic financial statements include both government-wide and fund financial statements.

**1. Government-wide Financial Statements**

The government-wide statement of net assets and statement of activities report the overall financial activity of the primary government (the City), excluding fiduciary activities, and its component units. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

## 2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund types. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The following major funds are used by the City:

### **Governmental Funds:**

- a. **General Fund** accounts for several of the City's primary services (Police, Fire, Public Works, Community and Youth Services, etc.) and is the primary operating unit of the City.

### **Proprietary Funds:**

- a. **Sewage Disposal Fund** accounts for the operations of the wastewater treatment plant; sewers, including sanitary and combined sewers; combined sewer outfalls; and interceptors. The facility provides service to Detroit and 75 other communities in southeastern Michigan.
- b. **Transportation Fund** accounts for the City's mass transit system with a fleet of over 572 coaches. The fund operates three light repair garages and terminals.
- c. **Water Fund** accounts for the operations of 5 water treatment plants, 20 booster stations, and reservoirs. The fund provides service to Detroit and 125 other communities in southeastern Michigan.
- d. **Automobile Parking Fund** accounts for the activity of the City's Auto Parking and Arena System, but does not include parking fine revenues.

### Fiduciary Fund Types

The City additionally reports the following pension and other employee benefit funds:

- a. **Retirement Systems** – accounts for contributions received, invested, and expended for the General Retirement System and the Policemen and Firemen Retirement System.
- b. **Employee Benefit Fund** – accounts for the health, dental, life insurance, and eye care of City employees and retirees.
- c. **Employee Disability Income Protection Plan** – accounts for long-term disability benefits of employees who become disabled and are not yet eligible for service requirements. The plan provides monthly income, hospitalization insurance, and life insurance.

### Agency Funds

These funds account for assets that the City holds for others in an agency capacity

## E. BASIS OF ACCOUNTING

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Significant revenue sources which are susceptible to accrual include property taxes, income taxes, utility taxes, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

Financial Accounting Standards Board (FASB) Statements and Interpretations, APB opinions and ARB'S of the Committee on Accounting Procedure issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent FASB guidance.

**F. BUDGETARY DATA**

**Budgeting Policy:**

The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included in separate sections of the budget. Any surplus or deficit during the preceding year is entered into the budget for the next fiscal year as either revenue (surplus) or appropriation (deficit), in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues, so that the budget as submitted is a balanced budget. Budgets are prepared for all agencies of the City.

On or before April 12 each year, the Mayor submits to the City Council a proposed annual budget for the next fiscal year. A public hearing in the manner provided by law or ordinance is held on the proposed budget before adoption. After the public hearing, the City Council adopts the budget with or without amendment. Consideration of the budget is completed by the City Council no later than May 15. If the Mayor disapproves of amendments made by the City Council, the Mayor, within seven days, submits to the City Council in writing the reasons for the disapproval. The City Council proceeds to reconsider any budget item so disapproved. If, after reconsideration, a two-thirds majority of the City Council serving agrees to sustain any of the City Council's amendments to the budget, those amendments so sustained are of full force and effect. The City Council's reconsideration of the budget must be concluded within three business days after receipt of the Mayor's disapproval.

The adoption of the budget provides for: (1) appropriations of specific amounts from funds indicated, (2) a specific levy of property tax, and (3) provision for the issuance of bonds specified in the capital program. The budget as adopted becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriations for the functions of each City department are fixed. Expenditures may not exceed the original appropriations without City Council approval. If during the fiscal year the Mayor advises the City Council that there are available appropriations and revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of estimated revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. In any case, the Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services, or activities within an agency or from one agency to another.

**G. ASSETS, LIABILITIES, AND FUND EQUITY**

**1. Cash and Investments:** Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value based on quoted market prices.

**2. Interfund Transactions:**

The City has the following types of interfund transactions:

- a. **Loans** – amounts provided with a requirement for repayment. Interfund loans are reported as due from other funds in lender funds and due to other funds in borrower funds.
- b. **Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

- c. **Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.
  - d. **Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.
3. **Inventories:** Cost of inventories of the governmental-type funds is recorded as expenditures at the time of purchase. Inventories at year-end for the General, Construction Code, Drug Law Enforcement Fund, and Major and Local Street funds are recorded in the balance sheet at cost or market, whichever is lower, based on a physical inventory, with a reserve for inventories in fund balance by the related fund. Inventories of the Enterprise Funds are stated at the lower of cost or market and expensed when used.
4. **Capital Assets:** Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are recorded at fair market value as of the date received. The City’s capitalization levels are \$5,000 on tangible personal property and for improvements other than buildings, and \$50,000 on infrastructure, including sewer and stormwater lines. All acquisitions of land and land improvements will be capitalized regardless of cost. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capitalized interest, net of related debt, for the year ended June 30, 2004 for the Sewage Disposal and Water Funds was \$50,451,250 and \$26,713,603 respectively. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Land improvements	5 – 20
Buildings and building improvements	5 – 50
Improvements other than buildings	5 – 50
Machinery and equipment	5 – 20
Vehicles other than buses	3 – 10
Buses	12
Stormwater and wastewater lines and pump stations	10 – 65
Other infrastructure	7 – 60

The City has a collection of artwork presented both in buildings and public outdoor spaces. The true value of the art is expected to either be maintained or enhanced over time, and thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded.

5. **Bond Premiums, Discounts, and Issuance Costs:** In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and gains (losses) on defeasance. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums or discounts and gains or losses on defeasance, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. **Encumbrances:** Encumbrances outstanding for governmental funds at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. All governmental fund budgets are maintained on the modified accrual basis of accounting, except that budgetary-basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year-end.
7. **Compensated Absences:** For funds other than the Transportation Fund, unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. Furlough time is awarded to uniformed police and fire employees at the beginning of two semi-annual periods. Any unused furlough time remaining at the end of each semi-annual period is forfeited. For the Transportation Fund, unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation must be used or the employee loses a portion of the vacation pay.

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds only if they have matured.

8. **Property Taxes:** The Constitution of the State of Michigan limits the proportion of true cash value at which real property can be uniformly assessed to 50%. The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government are responsible for actually assessing at 50% of true cash value, the final State equalized assessment against which local property tax rates are applied is derived through several steps. County equalization is brought about by adjustments of the various local unit assessment ratios to the same level; then the State equalizes the various counties in relation to each other. State equalized values are important; aside from their use for local property tax levy purposes, because of their role in distribution of State school aid and in the calculation of debt limits. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures, and equipment. Though comprehensive authority is granted by the State to Michigan municipalities for governmental purposes, the Constitution and general laws of the State limit the municipal rate of taxation and restrict the amount of debt a municipality may incur. At the present time, the general ad valorem taxing power of the City is generally limited by State law and the City Charter to 20 mills. The City is levying at its current maximum rate limit. In addition, the City is authorized to levy additional taxes within specified amounts for specific purposes under specific legislation. At the present time, under such an authorization, the City is levying 3 additional mills for the purpose of garbage and rubbish collection. These millage limitations, however, do not apply to taxes levied by the City for payment of principal and interest on presently outstanding unlimited tax-supported bonds, nor do they apply to payment of principal and interest on tax-supported bonds issued in anticipation of presently outstanding contractual obligations of the City or presently outstanding assessments in the City.

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full, or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. Property owners may appeal their assessments to the local Board of Review and ultimately to the Michigan Tax Tribunal.

In the government-wide financial statements, property tax revenue is recorded in the period in which the tax is levied. In the governmental fund financial statements, the City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

9. **Municipal Income Taxes:** The City levies an annual income tax. The rate for the calendar year 2004 consists of an annualized tax of 2.50% on the income of resident individuals, 1.25% on income earned in the City by

non-residents and for corporations, the annual rate for 2004 is 1.0%. These rates are being lowered over a 10-year period starting July 1, 1999. The resident rate will decrease by 1/10 of a percentage point, the non-resident rate by 1/20 of a percentage point, and the corporate rate by 2/10 of a percentage point over the same period. After the 10-year period, the calendar 2009 resident rate will be 2%, the non-resident rate will be 1%, and the corporate rate will be zero. However, due to current economic conditions there was a temporary rate freeze of the tax rates for the calendar year 2004. The rates were as follows: Residents 2.5%, Non-Residents 1.25% and Corporations 1%. The City has re-applied for, and received, approval for the rate freeze to remain in effect for calendar year 2005. Municipal income taxes are accrued for income tax withholdings collected by employers but not yet remitted to the City. In the government-wide financial statements, income tax revenue is recorded in the period in which the underlying compensation is earned by the taxpayer. In the governmental fund financial statements, the City records municipal income tax revenues when they become available. Available is defined as due and receivable within the current fiscal year or expected to be collected within 60 days thereafter. Estimated refunds for income tax returns received and in process, in which payment has not been made, are recorded as a reduction of revenues. Income tax assessment receivable represents estimated additional taxes assessed as a result of tax return audits or failure to file a return.

10. **Fund Balances:** In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative City plans that are subject to change.
11. **Net Assets:** The government-wide and business-type financial statements utilize a net asset presentation. Net assets are categorized as follows:
  - a. **Invested in Capital Assets (Net of Related Debt)** – consists of capital assets, net of accumulated depreciation. The outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets would further reduce this component. If there were significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds would be offset by the outstanding debt.
  - b. **Restricted Assets** – consist of constraints placed on net asset use through external constraints imposed by grantors, contributors, or laws. When both restricted and unrestricted resources are available, generally it is the City's policy to use restricted resources first, and then unrestricted resources, when they are needed.
  - c. **Unrestricted Assets** – Consist of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, net of related debt".
12. **Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
13. **New Accounting Pronouncements:** In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risk disclosed in the notes to the financial statements. The City will implement Statement No. 40 beginning with the year ended June 30, 2005.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The City will implement Statement No. 42 beginning with the year ended June 30, 2006. The City is currently evaluating the impact of adopting Statement No. 42.



In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employers contributions to a plan., including the OPEB liability or asset at transition, if any. The City is currently evaluating the impact that this standard will have on the financial statements when adopted. The City will implement Statement No. 45 beginning with the year ended June 30, 2008.

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The City has no material violations of finance-related legal and contractual provisions.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS**

For the year ended June 30, 2004, expenditures exceeded appropriations in the General Fund for the Arts Department by \$569 and Historical Department by \$73,863.

**C. DEFICIT FUND EQUITY**

The Detroit Building Authority (DBA) (a Non-Major Governmental Fund ) had deficit fund equity of \$367,767.

General Fund had an unreserved deficit of \$95,032,523. The Construction Code Fund (a Non-Major Governmental Fund) had an unreserved deficit of \$112,106. Transportation Fund and Automobile Parking Fund, (both enterprise funds), had unrestricted deficits of \$13,954,723 and \$6,439,078 respectively at June 30, 2004. Each fund has a deficit reduction plan, which includes, among other things, changes in the level of services provided, and additional subsidies from the General Fund.

**NOTE III. DETAILED NOTES ON ALL FUNDS**

**A. ASSETS**

- 1. Deposits and Investments:** Cash deposits are in financial institutions insured as members of the FDIC or NCUA. Cash held by fiscal agents or by trustees is secured in accordance with the covenants of the agency or trust agreement. Cash deposits related to federally funded programs are accounted for in accordance with applicable federal regulations. At June 30, 2004, the City's carrying amount of deposits was \$180,393,006 for governmental and business-type activities, and the bank balance was \$106,251,296. Of the bank balance, \$6,639,753 was covered by federal depository insurance. The remaining balances are not insured. At June 30, 2004, the fiduciary fund's carrying amount of deposits was \$10,370,995 and the bank balance was \$7,525,402. Of the bank balance, \$431,768 was covered by federal depository insurance. The remaining balances are not insured. At June 30, 2004, the component units' carrying amount of deposits was \$81,028,158 and the bank balance was \$37,141,992. Of the bank balance, \$1,279,206 was covered by federal depository insurance. The remaining balances are not insured.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Units</u>
Deposits	\$ 118,727,877	\$ 61,665,129	\$ 10,370,995	\$ 190,764,001	\$ 81,028,158
Investments	343,099,330	999,144,577	5,689,909,137	7,032,153,044	961,516,885
Total	<u>\$ 461,827,207</u>	<u>\$ 1,060,809,706</u>	<u>\$ 5,700,280,132</u>	<u>\$ 7,222,917,045</u>	<u>\$ 1,042,545,043</u>

The City is authorized to invest in U.S. Government obligations, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment qualify, bankers' acceptances, repurchase agreements, and mutual funds of certain investment qualify. In accordance with GASB Statement No. 3, the City's investments have been categorized to indicate the level of credit risk assumed by the City as follows: (1) insured or registered for which the securities are held by the City (or component unit as applicable) or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the City's (or component unit's) name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name. Pooled investments are not subject to categorization because they are not securities. The relationship between the City and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditor ship.

The following are the City's investment balances at fair market value at June 30, 2004:

	<b>Primary Government</b>				
	Governmental	Business-type	Fiduciary	Total	Category
	Activities	Activities	Funds		
Repurchase Agreements	\$ 1,000,000	\$ 88,254,160	\$ —	\$ 89,254,160	1
Certificate of Deposit	19,567,227	2,000,000	—	21,567,227	1
Commercial Paper	—	—	4,964,125	4,964,125	1
U.S. Government Securities	34,329,049	184,948,145	75,727	219,352,921	1
Bonds, Notes, and Stocks	98,560,000	—	4,133,187,361	4,231,747,361	1
Pooled Investments	189,643,054	548,990,407	505,321,620	1,243,955,081	N/A
Treasury Coupon Securities	—	174,951,865	—	174,951,865	1
Short-term Investments	—	—	153,642,872	153,642,872	1
Mortgage-backed Securities	—	—	395,680,856	395,680,856	2
Equity Interest in Real Estate	—	—	166,362,111	166,362,111	N/A
Real Estate Investment Trusts	—	—	28,522,443	28,522,443	2
Private Placements	—	—	302,152,022	302,152,022	2
<b>Total</b>	<b>\$ 343,099,330</b>	<b>\$ 999,144,577</b>	<b>\$ 5,689,909,137</b>	<b>\$ 7,032,153,044</b>	

<b>Component</b>	
	<b>Units</b>
Repurchase Agreements	\$ 7,892,370
Certificates of Deposit	284,219
Commercial Paper	10,974,377
U.S. Government Securities	129,057,328
U.S. Government Securities	30,533,370
Bonds, Notes, and Stocks	37,720
Pooled Investments	10,373,751
Short-term Investments	<u>772,363,750</u>
<b>Total</b>	<b>\$ 961,516,885</b>

**2. Other Receivables:** Other receivables in the statement of net assets for governmental activities are shown in the aggregate. The following details the other receivable balance at June 30, 2004

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Estimated Withheld Income			
Tax Receivable	\$ 26,684,072	\$ —	\$ 26,684,072
Trade Receivables	27,026,133	860,766	27,886,899
Land Contracts Receivable	6,224,469	—	6,224,469
Property Taxes	15,803,134	5,730,160	21,533,294
Income Taxes	40,250,167	—	40,250,167
Special Assessments	1,370,579	335,844	1,706,423
Interest and Penalties	5,530,000	2,000,000	7,530,000
Utility Users Tax	1,267,347	—	1,267,347
Due from Fiduciary Funds	4,495,129	—	4,495,129
Allowance for Doubtful Accounts	<u>(75,446,071)</u>	<u>(452,744)</u>	<u>(75,898,815)</u>
 Total Other Receivables, Net	 <u>\$ 53,204,959</u>	 <u>\$ 8,474,026</u>	 <u>\$ 61,678,985</u>

- 3. Due from/to Other Governmental Agencies:** Due from/to other governmental agencies consists primarily of sales and charges for services to/from the County, the State of Michigan, and the Federal Government.
- 4. Interfund Receivables and Payables:** During the course of operations, numerous transactions occur between the City funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as “due from other funds” (due from fiduciary funds) and “due to other funds” (due to fiduciary funds) on the balance sheet and statement of net assets and are expected to be collected within one year. Interfund receivables and payables at June 30, 2004 are as follows:

	<u>Due From</u>								<u>Total</u>
	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Sewage Disposal Fund</u>	<u>Transportation Fund</u>	<u>Water Fund</u>	<u>Auto Parking Fund</u>	<u>Non-major Proprietary Funds</u>	<u>Fiduciary Funds</u>	
Due to:									
General Fund	\$ —	\$ 14,830,630	\$ 4,520,079	\$ 14,447,670	\$ 8,933,277	\$ 1,006,415	\$ 210,403	\$ 4,495,129	\$ 48,443,603
Non-major Governmental Funds	4,089,404	3,539,586	—	639,772	524,520	25,961	280,195	—	9,099,438
Water Fund	16,747,072	—	32,324,923	—	—	—	—	—	49,071,995
Transportation Fund	172,405	64,000	—	—	—	—	—	—	236,405
Sewage Disposal Fund	15,018,930	315,381	—	262,813	45,505,580	—	—	—	61,102,704
Automobile Parking Fund	756,257	23,209	—	—	—	—	132	—	779,598
Non-major Proprietary Funds	1,037,750	—	—	—	—	—	—	—	1,037,750
Fiduciary Funds	<u>76,510,398</u>	<u>—</u>	<u>3,037,250</u>	<u>4,367,232</u>	<u>1,580,632</u>	<u>467,162</u>	<u>19,518</u>	<u>—</u>	<u>85,982,192</u>
Total	<u>\$ 114,332,216</u>	<u>\$ 18,772,806</u>	<u>\$ 39,882,252</u>	<u>\$ 19,717,487</u>	<u>\$ 56,544,009</u>	<u>\$ 1,499,538</u>	<u>\$ 510,248</u>	<u>\$ 4,495,129</u>	<u>\$ 255,753,685</u>

5. **Advances:** Advances represent interfund receivables and payables that will not be paid within one year. Advances between funds at June 30, 2004 are as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General	\$ <u>3,557,000</u>	Detroit Workforce Development Department (Non-Major Governmental Fund)	\$ 147,000
		Capital Projects Fund (Non Major Governmental Fund)	850,000
		Automobile Parking Funds	<u>2,560,000</u>
			<u>\$ 3,557,000</u>

6. **Transfers:** During the course of operations transactions occur between the City funds for operating subsidies. Related interfund receipts and disbursements are classified as "transfers in" and "transfers out" on the statement of revenues, expenditures/expenses, and changes in fund balance/net assets. The transfers are routine and consistent with the activities of the funds. Transfers between funds at June 30, 2004 are as follows:

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Transportation Fund</u>	<u>Non-major Proprietary Funds</u>	
<b><u>Transfers Out</u></b>					
General Fund	\$ ---	\$ 61,275,398	\$ 74,318,857	\$ 2,789,179	\$ 138,383,434
Non-Major Governmental Funds	<u>31,638,974</u>	<u>69,769,170</u>	<u>---</u>	<u>---</u>	<u>101,408,144</u>
Total	<u>\$ 31,638,974</u>	<u>\$ 131,044,568</u>	<u>\$ 74,318,857</u>	<u>\$ 2,789,179</u>	<u>\$ 239,791,578</u>

The General Fund transferred \$138,383,434 to other funds. The largest transfer was made to the Transportation Fund for \$74.3 million to maintain bus operations. The General Fund also transferred \$51.3 million to the Debt Service Fund for principal and interest payments.

The Non-Major Governmental Funds transferred \$101,408,144 to other funds. The Capital Projects Fund transferred \$36.9 million to the Debt Service Fund to be reserved for the Cobo Hall debt service payments. The Major and Local Street Fund transferred 31.3 million to the General Fund to reimburse General Fund for street construction costs.

**7. Capital Asset Activity for the Year Ended June 30, 2004:**

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Governmental Activities:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 314,539,283	\$ 40,972,291	\$ -	\$ 355,511,574
Works of Arts	29,845,410	-	(57,277)	29,788,133
Construction in Progress	250,633,701	54,424,883	(151,951,627)	153,106,957
Total Non-Depreciable Assets	<u>595,018,394</u>	<u>95,397,174</u>	<u>(152,008,904)</u>	<u>538,406,664</u>
<b>Depreciable Assets:</b>				
Buildings and Improvements	559,034,156	139,126,810	-	698,160,966
Machinery and Equipment	361,521,380	29,483,501	(13,155,962)	377,848,919
Infrastructure	725,857,460	41,479,457	-	767,336,917
Total Depreciable Assets	<u>1,646,412,996</u>	<u>210,089,768</u>	<u>(13,155,962)</u>	<u>1,843,346,802</u>
<b>Less Accumulated Depreciation for :</b>				
Buildings and Improvements	232,144,970	31,180,429	-	263,325,399
Machinery and Equipment	287,457,105	22,748,545	(12,761,489)	297,444,161
Infrastructure	605,313,699	21,620,402	-	626,934,101
Total Accumulated Depreciation	<u>1,124,915,774</u>	<u>75,549,376</u>	<u>(12,761,489)</u>	<u>1,187,703,661</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,116,515,616</u>	<u>\$ 229,937,566</u>	<u>\$ (152,403,377)</u>	<u>\$ 1,194,049,805</u>

**Depreciation Expense was charged to the Governmental functions as follows:**

Public Protection	\$ 14,380,171
Health	300,252
Education	75,945
Recreation and Culture	8,379,106
Economic Development	6,408,025
Housing Supply and Condition	40,131
Physical Environment	34,964,239
Development and Management	11,001,507
Total:	<u>\$ 75,549,376</u>

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2004

**Business-type Activities:**

<u>Major Funds:</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Sewage Disposal Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 13,825,671	\$ 51,080	\$ -	\$ 13,876,751
Construction in Progress	887,576,854	399,832,718	(83,671,494)	1,203,738,078
Total Non-Depreciable Assets	<u>901,402,525</u>	<u>399,883,798</u>	<u>(83,671,494)</u>	<u>1,217,614,829</u>
Depreciable Assets:				
Buildings and Structures	805,223,844	291,326,004	(205,060,993)	891,488,855
Sewer Lines	536,209,238	207,094,417	(210,847,905)	532,455,750
Machinery, Equipment and Fixtures	573,013,498	174,279,862	(175,197,989)	572,095,371
Total Depreciable Assets	<u>1,914,446,580</u>	<u>672,700,283</u>	<u>(591,106,887)</u>	<u>1,996,039,976</u>
Total Capital Assets	<u>2,815,849,105</u>	<u>1,072,584,081</u>	<u>(674,778,381)</u>	<u>3,213,654,805</u>
Less Accumulated Depreciation:				
Buildings and Structures	204,774,326	25,581,388	(2,476,901)	227,878,813
Sewer Lines	90,595,281	6,471,400	(788,490)	96,278,191
Machinery, Equipment and Fixtures	294,062,135	29,736,930	(10,385,034)	313,414,031
Total Accumulated Depreciation	<u>589,431,742</u>	<u>61,789,718</u>	<u>(13,650,425)</u>	<u>637,571,035</u>
Net Capital Assets	<u>\$ 2,226,417,363</u>	<u>\$ 1,010,794,363</u>	<u>\$ (661,127,956)</u>	<u>\$ 2,576,083,770</u>
<b>Transportation Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 4,114,574	\$ -	\$ -	\$ 4,114,574
Construction in Progress	15,075,092	3,540,006	(13,915,222)	4,699,876
Total Non-Depreciable Assets	<u>19,189,666</u>	<u>3,540,006</u>	<u>(13,915,222)</u>	<u>8,814,450</u>
Depreciable Assets:				
Buildings and Structures	65,487,188	11,275	-	65,498,463
Machinery, Equipment and Fixtures	32,603,653	15,885,987	-	48,489,640
Vehicle and Buses	126,064,318	23,911,071	(1,004,840)	148,970,549
Total Depreciable Assets	<u>224,155,159</u>	<u>39,808,333</u>	<u>(1,004,840)</u>	<u>262,958,652</u>
Total Capital Assets	<u>243,344,825</u>	<u>43,348,339</u>	<u>(14,920,062)</u>	<u>271,773,102</u>
Less Accumulated Depreciation:				
Buildings and Structures	44,727,463	1,036,711	-	45,764,174
Machinery, Equipment and Fixtures	26,192,166	2,648,694	-	28,840,860
Vehicle and Buses	56,974,971	10,711,896	(1,004,840)	66,682,027
Total Accumulated Depreciation	<u>127,894,600</u>	<u>14,397,301</u>	<u>(1,004,840)</u>	<u>141,287,061</u>
Net Capital Assets	<u>\$ 115,450,225</u>	<u>\$ 28,951,038</u>	<u>\$ (13,915,222)</u>	<u>\$ 130,486,041</u>

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

**Business-type Activities (continued)**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Water Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 6,358,342	\$ 169,096	\$ -	\$ 6,527,438
Construction in Progress	<u>608,364,217</u>	<u>157,981,415</u>	<u>(86,600,245)</u>	<u>679,745,387</u>
Total Non-Depreciable Assets	<u>614,722,559</u>	<u>158,150,511</u>	<u>(86,600,245)</u>	<u>686,272,825</u>
Depreciable Assets:				
Land Improvements	91,118,140	5,993,232	(277,215)	96,834,157
Buildings and Structures	431,915,880	178,585,147	(157,094,875)	453,406,152
Water lines	672,467,862	96,046,142	(79,456,457)	689,057,547
Machinery, Equipment and Fixtures	<u>432,868,661</u>	<u>159,833,248</u>	<u>(99,919,419)</u>	<u>492,782,490</u>
Total Depreciable Assets	<u>1,628,370,543</u>	<u>440,457,769</u>	<u>(336,747,966)</u>	<u>1,732,080,346</u>
Total Capital Assets	<u>2,243,093,102</u>	<u>598,608,280</u>	<u>(423,348,211)</u>	<u>2,418,353,171</u>
Less Accumulated Depreciation:				
Land Improvements	53,634,642	1,946,527	(6,901)	55,574,268
Buildings and Structures	164,802,582	8,207,491	(681,968)	172,328,105
Water Lines	236,142,033	10,435,804	(473,704)	246,104,133
Machinery, Equipment and Fixtures	<u>155,388,494</u>	<u>23,331,360</u>	<u>(5,073,615)</u>	<u>173,646,239</u>
Total Accumulated Depreciation	<u>609,967,751</u>	<u>43,921,182</u>	<u>(6,236,188)</u>	<u>647,652,745</u>
Net Capital Assets	<u>\$ 1,633,125,351</u>	<u>\$ 554,687,098</u>	<u>\$ (417,112,023)</u>	<u>\$ 1,770,700,426</u>
<b>Automobile Parking Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 7,014,114	\$ -	\$ -	\$ 7,014,114
Construction in Progress	<u>52,191,196</u>	<u>868,734</u>	<u>(47,201,874)</u>	<u>5,858,056</u>
Total Non-Depreciable Assets	<u>59,205,310</u>	<u>868,734</u>	<u>(47,201,874)</u>	<u>12,872,170</u>
Depreciable Assets:				
Land Improvements	214,908	-	-	214,908
Buildings and Structures	152,122,469	46,966,383	-	199,088,852
Machinery, Equipment and Fixtures	<u>2,251,164</u>	<u>88,791</u>	<u>-</u>	<u>2,339,955</u>
Total Depreciable Assets	<u>154,588,541</u>	<u>47,055,174</u>	<u>-</u>	<u>201,643,715</u>
Total Capital Assets	<u>213,793,851</u>	<u>47,923,908</u>	<u>(47,201,874)</u>	<u>214,515,885</u>
Less Accumulated Depreciation:				
Land Improvements	155,623	10,745	-	166,368
Buildings and Structures	100,531,940	5,446,696	-	105,978,636
Machinery, Equipment and Fixtures	<u>1,626,554</u>	<u>129,087</u>	<u>-</u>	<u>1,755,641</u>
Total Accumulated Depreciation	<u>102,314,117</u>	<u>5,586,528</u>	<u>-</u>	<u>107,900,645</u>
Net Capital Assets	<u>\$ 111,479,734</u>	<u>\$ 42,337,380</u>	<u>\$ (47,201,874)</u>	<u>\$ 106,615,240</u>

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

Business-type Activities (continued)	Beginning Balance, As Restated	Increase	Decrease	Ending Balance
<b>Non-major Funds:</b>				
<b>Non-Depreciable Assets:</b>				
Land and Land Rights	\$ 5,169,374	\$ -	\$ -	\$ 5,169,374
Total Non-Depreciable Assets	<u>5,169,374</u>	<u>-</u>	<u>-</u>	<u>5,169,374</u>
<b>Depreciable Assets:</b>				
Land Improvements	8,020,719	-	-	8,020,719
Buildings and Structures	5,272,287	-	-	5,272,287
Machinery, Equipment and Fixtures	1,703,438	25,878	-	1,729,316
Vehicle and Buses	<u>1,047,009</u>	<u>435,106</u>	<u>-</u>	<u>1,482,115</u>
Total Depreciable Assets	<u>16,043,453</u>	<u>460,984</u>	<u>-</u>	<u>16,504,437</u>
Total Capital Assets	<u>21,212,827</u>	<u>460,984</u>	<u>-</u>	<u>21,673,811</u>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	5,557,376	401,035	-	5,958,411
Buildings and Structures	4,026,473	51,668	-	4,078,141
Machinery, Equipment and Fixtures	1,348,032	89,624	-	1,437,656
Vehicle and Buses	<u>551,180</u>	<u>79,374</u>	<u>-</u>	<u>630,554</u>
Total Accumulated Depreciation	<u>11,483,061</u>	<u>621,701</u>	<u>-</u>	<u>12,104,762</u>
Net Capital Assets	<u>\$ 9,729,766</u>	<u>\$ (160,717)</u>	<u>\$ -</u>	<u>\$ 9,569,049</u>



City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

**Component Units**

	Beginning Balance, As Restated	Additions	Retirements	Ending Balance
<b>School District of the City of Detroit:</b>				
<b>Non-Depreciable Assets:</b>				
Land and Land Rights	\$ 16,029,722	\$ 39,408,081	\$ (10,200)	\$ 55,427,603
Construction in Progress	<u>621,331,015</u>	<u>267,391,543</u>	<u>(456,222,486)</u>	<u>432,500,072</u>
Total Non-Depreciable Assets	<u>637,360,737</u>	<u>306,799,624</u>	<u>(456,232,686)</u>	<u>487,927,675</u>
<b>Depreciable:</b>				
Buildings and Structures	735,829,867	275,012,269	(1,079,831)	1,009,762,305
Land Improvements	25,932,533	37,587,411	(113,265)	63,406,679
Buses and Other Vehicles	41,885,339	1,428,099	—	43,313,438
Machinery, Equipment, and Fixtures	<u>53,633,799</u>	<u>112,491,220</u>	<u>(61,387)</u>	<u>166,063,632</u>
Total Depreciable Assets	<u>857,281,538</u>	<u>426,518,999</u>	<u>(1,254,483)</u>	<u>1,282,546,054</u>
Total Capital Assets	<u>1,494,642,275</u>	<u>733,318,623</u>	<u>(457,487,169)</u>	<u>1,770,473,729</u>
<b>Less Accumulated Depreciation:</b>				
Building and Structures	325,284,364	15,133,199	(1,039,569)	339,377,994
Land Improvements	9,050,585	1,877,300	(8,993)	10,918,892
Buses and Other Vehicles	24,108,917	3,063,182	—	27,172,099
Machinery, Equipment, and Fixtures	<u>22,912,305</u>	<u>15,024,835</u>	<u>25,886</u>	<u>37,963,026</u>
Total Accumulated Depreciation	<u>381,356,171</u>	<u>35,098,516</u>	<u>(1,022,676)</u>	<u>415,432,011</u>
Net Capital Assets	<u>\$ 1,113,286,104</u>	<u>\$ 698,220,107</u>	<u>\$ (456,464,493)</u>	<u>\$ 1,355,041,718</u>
<b>Other Component Units:</b>				
<b>Non-Depreciable Assets:</b>				
Land and Land Rights	\$ 7,789,061	\$ 30,242,952	\$ —	\$ 38,032,013
Works of Art	3,216,175	—	—	3,216,175
Construction in Progress	<u>7,159,936</u>	<u>23,942,191</u>	<u>(1,594,751)</u>	<u>29,507,376</u>
Total Non-Depreciable Assets	<u>18,165,172</u>	<u>54,185,143</u>	<u>(1,594,751)</u>	<u>70,755,564</u>
<b>Depreciable:</b>				
Land and Leasehold Improvements	188,444	—	—	188,444
Buildings and Structures	77,881,501	159,405,404	(941,614)	236,345,291
Facility and Steamline	513,008,682	614,615	—	513,623,297
Works of Art	18,745,260	10,276,083	—	29,021,343
Machinery, Equipment and Fixtures	118,157,367	152,958,668	—	271,116,035
Vehicles and Buses	<u>383,024</u>	<u>—</u>	<u>—</u>	<u>383,024</u>
Total Depreciable Assets	<u>728,364,278</u>	<u>323,254,770</u>	<u>(941,614)</u>	<u>1,050,677,434</u>
Total Capital Assets	<u>746,529,450</u>	<u>377,439,913</u>	<u>(2,536,365)</u>	<u>1,121,432,998</u>
Less Accumulated Depreciation	<u>368,550,253</u>	<u>146,285,747</u>	<u>—</u>	<u>514,836,000</u>
Net Capital Assets	<u>\$ 377,979,197</u>	<u>\$ 231,154,166</u>	<u>\$ (2,536,365)</u>	<u>\$ 606,596,998</u>

8. **Deferred Revenue:** Deferred revenue represents revenue received, but for which the revenue recognition criteria have not been met. Accordingly, these revenues are deferred until such time as the revenue recognition criteria are met.
9. **Due from/to Component Units:** Due from/to component units consists of sales, charges for services, and property tax revenue to the District, DPL, EDC, and DTC.

**B. LIABILITIES**

**1. Commitments and Contingencies**

- a. **Lawsuits and Claims:** The City is a defendant in numerous lawsuits and is also subject to other claims. It has been the City's experience that lawsuits and claims are settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Legal Department have estimated that the liability for all such litigation and claims approximates \$121.9 million for governmental activities.
- b. **Grant Audits:** Several of the City's funds participate in a number of federally assisted grant programs, principal of which are the Community Development Block Grant, Low Income Housing Subsidies, Head Start, Job Training Partnership Act, DDS Work First/Edge, and Substance Abuse Programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to and/or including the year ended June 30, 2004 have not been conducted and/or completed. Accordingly, the funds' compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined as of June 30, 2004. Since the City believes such adjustments, if any, will not be material, no provision for possible adjustments has been made.
- c. **Detroit Housing Commission Grant Audits:** Effective July 1, 2003, the City of Detroit changed its presentation of the Detroit Housing Commission (DHC) to a discretely presented component unit of the City. The DHC received a qualified opinion on their June 30, 2004 financial statements. Their opinion was qualified based on several issues including the following:
  - 1) The DHC has contingent liabilities to the Department of Urban Development (HUD), which are not recorded on the DHC's financial statements. In April of 2003, HUD issued a Management Review of the Detroit Housing Commission. This report outlined questioned costs and unsupported expenses amounting to \$14,236,946. These amounts are summarized below:

<u>Grant Name</u>	<u>Amount</u>
Low Income Housing Grant	\$ 5,722,600
PHDEP	5,359,891
Capital Projects Grant	4,577,932
Total	15,660,423
Less: Amount not drawn down from HUD	(1,423,477)
	\$ 14,236,946

- 2) On May 16, 2001, the HUD Office of the Inspector General issued an Audit report concerning the HOPE VI Program. The report outlined \$18,291,476 in questioned costs due to HUD. Due to on-going negotiations, the balance of this liability is \$6,480,057 at June 30, 2004. This amount is included as a non-current liability in the DHC's financial statements at June 30, 2004. These liabilities were incurred while the DHC was reported as a department of the City; therefore, both of the contested amounts of \$14,236,946 and \$6,480,057 have been recorded in the City's government-wide financial statements.
- d. **Rate Matters:** The Sewage Disposal Fund is a party to certain challenges and disputes related to its wastewater treatment rates by various groups and governmental entities. The challenges address the reasonableness of the overall revenue requirement to be attained, certain cost allocation methods, and ultimate amounts billed. Settlement discussions are ongoing and the ultimate resolution is not currently known.
- e. **Block Grant Funds:** Several revitalization projects in the City have used a combination of financing from governmental and private sources. One of the sources of governmental financing has been Section 108 loan notes from the Federal Government.

As of June 30, 2004, future Block Grant Funds of \$22,523,000 were pledged as collateral for the amounts owed to the Federal Government under Section 108 of the Housing and Community Development Act of 1974, as amended. In addition, the City was previously authorized to use Block Grant Funds totaling \$66,962,000 for the Central Industrial Park Project. At June 30, 2004, \$2,807,435 is outstanding against this advance.

- f. **Greater Detroit Resource Recovery Authority (Authority):** In 1991, the Authority sold its waste-to-energy facility to private investors in a sale-leaseback transaction for \$634.9 million. The purchase price was paid with \$127 million in cash, mortgage notes of \$342.7 million, and future assumption of revenue bonds payable in the amount of \$165.2 million. The purchasers agreed to lease the facility to an outside contractor for an initial lease term of 18 years. The outside contractor will continue to operate the facility under a supplemental operating agreement with the Authority, which results in the Authority assuming most of the lease obligations. Upon expiration of the initial lease term, the Authority has options to renew the lease or to repurchase the facility. The City, under the supplemental service contract, has agreed to pay supplemental tipping fees to the Authority sufficient to, among other things, meet these obligations. The lease payments approximate the amortization of the mortgage notes. The cash proceeds from the sale of the facility will be reported as a finance obligation until the Authority's repurchase option is exercised or expires, at which time the gain on the sale will be recognized. Additionally, in 1991 the Authority distributed \$54 million of the cash proceeds to the City, which was reflected as a reduction of the Authority's equity.

Future minimum lease payments for each of the next five years for the initial lease term are as follows: 2005 – \$59,297,765; 2006 – \$51,419,062; 2007 – \$52,521,466; 2008 – \$ 34,719,333 and 2009 – \$34,719,333.

- g. **Other Contingencies:** The General Fund has a contingent liability for the obligations of all other City funds should such funds be unable to generate sufficient funds to liquidate their liabilities. In particular, the Airport, Detroit Transportation Corporation, and Transportation Fund have received varying levels of subsidy from the General Fund to fund operating requirements.
- h. **Construction Commitment:** The City has commitments for future construction contracts. Construction in progress and remaining commitments at June 30, 2004 are as follows:

	Spent to June 30, 2004	Remaining
Public protection	\$ 43,352,986	\$ 226,635
Municipal facilities	29,355,400	7,264,435
Cultural and recreational	77,354,682	30,866,727
Human services	1,288,329	884,201
Municipal services	1,755,560	9,319,977
	\$ 153,106,957	\$ 48,561,975

i. **Risk Management:** The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. During fiscal 1995, the City issued \$100 million of Self-insurance Bonds, and a portion of proceeds were used to reimburse the General Fund for all of its fiscal 1995 legal judgments and workers' compensation claim payments (\$41.0 million). The bonds require that remaining funds be used for self-insurance activities. Self-insured among other covered losses are liabilities for workers' compensation, legal, and disability benefits. The City currently reports the risk management activities of non-Enterprise Funds and DDOT in its General Fund. Each fund pays insurance premiums to the General Fund based on past claims activities. Amounts remaining related to self-insurance have been restricted. Because DDOT is included in the General Fund's risk management activities, it does not record a liability in its financial statements.

Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. The Library, a discretely presented component unit, reimburses the City for all costs incurred related to workers compensation. The Library records the liability in its financial statements.

At June 30, 2004, the amount of the workers' compensation, legal claims and judgments, and disability benefits was estimated at \$187.3 million for the primary government. The City has recognized a liability that approximated \$8.8 million in the General Fund as of June 30, 2004 for public liability and workers compensation claims that were due as of year-end. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements. This liability is the City's best estimate based on available information. Changes in the reported liability for the years ended June 30, 2004 and 2003 were as follows:

	(In Millions)	
	June 30, 2004	June 30, 2003
Balance at Beginning of Year	\$ 178.8	\$ 203.9
Current Year Claims and Changes in Estimates	117.7	61.0
Claims Payments	(109.2)	(86.1)
Balance at End of Year	\$ 187.3	\$ 178.8

Claims, expenditures, and liabilities are reported in accordance with GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (as amended by GASB No. 17), when it is probable that an asset has been impaired or a liability has been incurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

As a result of the issuance of the Self-insurance Bonds and the operations of the Self-insurance Reserve Fund, at June 30, 2004 the General Fund has reserved \$35.9 million for the purpose of funding the City's future claims liabilities.

2. **Other Commitments:** The City has entered into various noncancelable operating leases for various equipment. The commitments under such lease agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending:			
2005	\$	14,080,982	
2006		12,820,755	
2007		7,940,355	
2008		2,548,570	
2009		5,620,877	
2010		4,513,420	
		4,513,420	
Total Minimum Payments	\$	47,524,959	

Rental expense for all operating leases approximated \$30.5 million for the year ended June 30, 2004.

3. **Long-term Obligations:** Long-term obligations are reported by the City as general long-term obligations if the obligation is to be repaid from Governmental Fund resources, or as long-term obligations – Enterprise Funds if the obligation is to be repaid from funds other than Governmental Fund resources. Interest rates range from 2.42% to 7.97% for governmental activities, 2% to 7.75% for business-type activities and 2.90% to 9.375% for component units.

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, Act 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City, or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities.

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage.

4. **Debt Issuances and Refunding Bonds**

**Governmental Activities:**

In September 2003, the City issued \$35,603,138 of Convention Facility Special Tax Revenue and Revenue Refunding Bonds for improvements to Cobo Hall and \$55,280,000 to refund series 1993 Bonds. The bonds mature beginning on September 30, 2004, with an average yield of 3.8%.

In September 2003, the City issued \$70,025,000 of Self-Insurance Bonds Limited Tax to fund the payment of claims and \$28,870,000 to refund outstanding self-insurance bonds. The bonds mature beginning June 30, 2006, with an average yield of 4.59%.

In October 2003, the City issued \$44,020,000 of GO. Unlimited Tax Bonds for capital improvements to various General City Agencies. Additionally \$10,770,000 of refunding bonds were issued to refund Series 1993 Distributable State Aid Bonds. The bonds mature beginning April 1, 2006, with an average yield of 4.36%.

In March 2004, the City issued \$29,825,000 of Capital Improvement Bonds (Limited Tax General Obligation) to acquire vehicles and equipments. Additionally \$11,935,000 of refunding bonds were issued to refund outstanding bonds. The bonds mature, beginning April 1, 2005, with an average yield or 2.3%.

In June 2004, the City issued \$61,070,000 of General Obligation Fiscal Stabilization Bonds (Limited Tax General Obligation) to fund a portion of the City's accumulated operating deficit. The bonds mature, beginning April 1, 2005, with an average yield of 3.37%. State legislature authorizes municipalities to establish budget stabilization funds for the purpose of providing a method of stabilizing financial operations.

In prior years, the City defeased certain bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the prior debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. The amount of defeased debt outstanding at June 30, 2004 approximated \$67.8 million.

**Business-type Activities:**

**Sewage Disposal Fund:**

**Swap Termination Payment:** During the year ended June 30, 2004, the Sewage Disposal Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund received a termination payment in the amount of \$14,056,137 that has been deferred to offset future debt service. The proceeds will be recognized over the life of the debt that will be issued in fiscal year 2005 using the straight-line method.

The outstanding indebtedness of the Fund was \$2,375,152,599 at June 30, 2004. The interest rates on the outstanding bonds range from 4.2% to 6.5%. Net revenues of the Fund are pledged to repayment of bonds. In fiscal 2004, the Fund issued \$101,435,000 of City of Detroit, Michigan Sewage Disposal System Senior Lien Revenue Refunding Bonds, Series 2004-A. The net proceeds of the 2004-A Bonds will be used to refund certain of the City's outstanding Senior Lien Bonds and to pay cost of issuance associated with the 2004-A Bonds.

A portion of the Senior Lien Revenue Refunding Bonds, Series 2004-A was used to advance-refund \$38,135,000 of the outstanding Sewage Disposal System Revenue Bonds, Series 1995-A, and \$65,710,000 of Sewage Disposal System Revenue Bonds, Series 1997-A. The net proceeds of \$112,856,821 (after receiving a premium of \$12,830,333 and payment of \$1,408,512 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995-A Series and 1997-A Series bonds. As a result, the 1995-A Series and 1997-A Series bonds are considered to be partially defeased, and a portion of the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,938,589. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,398,743.

The Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. Similarly, the interest expense related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2004 \$490,565,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2004 included \$1,556,769,307 of bonds callable at various dates after July 1, 2004. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

Subsequent to year-end, the Fund received loans from the Michigan Municipal Bond Authority Michigan State Revolving Loan Fund Program in the amount of \$28,458,285 for the construction of facilities. The outstanding indebtedness of the Fund for revenue bonds was \$1,713,435,000 at June 30, 2004. The interest rates on the outstanding fixed-rate revenue bonds range from 4.30% to 6.38%. Net revenues of the Fund are pledged to repayment of bonds.

**Water Fund:**

**Swap Termination Payment:** During the year ended June 30, 2004, the Water Supply System Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund received a termination payment in the amount of \$16,943,863 that has been deferred to offset future debt service. The proceeds will be recognized over the life of the debt that will be issued in fiscal year 2005 using the straight-line method.

In fiscal 2004, the Fund issued \$240,600,000 of City of Detroit, Michigan Water Supply System Revenue Senior Lien Bonds consisting of; \$77,010,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand) Series 2004-A; and \$163,590,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Senior Lien Bonds (Variable Rate Demand) Series 2004-B. The net proceeds were used to refund a portion of the City's outstanding Water Supply System Revenue Bonds and Revenue Refunding Bonds and to pay cost of issuance associated with the 2004 Bonds.

The proceeds of the Revenue Refunding Second Lien Bonds, Series 2004-A were used to advance-refund \$70,830,000 of outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A, maturing in the years 2015 and 2025 with an average interest rate of 5.5%. The net proceeds of \$76,165,192 (after payment of \$844,808 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities.

The proceeds of the Revenue Refunding Senior Lien Bonds, Series 2004-B were used to advance-refund \$12,610,000 of outstanding Water Supply System Revenue and Refunding Bonds, Series 1993, maturing serially in the years 2005 through 2009; \$30,000,000 of Series 1993 Term Bonds, maturing in the year 2013; \$58,030,000 of Series 1993 Term Bonds, maturing in the year 2019; and \$54,940,000 of Series 1993 Term Bonds, maturing in the year 2023. The net proceeds of \$161,794,783 (after payment of \$1,795,217 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities.

Those refunded securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Series Bonds and provided for partial future debt service payments on the 2001-A Series Bonds. As a result, the 1993 Series Bonds and a portion of the 2001-A Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18,639,245. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payments over the next 21 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$12,105,118.

The Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. Similarly, the interest expenses related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2004, approximately \$546,360,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2004 include \$1,390,050,000 of bonds callable at various dates after June 30, 2004. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

**Automobile Parking Fund:**

**Swap Termination Payment:** During the year ended June 30, 2004, the Automobile Parking Fund and its counterparty terminated a swap agreement related to the issuance of debt in fiscal year 2000. The Fund received a termination payment in the amount of \$4,077,469. The proceeds will be recognized over the remaining life of the debt for which the swap was issued using the straight-line method.

**Component Units:**

As of June 30, 2004 of this year, the School District had \$1.502 billion in bonds outstanding, plus \$45.7 million in unamortized bond premium, for a total of \$1.547 billion.

Subsequent to year end, the School District repaid the \$195,535,000 and \$70,000,000 notes due August 2004 and borrowed \$210,000,000 at 1.55 percent annual interest on a new State Aid Anticipation Note. The note, plus interest, is due in August 2005. At June 30, 2004, Detroit Public Schools has accrued interest of \$1,879,388 on these notes.

During the year, the school district issued \$17,330,000 in general obligation bonds with an average interest rate of 4.00 percent. The proceeds of the bonds were used to advance refund \$7,800,000 of Series XXI bonds with an average interest rate of 7.00 percent and \$9,150,000 of the Series XXII bonds with an average interest rate of 9.35 percent. The net proceeds of approximately \$17.1 million were placed in an irrevocable trust.

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the financial statements. The amount of defeased debt outstanding at June 30, 2004 approximated \$66.1 million.



City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004		Outstanding Range of Interest Rates	June 30, 2004	
			Interest Rate	Amount		Maturity Date	Amount
<b>Governmental Activities: ( Note A )</b>							
General Obligation Bonds - Unlimited Tax							
Series 1995-B.....	8-1-95	\$ 183,450,000	7%	\$ 17,050,000	6.25 to 6.38%	4/1/05-11	\$ 99,470,000 c
Series 1996-A.....	11-1-96	22,195,000	-	-	5.20 to 5.50	4/1/08-16	20,470,000 c
Series 1996-B.....	11-1-96	1,350,000	4.80	165,000	4.90 to 5.00	4/1/05-06	350,000
Series 1996-B.....	11-1-96	21,975,000	-	-	5.10 to 5.50	4/1/07-15	21,975,000 c
Series 1997-A.....	12-15-97	29,605,000	-	-	5.00 to 5.50	4/1/08-18	29,120,000 c
Series 1997-B.....	12-15-97	12,860,000	4.40	235,000	4.40 to 5.50	4/1/05-07	8,865,000
Series 1997-B.....	12-15-97	22,945,000	-	-	5.00 to 5.38	4/1/08-14	22,945,000 c
Series 1999-A.....	4-1-99	13,975,000	-	300,000	5.00	4/1/08	1,705,000
Series 1999-A.....	4-1-99	30,125,000	-	-	5.00 to 5.25	4/1/09-19	30,125,000 c
Series 1999-B.....	11-15-99	14,725,000	-	-	5.00	4/1/08-09	3,825,000
Series 1999-B.....	11-15-99	30,275,000	-	-	5.125 to 6.00	4/1/10-19	30,275,000 c
Series 2000-AMT.....	2-15-00	9,270,000	5.00	975,000	5.00 to 5.75	4/1/05-09	5,680,000
Series 2000-AMT.....	2-15-00	1,335,000	-	-	5.75	4/1/10	1,335,000 c
Series 2001 A (1).....	7-15-01	16,800,000	-	-	3.625 to 5.50	4/1/06-11	16,800,000
Series 2001 A (1).....	7-15-01	83,200,000	-	-	5.0 to 5.315	4/1/12-21	83,200,000 c
Series 2001-A(2).....	7-15-01	5,000,000	-	-	Variable	4/1/2022	5,000,000 c
Series 2001-B.....	7-15-01	23,560,000	3.25	1,250,000	3.50 to 5.50	4/1/05-11	22,310,000
Series 2001-B.....	7-15-01	23,235,000	-	-	5.375	4/1/12-14	23,235,000
Series 2002.....	8-2-02	13,840,000	3.00	1,560,000	3.00 to 4.00	4/1/05-10	10,420,000
Series 2002.....	8-2-02	31,160,000	-	-	4.00 to 5.50	4/1/11-22	31,160,000 c
Series 2003A.....	10-9-03	7,065,000	-	-	3.70 to 5.00	4/1/10-12	7,065,000
Series 2003A.....	10-9-03	36,955,000	-	-	4.00 to 5.25	4/1/13-23	36,955,000 c
Series 2003B.....	10-9-03	10,770,000	-	10,770,000	3.0 to 5.00	4/1/2006	0
Distributable State Aid Bonds:							
Series 1993.....	12-1-93	136,675,000	4.90	10,050,000	5.00 to 5.25	5/1/05-09	58,365,000
Total General Bonds - Unlimited Tax.....							<u>570,650,000</u>

1 - interest rate equal to the Dutch Auction Rate.

2 - interest rate equal to 1 1/4% in excess of the cost of funds. The cost of funds shall be the rate quoted by the registered holder of the bonds.

c - indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004		Outstanding June 30, 2004		
			Interest Rate	Amount	Range of Interest Rates	Maturity Date	Amount
<b>Governmental Activities:</b>							
General Obligation Bonds - Limited Tax:							
Self-Insurance Bonds:							
Series 1995-B.....	6-1-95	\$ 40,000,000	6.83%	\$ 28,870,000	0%	-	\$ -
Series 2003.....	9/1/2003	98,895,000	-	-	2.42 to 4.97	5/1/2006	98,895,000
General Obligation:							
Series 1997.....	5-1-97	3,300,000	4.95	535,000	5.05 to 5.20	7/15/04-06	1,770,000
Series 1997.....	5-1-97	13,665,000	-	-	5.25 to 6.25	7/15/07-20	13,665,000
Series 2002A.....	6-27-02	52,725,000	4.50	12,010,000	4.5 to 5.0	4/1/05-21	39,560,000
Series 2004A.....	3-12-04	41,760,000	-	-	1.05 to 5.0	4/1/05-09	41,760,000
Series 2004Fiscal Stabilization ..	6-17-04	61,070,000	-	-	3.0 to 5.0	4/1/05-09	61,070,000
Total General Bonds- Limited Tax.....							<u>256,720,000</u>
Total General Bonds.....							<u>827,370,000</u>
Detroit Building Authority Bonds:							
District Court Madison Center							
Project, Series 1996 A.....	9-1-96	2,770,000	6.15	780,000	6.15	2/1/05-06	1,990,000
	9-1-96	7,230,000	-	-	6.15	2/1/07-11	7,230,000
	9-1-96	1,000,000	-	-	Variable	2/1/11	1,000,000
Series 1996 B.....	9-1-96	6,910,000	7.97	586,478	7.97	7/1/04-06	<u>1,193,826</u>
Total Detroit Building Authority Bonds.....							<u>11,413,826</u>
Total General Obligation Bonds.....							<u>838,783,826</u>
Revenue Bonds:							
Convention Facility Limited Tax Revenue Bonds- Cobo Hall Expansion:							
Series 1993.....	9-1-93	167,050,000	5.75	78,515,000	5.10 to 5.75	9/1/04-07	44,485,000
Series 2003.....	9-18-03	90,883,138	-	-	2.0-5.0	09/30/4-15	<u>90,883,138</u>
Total Conventional Facility Limited Tax Revenue Bonds-Cobo Hall Expansion.....							<u>135,368,138</u>
Total Bonds.....							<u>\$ 974,151,964</u>

c – indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

Bond Date	Amount Issued	Retired Year Ended		Outstanding June 30, 2004			
		June 30, 2004		Range of Interest Rates	Maturity Date	Amount	
		Interest Rate	Amount				
<b>Business type Activities:</b>							
<b>Sewage Disposal Fund</b>							
Sewage Disposal System Revenue Bonds (note B):							
Series 1992-A-SRF (5044-01).....	6-25-92	\$ 4,360,000	2.00%	\$ 220,000	2.00%	4/1/05-13	\$ 2,175,000
Series 1992-B-SRF (5070-01).....	9-10-92	1,915,000	2.00	95,000	2.00	10/1/04-13	1,050,000 c
Series 1993-A.....	3-9-93	45,850,000	Various	11,785,000	-	-	-
Series 1993-B-SRF (5091 & 5092).....	9-30-93	6,603,996	2.00	315,000	2.00	10/1/04-14	3,910,000 c
Series 1995-A.....	11-1-95	14,630,000	4.70	2,600,000	5.00 to 6.00	7/1/2004	2,715,000
Series 1995-A.....	11-1-95	117,800,000	Various	38,135,000	5.00 to 5.25	7/1/05-16	9,655,000 c
Series 1995-B.....	11-1-95	45,040,000	4.70	1,865,000	4.80	7/1/2004	1,960,000
Series 1995-B.....	11-1-95	80,255,000	-	-	4.90 to 6.25	7/1/05-21	80,255,000 c
Series 1997-A.....	6-15-97	55,625,000	4.50	4,300,000	4.60 to 6.00	7/1/04-06	35,865,000
Series 1997-A.....	6-15-97	206,869,128	-	65,710,000	5.00 to 6.00	7/1/07-27	106,799,128 c
Series 1997-B-SRF (5125-01).....	9-30-97	5,430,174	2.25	235,000	2.25	10/1/04-18	4,245,000
Series 1998-A.....	12-10-98	69,000,000	-	-	4.512	7/1/04-23	68,400,000
Series 1998-B.....	12-10-98	68,955,000	-	-	4.512	7/1/04-23	68,200,000
Series 1999-SRF-1 (5126-01).....	6-24-99	21,475,000	2.50	905,000	2.50	4/1/05-20	17,985,000
Series 1999-SRF-2 (5143-01).....	9-30-99	46,000,000	2.50	1,795,000	2.50	10/1/04-20	44,205,000
Series 1999-SRF-3 (5144-01).....	9-30-99	29,255,633	2.50	1,275,000	2.50	10/1/04-20	25,530,633
Series 1999-SRF-4 (5175-01).....	9-30-99	40,655,000	2.50	1,670,000	2.50	10/1/04-20	35,775,000
Series 1999-A.....	12-1-99	7,225,000	4.50	2,190,000	4.625 to 5.00	7/1/04-09	1,515,000
Series 1999-A.....	12-1-99	295,770,178	-	-	5.125 to 6.00	7/1/10-29	37,620,179 c
Series 2000-SRF-1 (5143-02).....	9-28-00	46,593,256	2.50	2,085,000	2.50	10/1/04-22	44,508,256
Series 2000-SRF-2 (5175-02).....	9-28-00	57,839,727	2.50	2,535,000	2.50	10/1/04-22	55,304,727
Series 2001-SRF-1 (5175-03).....	6-28-01	82,200,000	-	-	2.50	10/1/04-24	82,200,000
Series 2001-SRF-2 (5175-04).....	6-28-01	57,195,868	-	-	2.50	10/1/04-24	57,195,868
Series 2001-A.....	9-15-01	76,375,000	-	-	5.00 to 5.13	7/1/22-31	76,375,000
Series 2001-B.....	9-15-01	110,550,000	-	-	5.50	7/1/23-29	110,550,000
Series 2001-C(1).....	9-23-01	159,970,000	4.43	345,000	4.43	7/1/04-27	156,860,000
Series 2001-C(2).....	9-23-01	127,165,000	4.47	225,000	4.47	7/1/04-24	124,735,000
Series 2001-D.....	9-23-01	92,450,000	-	-	5.50	7/1/2032	92,450,000
Series 2001-E.....	9-23-01	139,080,000	-	-	4.38	7/1/24-31	139,080,000
Series 2002 SRF-1 (5204-01).....	10-27-01	17,491,081	-	745,000	2.50	4/1/05-23	16,746,081
Series 2002-SRF-2(5204-02).....	10-27-01	1,191,123	-	75,000	2.50	4/1/05-33	1,116,148
Series 2003-A.....	5-22-03	158,000,000	3.00	3,485,000	5.00	7/1/04-13	154,515,000
Series 2003-A.....	5-22-03	441,380,000	-	-	5.00	7/1/14-32	441,380,000 c
Series 2003-B.....	5-22-03	150,000,000	-	-	Variable	7/1/32-33	150,000,000
Series 2003-SRF-1(5204-04).....	6-28-03	15,339,190	-	-	2.50	10/1/06-25	15,339,190
Series 2003-SRF-2(5204-03).....	9-25-03	7,502,389	-	-	2.50	4/1/06-25	7,502,389
Series 2004-A.....	1-9-04	101,435,000	-	-	2.00 to 5.25	7/1/04-25	101,435,000
<b>Total Sewage Disposal System Revenue Bonds.....</b>							<b>\$ 2,375,152,599</b>

c - indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

	Bond Date	Amount Issued	Retired Year Ended		Outstanding June 30, 2004		
			June 30, 2004		Range of Interest Rates	Maturity Date	Amount
			Interest Rate	Amount			
<b>Business type Activities:</b>							
<u>Water Fund</u>							
Water Supply System Revenue Bonds (notes C and D)							
Series 1993.....	10-15-93	\$ 38,225,000	4.65%	\$ 157,490,000	4.70 to 6.5%	7/1/04-15	\$ 14,270,000
Series 1993.....	10-15-93	128,035,000	-	-	4.70 to 6.50	7/1/04-23	12,910,000 c
Series 1995A.....	10-15-95	102,100,000	4.70	73,495,000	4.70 to 5.55	7/1/04-12	70,130,000
Series 1995A.....	10-15-95	70,830,000	-	-	5.50	7/1/13-25	12,150,000 c
Series 1997A.....	9-1-97	29,080,000	4.40	3,845,000	4.30 to 5.25	7/1/04-06	12,655,000
Series 1997A.....	9-1-97	186,220,000	-	-	4.80 to 6.00	7/1/07-27	186,220,000 c
Series 1997B.....	9-1-97	30,555,000	6.00	6,655,000	5.0 to 5.25	7/1/04-06	22,040,000
Series 1999A.....	11-1-99	18,000,000	4.50	2,000,000	4.50 to 5.25	7/1/04-09	12,000,000
Series 1999A.....	11-1-99	238,340,000	-	-	5.125 to 5.75	7/1/10-18	58,700,000 c
Series 2001A.....	5-1-01	302,485,000	-	-	4.50 to 5.75	7/1/11-33	167,675,000 c
Series 2001B.....	5-1-01	108,985,000	-	-	4.50 to 5.50	7/1/12-33	108,985,000 c
Series 2001C.....	6-7-01	192,290,000	-	-	Variable	7/1/04-29	192,290,000
Series 2003A.....	1-28-03	234,805,000	-	-	4.75 to 5.25	7/1/04-34	234,805,000 c
Series 2003B.....	1-28-03	172,945,000	-	-	2.0 to 5.25	7/1/04-34	172,945,000 c
Series 2003C.....	1-28-03	46,355,000	2.00	2,665,000	2.0 to 5.25	7/1/04-22	43,690,000 c
Series 2003D.....	1-28-03	151,370,000	-	-	Variable	7/1/04-34	151,370,000 c
Series 2004A.....	5-04-04	77,010,000	-	-	3.94	7/1/04-23	77,010,000
Series 2004B.....	5-04-04	163,590,000	-	-	3.94	7/1/04-23	163,590,000
Total Water Supply System Revenue Bonds.....							\$ 1,713,435,000

Automobile Parking Fund

Detroit Building Authority Bonds - Revenue Refunding Bonds:

Parking & Arena System-Series 1997A....	2-15-97	\$ 3,050,000	0.05%	\$ 340,000	4.60 to 4.80%	7/1/04-06	\$ 1,110,000
Parking & Arena System-Series 1997B....	2-15-97	37,695,000	6.60	4,250,000	6.68 to 6.79	7/1/04-06	14,535,000
Parking & Arena System-Series 1998A....	7-1-98	8,385,000	4.50	925,000	4.50	7/1/04-03	4,140,000
Parking & Arena System-Series 1998A....	7-1-98	18,615,000	-	-	4.70 to 5.25	7/1/08-19	18,615,000 c
Parking & Arena System-Series 1999A....	10-22-99	29,900,000	7.75	400,000	7.75	7/18/04-29	28,700,000
Total Detroit Building Authority Revenue Refunding Bonds.....							67,100,000
Total Business-type Bonds.....							\$ 4,155,687,599

Note A - As of June 30, 2004, the City had \$59,120,000 in outstanding General Obligation Bonds which have been defeased or advanced refunded.

Note B - As of June 30, 2004, the City had \$490,565,000 in outstanding Sewage Disposal System Revenue Bonds which have been defeased or advanced refunded.

Note C - Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Loan Program. As the System draws additional amounts from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase.

Note D - As of June 30, 2004, the City had \$546,360,000 in outstanding Water Supply System Revenue Bonds which have been defeased or advanced refunded.

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

b. The following is the schedule of Notes Payable at June 30, 2004:

<b>Governmental Activities Notes Payable</b>	<b>Issue</b>	<b>Range of</b>	<b>Maturity</b>	<b>Amount</b>
	<b>Date</b>	<b>Interest Rates</b>	<b>Date</b>	<b>Outstanding June 30, 2004</b>
<b>Urban Renewal Fund:</b>				
Caraco Pharmaceutical Project (Secured by Future Block Grant Revenue).....	8/1/2002	1.75 to 4.16%	8/1/2008	\$ 5,208,000
Ferry Street Project (Secured by Future Block Grant Revenue).....	4/28/1999	1.75 to 4.17	8/1/04-19	2,900,000
Garfield Project (Secured by Future Block Grant Revenue).....	6/5/1996	1.75 to 4.18	8/1/03-15	1,945,000
Michigan Repacking Project (Secured by Future Block Grant Revenue).....	10/28/1997	1.75 to 4.19	8/1/03-04	1,290,000
Riverbend Project (Secured by Future Block Grant Revenue).....	6/5/1996	1.75 to 4.20	8/1/03-15	745,000
Riverbend Project (Secured by Future Block Grant Revenue).....	10/28/1997	1.75 to 4.21	8/1/03-16	405,000
Stuberstone Project (Secured by Future Block Grant Revenue).....	10/28/1997	1.75 to 4.22	8/1/03-16	330,000
New Amsterdam Project (Secured by Future Block Grant Revenue).....	8/1/2002	1.75 to 4.23	8/1/08-23	9,700,000
<b>Total Notes Payable</b>				<b>\$ 22,523,000</b>

c. The following is the schedule of Loans Payable at June 30, 2004:

<b>Governmental Activities Loans Payable</b>	<b>Issue</b>	<b>Range of</b>	<b>Maturity</b>	<b>Amount</b>
	<b>Date</b>	<b>Interest Rates</b>	<b>Date</b>	<b>Outstanding June 30, 2004</b>
Downtown Development Authority.....	1991-1997	- %	-	\$ 33,600,000
Loans Payable GE Capital Schedule - 009.....	10/30/2003	3.50	7/1/04-2/1/09	2,327,537
Loans Payable GE Capital Schedule - 010.....	10/30/2003	3.80	7/1/04-11-1-08	176,130
Loans Payable GE Capital Schedule - 011.....	11/15/2003	3.65	7/1/04-4/15/07	14,320,318
Loans Payable GE Capital Schedule - 012.....	4/2/2004	3.61	8/1/04-4/1/09	491,400
Loans Payable GE Capital Schedule - 013.....	4/9/2004	4.07	7/1/04-6/1/14	1,285,029
Loans Payable GE Capital Schedule - 014.....	5/14/2004	4.07	7/1/04-6/1/09	529,661
<b>Total Loans Payable</b>				<b>\$ 52,730,075</b>

d. The following is the schedule of Bonds Authorized and Unissued at June 30, 2004:

	<b>Authorized (Note A)</b>			<b>Unissued Amount</b>
	<b>Authority</b>	<b>Date</b>	<b>Amount</b>	
<b>General Obligation Bonds (Tax Supported):</b>				
Sewer Construction.....	Electorate	8/2/1960	\$ 50,000,000	\$ 24,000,000
Public Safety.....	Electorate	11/7/2000	12,000,000	9,070,000
Municipal Facilities.....	Electorate	11/7/2000	18,000,000	6,120,000
Public Lighting.....	Electorate	11/7/2000	30,000,000	17,935,000
Institute of Arts.....	Electorate	11/7/2000	25,000,000	9,850,000
Recreation and Zoo.....	Electorate	11/7/2000	56,000,000	30,975,000
Neighborhood and Economic Development.....	Electorate	11/7/2000	30,000,000	9,105,000
Historical Museum.....	Electorate	11/6/2001	20,000,000	17,670,000
Museum of African American History.....	Electorate	4/29/2003	6,000,000	2,705,000
<b>Total Bonds Authorized - Unissued</b>				<b>\$ 127,430,000</b>

Note A - The electorate approved an amendment to the State Constitution (the Headlee Amendment) November 7, 1978 that requires voter approval for the issuance of general obligation bonds effective December 22, 1978. The authority to issue bonds approved by the electors continues until revoked by the electors.

e. Summary of Annual Principal and Interest Requirements for Bonds, Notes, and Other Debt Payable

Primary Government					
Principal					
Year Ending	Governmental Activities	Business-type Activities			Total
		Automobile Parking Fund	Water Fund	Sewage Disposal Fund	
2005	\$ 72,033,883	\$ 6,255,000	\$ 22,440,000	\$ 44,825,000	\$ 73,520,000
2006	120,570,429	6,615,000	23,305,000	46,945,000	76,865,000
2007	102,237,191	7,105,000	25,470,000	49,850,000	82,425,000
2008	99,869,811	1,610,000	27,905,000	50,364,128	79,879,128
2009	123,738,235	1,670,000	29,235,000	53,725,000	84,630,000
2010-2014	307,426,305	9,980,000	171,020,000	292,483,965	473,483,965
2015-2019	153,684,185	13,360,000	221,985,000	322,654,361	557,999,361
2020-2024	69,845,000	8,605,000	280,810,000	368,745,145	658,160,145
2025-2029	-	9,500,000	355,040,000	504,345,000	868,885,000
2030-2034	-	2,400,000	452,085,000	641,215,000	1,095,700,000
2035	-	-	104,140,000	-	104,140,000
Total	\$ 1,049,405,039	\$ 67,100,000	\$ 1,713,435,000	\$ 2,375,152,599	\$ 4,155,687,599

Primary Government						
Interest						
Year Ending	Governmental Activities	Business-type Activities			Interest Rate Swaps, Net	Total
		Automobile Parking Fund	Water Fund	Sewage Disposal Fund		
2005	\$ 49,778,575	\$ 2,366,670	\$ 63,031,402	\$ 82,994,190	\$ 35,984,187	\$ 184,376,449
2006	46,428,285	1,952,507	62,984,325	82,111,082	38,222,410	185,270,324
2007	42,931,980	1,573,985	61,964,260	80,141,782	38,931,751	182,611,778
2008	37,884,914	1,290,420	60,839,628	79,798,363	38,578,712	180,507,123
2009	32,724,895	1,226,448	59,613,418	75,653,698	38,389,414	174,882,978
2010-2014	99,660,834	5,163,563	276,727,182	349,000,086	181,142,795	812,033,626
2015-2019	54,631,934	2,950,026	235,587,665	306,498,097	159,515,037	704,550,825
2020-2024	7,091,833	974,652	198,833,363	235,215,796	127,258,406	562,282,217
2025-2029	-	417,809	151,051,823	137,450,600	73,503,346	362,423,578
2030-2034	-	2,083	72,437,771	39,101,591	30,308,232	141,849,677
2035	-	-	2,603,500	-	-	2,603,500
Total	\$ 371,133,251	\$ 17,918,163	\$ 1,245,674,337	\$ 1,467,965,285	\$ 761,834,290	\$ 3,493,392,075

The City entered into a loan payable with the Downtown Development Authority, a component unit, for \$33.6 million. The loan was used to cover cost related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan was unsecured and bears no interest and will be repaid by the City as general operating funds become available. As such, the loan payable has not been included in both governmental activities annual principle and interest requirements.

Component Units		
Year Ending	Principal	Interest
2005	107,090,400	\$ 109,081,049
2006	167,742,259	107,769,782
2007	123,973,424	101,843,985
2008	122,680,631	94,972,564
2009	133,784,165	90,434,341
2010-2014	456,900,792	353,751,301
2015-2019	251,257,120	315,174,019
2020-2024	227,565,426	252,735,432
2025-2029	484,438,879	180,362,422
2030-2034	227,200,000	24,980,500
2035	-	-
	\$ 2,302,633,026	\$ 1,631,105,395

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2004**

f. Long-term Liabilities Activity for the Year Ended June 30, 2004

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Amount Due Within One Year
<b>Governmental Activities:</b>					
Long-term debt:					
Convention Facility – Cobo					
Center Expansion Revenue Bonds	\$ 123,000,000	\$ 90,883,138	\$ 78,515,000	\$ 135,368,138	\$ 10,355,000
Detroit Building Authority Bonds – Madison Center Project	12,780,304	-	1,366,478	11,413,826	1,491,872
Distribution State Aid Bonds	68,415,000	-	10,050,000	58,365,000	10,540,000
Self-insurance Limited Tax Bonds	28,870,000	98,895,000	28,870,000	98,895,000	-
General Obligation – General Bonds	489,800,000	54,790,000	32,305,000	512,285,000	22,600,000
General Obligation Limited Tax Bonds	67,540,000	102,830,000	12,545,000	157,825,000	16,990,000
Total General Fund Bonds	<u>790,405,304</u>	<u>347,398,138</u>	<u>163,651,478</u>	<u>974,151,964</u>	<u>61,976,872</u>
Federal note – Carco Pharmaceutical Project	6,105,000	-	897,000	5,208,000	942,000
Federal note – Ferry Project	2,900,000	-	-	2,900,000	85,000
Federal note – Garfield Project	2,050,000	-	105,000	1,945,000	105,000
Federal note – Michigan Repacking Project	1,335,000	-	45,000	1,290,000	1,290,000
Federal note – Riverbend Project	1,230,000	-	80,000	1,150,000	80,000
Federal note – Slubersstone Project	345,000	-	15,000	330,000	15,000
Federal note – New Amsterdam Project	9,700,000	-	-	9,700,000	-
Loan payable to Downtown Development Authority	33,600,000	-	-	33,600,000	-
Loan payable – GE Capital – Airport	118,202	-	118,202	-	-
Loan payable – GE Capital – Cobo Hall Energy System	9,729,106	-	9,729,106	-	-
Loan payable – GE Capital – Election System	1,336,649	-	1,336,649	-	-
Loan payable – GE Capital – Fire	1,345,708	-	1,345,708	-	-
Loan payable – GE Capital ITS – Unisys	7,360,070	-	7,360,070	-	-
Loan payable – GE Capital – Income Tax	378,929	-	378,929	-	-
Loan payable – IBM Credit Corporation	11,702,252	-	11,702,252	-	-
Loan payable – GE Capital Schedule-009	-	2,500,250	172,713	2,327,537	475,336
Loan payable – GE Capital Schedule-010	-	200,728	24,598	176,130	37,996
Loan payable – GE Capital Schedule-011	-	19,525,824	5,205,506	14,320,318	6,722,475
Loan payable – GE Capital Schedule-012	-	491,400	-	491,400	106,899
Loan payable – GE Capital Schedule-013	-	1,286,250	1,221	1,285,029	99,504
Loan payable – GE Capital Schedule-014	-	536,698	7,037	529,661	97,801
Total Governmental Notes and Loans	<u>89,235,916</u>	<u>24,541,150</u>	<u>38,523,991</u>	<u>75,253,075</u>	<u>10,057,011</u>
Total Long-Term Bonds, Notes, and Loans	<u>879,641,220</u>	<u>371,939,288</u>	<u>202,175,469</u>	<u>1,049,405,039</u>	<u>72,033,883</u>
Other Long-Term Obligations:					
Accrued Compensated Absences	135,809,088	28,094,015	23,432,088	140,471,015	4,236,630
Claims and Judgments	111,151,465	82,474,865	71,753,756	121,872,574	6,148,836
Workers' Compensation	67,653,774	35,244,717	37,481,113	65,417,378	16,556,000
Total Other Long-Term Obligations	<u>314,614,327</u>	<u>145,813,597</u>	<u>132,666,957</u>	<u>327,760,967</u>	<u>26,941,466</u>
Total Governmental Long-Term Obligations	<u>\$ 1,194,255,547</u>	<u>\$ 517,752,885</u>	<u>\$ 334,842,426</u>	<u>\$ 1,377,166,006</u>	<u>\$ 98,975,349</u>

Note: The City has recognized a liability in the general fund of \$706,105 for compensated absences, \$6,148,836 for claims and judgments, and \$2,656,180 for workers compensation as of June 30, 2004 for amounts that were due as of year end. The remaining compensated absences, claims and judgments, and workers compensation claims liability and all other long-term obligations are considered to be general long-term liabilities and are recognized only in the government-wide financial statements.

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2004

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Amount Due Within One Year
<b>Business-type Activities</b>					
<b>Major Funds:</b>					
Long-term Debt and Obligations:					
Automobile Parking Fund:					
Bonds Payable	\$ 73,315,000	\$ -	\$ (6,215,000)	\$ 67,100,000	\$ 6,255,000
Accrued Compensated Absences	280,830	166,263	-	447,093	199,469
Sewage Disposal Fund:					
Bonds Payable	2,311,620,907	206,121,692	(142,590,000)	2,375,152,599	44,825,000
Accrued Compensated Absences	9,965,977	2,345,824	(153,538)	12,158,263	6,051,544
Accrued Public Liability and Workers' Compensation	4,844,529	1,543,501	(1,181,346)	5,206,684	1,181,346
Water Fund:					
Bonds Payable	1,718,985,000	240,600,000	(246,150,000)	1,713,435,000	22,440,000
Accrued Compensated Absences	13,925,849	1,810,212	(146,540)	15,589,521	9,984,576
Accrued Public Liability and Workers' compensation	13,778,575	6,756,198	(4,756,519)	15,778,254	4,756,519
Transportation Fund:					
Accrued Compensated Absences	3,847,975	-	(117,814)	3,730,161	2,984,129
Accrued Public Liability and Workers' Compensation	2,236,047	1,312,053	-	3,548,100	709,620
<b>Non-major Funds:</b>					
Accrued Compensated Absences	2,052,115	-	(1,584,837)	467,278	171,351
Accrued Public Liability and Workers' Compensation	5,000,107	-	(4,877,458)	122,649	10,933
Total Bonds Payable	4,103,920,907	446,721,692	(394,955,000)	4,155,687,599	73,520,000
Total Accrued Compensated Absences	30,072,746	4,322,299	(2,002,729)	32,392,316	19,391,069
Total Public Liability and Workers' Compensation	25,859,258	9,611,752	(10,815,323)	24,655,687	6,658,418
Total Long-term Debt and Obligations	\$ 4,159,852,911	\$ 460,655,743	\$ (407,773,052)	\$ 4,212,735,602	\$ 99,569,487
<b>Component Units</b>					
School District of the City of Detroit:					
Bonds, Notes and Leases Payable	\$ 1,549,347,195	\$ 51,789,928	\$ (57,586,140)	\$ 1,543,550,983	\$ 43,208,483
Accrued Compensated Absences	153,729,484	-	(6,036,800)	147,692,684	2,325,877
Accrued Public Liability and Workers' Compensation	56,268,822	159,773,219	(159,640,342)	56,401,699	-
	1,759,345,501	211,563,147	(223,263,282)	1,747,645,366	45,534,360
Other Component Units:					
Bonds, Notes and Leases Payable	804,477,841	23,360,101	(68,685,526)	759,152,416	63,881,917
Total Accrued Compensated Absences	2,845,211	3,031,790	(691,897)	5,185,104	477,328
Accrued Public Liability and Workers' Compensation	290,515	297,297	-	587,812	324,506
	\$ 807,613,567	\$ 26,689,188	\$ (69,377,423)	\$ 764,925,332	\$ 64,683,751



**5. Derivatives not reported at fair value**

The City is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate debt to fixed-rate debt. These are not reported at fair value on the statement of net assets at June 30, 2004.

*Objective of the swaps.* In order to better manage its interest rate exposure and to reduce the overall costs of its borrowing, the City has entered into 25 separate fixed payor interest rate swaps.

*Terms, fair values, and credit risk.* Certain key terms, fair market values, and counter-party credit ratings relating to the outstanding swaps as of June 30, 2004, are presented below. The notional amounts of the swaps, except those with effective dates of 4/1/05, 9/1/06, and 3/1/07 match the principal amounts of the outstanding debt. The swaps with effective dates of 4/1/05, 9/1/06, and 3/1/07, were entered into to hedge future interest rate risk and will be associated with bonds expected to be issued prior to the effective dates. Except as discussed under rollover risk, the City's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated bonds.

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2004

Associated Bond Issue	Notional Amounts (1)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Final Maturity of Bonds	Counterparty Credit Rating
Building Authority Series 1999-A	\$28,300,000	10/22/1999	7.48%	LIBOR BBA IMT+.28%	-11,170,783	7/1/2029	7/1/2029	Aa1/AA-/AA+
Sewage 1998-A	68,000,000	12/10/1998	4.51%	BMA (2)	-5,985,380	7/1/2023	7/1/2023	Aa2/AA-/NR
Sewage 1998-B	67,900,000	12/10/1998	4.51%	BMA	-5,970,646	7/1/2023	7/1/2023	Aa2/AA-/NR
Water 2001-C (3)	47,723,000	6/7/2001	4.07%	BMA	-1,813,209	1/1/2006	7/1/2029	Aaa/AA+/NR
Water 2001-C (3)	30,032,000	6/7/2001	4.70%	BMA	-2,456,809	7/1/2011	7/1/2029	Aaa/AA+/NR
Water 2001-C (3)	47,628,000	1/1/2006	5.42%	BMA	-3,142,701	7/1/2011	7/1/2029	Aaa/AA+/NR
Water 2001-C	114,150,000	6/7/2001	4.90%	BMA	-14,671,784	7/1/2026	7/1/2026	Aa3/A+/AA-
Sewage 2001 C-1	156,500,000	10/23/2001	4.43%	BMA	-15,608,636	7/1/2027	7/1/2027	Aa2/AA+/AAA
Sewage 2001 C-2	124,500,000	10/23/2001	4.47%	BMA	-7,917,564	7/1/2029	7/1/2029	Aa2/AA+/AAA
Water 2003-B	1,980,000	1/30/2003	3.02%	CPI + 1.01%	35,471	7/1/2009	7/1/2009	Aa3/A+/AA-
Water 2003-B	2,290,000	1/30/2003	3.31%	CPI+ 1.12%	34,077	7/1/2010	7/1/2010	Aa3/A+/AA-
Water 2003-B	2,500,000	1/30/2003	3.55%	CPI + 1.25%	35,834	7/1/2011	7/1/2011	Aa3/A+/AA-
Water 2003-B	2,175,000	1/30/2003	3.74%	CPI+ 1.33%	27,647	7/1/2012	7/1/2012	Aa3/A+/AA-
Water 2003-B	2,800,000	1/30/2003	3.87%	CPI +1.34%	25,667	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-B	2,505,000	1/30/2003	4.00%	CPI + 1.36%	11,590	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2003-C	2,005,000	1/30/2003	3.87%	CPI + 1.34%	18,214	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-C	2,330,000	1/30/2003	4.00%	CPI + 1.36%	10,747	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2003-D	150,965,000	2/6/2003	4.06%	BMA	-5,616,502	7/1/2013	7/1/1933	Aa2/AA-/NR
Sewage 2003-B	150,000,000	5/22/2003	4.14%	BMA	-6,647,282	7/1/2013	7/1/1933	Aa2/AA+/AAA
Water 2004-A	77,010,000	5/13/2004	3.94%	BMA	-2,156,755	7/1/2025	7/1/2025	Aa2/AA-/NR
Water 2004-B	163,590,000	5/13/2004	3.85%	BMA	-3,771,652	7/1/2023	7/1/2023	Aa2/AA-/NR
Water Forward Starting Swap	195,000,000	4/1/2005	4.71%	BMA	-3,044,079	7/1/2036	N/A	Aa3/A+/AA-
Water Forward Starting Swap	120,000,000	3/1/2007	5.00%	BMA	-1,684,838	7/1/2035	N/A	Aa3/A+/AA-
Sewage Hedge Swap	137,500,000	4/1/2005	4.80%	BMA	-2,981,432	7/1/2035	N/A	Aa2/AA+/AAA
Sewage Hedge Swap	125,000,000	9/1/2006	4.96%	BMA	-1,479,489	7/1/2036	N/A	Aa2/AA+/AAA

1. Notional amount balance as of July 1, 2004
2. The Bond Market Association Municipal Swap Index <sup>TM</sup>.
3. Denotes that the swap termination date does not match the final maturity of the bonds.

**Fair Value:** Because interest rates have generally declined since the time the swaps were negotiated, most of the City's swaps have a negative fair value as of June 30, 2004. The negative fair values may be countered by lower total interest payments required under the variable-rate bonds, creating lower synthetic interest rates.

**Credit Risk:** As of June 30, 2004, the City was not exposed to net credit risk because the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' positive fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

**Basis Risk:** The City is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the BMA index. The CPI indexed swaps are associated with CPI indexed bonds and thus create no basis risk. The LIBOR based swap has basis risk on \$28.3 million of swaps.

**Termination Risk:** The City or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the City may owe or be due a termination payment depending on the value of the swap at that time. In addition, the City is exposed to termination risk, but not termination payments, on certain of the City's swaps related to Water Series 2001C, Water Series 2003D, Water Series 2004-A, Water Series 2004-B, Sewer Series 1998A, Sewer Series 1998B, Sewer Series 2001-C-1, Sewer Series 2001C-2 and Sewer Series 2003B. These swaps provide the counterparty with the option to terminate the swap agreement beginning on 01/01/2010, 07/02/2011, 07/01/2005, 07/01/2005, 07/01/2008, 07/01/2008, 01/01/2010, 01/01/2010, and 07/01/2013, respectively, upon the passing of certain BMA thresholds. If any of these swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates, but there would be no termination payment.

**Rollover Risk:** The City is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the City will not realize the synthetic rate offered by the swaps on the underlying debt issues.

## 6. Other Information

### Automobile Parking Fund

The City has covenanted in bond authorizing documents to charge for the use of and services provided by the City of Detroit Building Authority Parking Arena System (the System) for each fiscal year of the City such that the gross revenues collected and remitted to the trustee (1) will be at least sufficient to at all times pay when due the principal, interest, and sinking fund installments on the revenue bonds without recourse to the Debt Reserve Account, to pay or provide for all operating expenses, to maintain the System in good repair without recourse to the Operating and Contingency Reserve Fund, and to replenish the Debt Reserve Account (so as to satisfy the corresponding reserve requirement) and the Operating and Maintenance Reimbursement Fund, and (2) will, after replenishment of any deficit in the Debt Reserve Account, Operating and Contingency Reserve Fund, and the Operating and Maintenance Reimbursement Fund, be equal to or greater than 175% of the amount payable in such fiscal year as the principal of sinking fund installments for the interest on all revenue bonds, net of amounts capitalized for interest payable during the construction period.

The City has covenanted further that if the fees and charges collected in any fiscal year are not sufficient to produce such revenues, the City will employ a consulting expert to submit recommendations as to revision of the schedule of fees then in effect and the City will thereafter charge and collect fees in accordance with such recommendation. The schedule of charges for the System may not be revised for a period of two years unless (1) such revision is for purpose of complying with the aforesaid rate covenant or, simultaneous with such revision, there is filed with the trustee a certificate of the consulting expert stating the opinion that if such revision had been in effect during the whole of the fiscal year immediately prior thereto, the revenues collected during such fiscal year would not have been diminished, and (2) at the time of any reduction in charges, the amounts in the Debt Reserve Account and Operating and Contingency Reserve Fund equal or exceed the reserve requirements.

The revenue bond documents specify that additional bonds may be issued by the Fund for the purpose of financing additions, replacements, and improvements to the City of Detroit Building Authority Parking Arena System, provided that the trustee shall have received all legally required authorized opinions and certificates and that the estimated gross revenues (as defined in the bond authorizing documents) for the five years following completion of the facilities will be at least (1) 175% of annual debt service on all parity outstanding bonds, or (2) the sum of annual debt service on all parity outstanding bonds (including the Additional Bonds) plus the amount necessary to make all required payments to the various funds maintained by the trustee, whichever is greater. Other than as described above, the Fund may not issue any obligations secured by gross revenues from the System unless any resulting lien on the System's gross revenues is expressly subordinate to liens for the bondholders' or bank's benefit as described above.

#### Sewage Disposal and Water Funds Construction Programs

The Sewage Disposal Fund is engaged in a variety of projects that are part of a five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately \$2.1 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The Sewage Disposal Fund total construction contract commitments outstanding at June 30, 2004 were approximately \$647 million.

The Water Fund is engaged in a variety of projects that are part of a five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately \$1.6 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The Water Fund total construction contract commitments outstanding at June 30, 2004 were approximately \$238 million.

#### Pension Plans:

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained at 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908.

These plans are administered in accordance with the City of Detroit Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State of Michigan Public Act 314 of 1965, as amended.

The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value.

The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. The current rate is up to 27.34% of active annual payroll for the General Retirement System (depending on the bargaining unit) and 27.68% of active annual payroll for the Policemen and Firemen Retirement System. Contributions from City funds and the Library, including accounts receivable for the year ended June 30, 2004, amounted to \$95,876,076 and \$69,475,202 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

Employee contributions for annuity savings are as follows:

- General Retirement System — Employees may elect to contribute 3%, 5%, or 7% of the first \$87,900 of annual compensation and 5% or 7 % of any excess over \$87,900. Contributions are voluntary for all union and non-union employees.
- Policemen and Firemen Retirement System — Mandatory contributions are 5% of base compensation until eligibility for retirement is reached.

Contributions received from employees during the year ended June 30, 2004 amounted to \$24,290,278 and \$10,318,299 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

General Retirement System members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an escalator clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after twenty-five (25) years of service with full benefits and a yearly cost-of-living adjustment of 2.25%.

Members of the General Retirement System who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System.

Members of the Policemen and Firemen Retirement System who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service. Pension benefits for all members of the General Retirement System are increased annually by 2.25% of the original pension. For those members of the Policemen and Firemen Retirement System who were hired after January 1, 1969, pension benefits are increased annually by 2.25% of the original pension. Police officers and firefighters hired before January 1, 1969 may elect at retirement increases based upon pay increases of active members or annual increases of 2.25% of the original pension.

Employee contributions to both systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees in both systems may withdraw their annuity balance if they have accumulated 25 years of service. The following details the schedule of employer contributions (in millions):

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2004

<u>General Retirement System</u>				<u>Policemen and Firemen Retirement System</u>			
<u>Year Ended June 30</u>	<u>Annual Pension Costs</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>	<u>Year Ended June 30</u>	<u>Annual Pension Costs</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
1999	55.7	100	—	1999	15.7	100	—
2000	66.7	100	—	2000	20.0	100	—
2001	68.1	100	—	2001	14.4	100	—
2002	67.8	100	—	2002	8.4	100	—
2003	72.9	100	—	2003	66.8	100	—
2004	95.9	92	—	2004	69.5	—	—

**Classes of Employees:** The GRS covers all eligible employees other than police officers and firefighters, who are covered by the PFRS.

The plans' membership consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

	<u>Defined Benefit</u>		<u>Defined Annuity Contributions</u>	
	<u>GRS</u>	<u>PFRS</u>	<u>GRS</u>	<u>PFRS</u>
Retirees and beneficiaries receiving benefits	11,332	8,695	1,562	1,419
Terminated plan members entitled to but not yet receiving benefits	1,547	33	165	5
Active plan members	12,312	5,177	11,025	4,760

**Cash and Investments:** Cash balances for the two systems are held in financial institutions insured as members of FDIC in the Systems' name. As of June 30, 2004, the carrying amounts of \$8,051,609 for the General Retirement System and \$1,259,681 for the Policemen and Firemen Retirement System were equal to bank balances. Of the bank balance, \$113,000 for the GRS and \$94,000 for the PFRS is covered by federal depository insurance. The remaining balance is uninsured.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 3, the Systems' investments are categorized to give an indication of the level of custodial risk assumed by the Systems at June 30, 2004.

**Category 1:** Includes investments insured or registered, and held by an agent in the City's name.

**Category 2:** Includes investments, which are uninsured, unregistered, and held by an agent in the City's name.

**N/A:** Those investments identified by N/A are not categorized because they represent pooled funds.

The Retirement Systems have adopted an official investment policy that is in accordance with state statute. Authorized investments include U.S. Government obligations, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, bankers' acceptances, repurchase agreements, mutual funds of certain investment quality, secured lease obligations, real and personal property, small business and venture capital firms, preferred stock, common stock, and other investments not excluded by state statute, limited as to portfolio share.

City of Detroit, Michigan  
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 June 30, 2004

The Systems invest in mortgage-backed securities. These securities are reported at fair value in the balance sheet and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. For example, if

interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investments would be higher than anticipated. The Systems invest in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

Below is a description of the investments by type and category at June 30, 2004.

<u>Investment</u>		<u>Category</u>
<b>General Retirement System:</b>		
Short-term Investments	\$ 82,198,405	2
Stocks	1,553,816,583	1
Bonds	300,707,194	1
Mortgage-backed Securities	59,636,979	1
Mortgage and Construction Loans	133,005,232	1
Equity Interest in Real Estate	77,971,839	1
Pooled Investments	93,010,892	N/A
Private Placements	<u>253,656,948</u>	2
Total	<u>\$ 2,554,004,072</u>	
<b>Policemen and Firemen Retirement System:</b>		
Short-term Investments	\$ 71,444,467	2
Stocks	1,670,466,391	1
Bonds	608,197,193	1
Mortgage-backed Securities	65,910,437	1
Mortgage and Construction loans	110,140,189	1
Equity Interest in Real Estate	88,390,272	1
Real Estate Investment Trusts	28,522,443	2
Pooled Investments	363,858,019	N/A
Private Placements	<u>48,495,074</u>	2
Total	<u>\$ 3,055,424,485</u>	

**Securities Lending:** Under the provisions of Securities Lending Authorization Agreements, the Retirement Systems lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Systems' custodial banks manage the securities lending program and receive cash, securities, and irrevocable bank letters of credit as collateral. The custodial banks do not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to but not less than 100% of the market value of the loaned securities.

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial banks made on its behalf, and the custodial banks indemnified the Systems by agreeing to purchase replacement securities or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodial banks. The Systems and the

City of Detroit, Michigan  
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borrowers maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested in two separate collective investment pools. The average duration of each investment pool as of June 30, 2004 was 55 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the Systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of June 30, 2004 was \$238,757,976 and \$232,701,006 for the GRS and \$651,046,471 and \$634,957,695 for the PFRS respectively.

For accounting purposes, the statements of net assets and changes in net assets in the fiduciary funds reflect the increase in assets, liabilities, interest income, and expense associated with securities lent.

Investment loss presented in the statement of changes in fiduciary net assets for the Retirement System consist of interest income, dividend income, net depreciation, and investment expenses. GRS and PFRS were unable to break down each component by reserve fund as required in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; however, the Systems were able to present components in total:

	GRS	PFRS
Investment Gain, Net:		
Dividend Income	\$ 24,046,920	\$ 26,979,547
Interest Income	86,137,211	83,333,335
Net Appreciation	237,895,378	317,767,620
Investment Expense	(11,496,468)	(12,379,319)
Total	\$ 336,583,041	\$ 415,701,183

**Other Post-employment Benefits:** In addition to the pension benefits described above, the City provides post-retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2004 is 20,027. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Post-retirement Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2004, are as follows:

	City Cost	Retiree Cost	Total Cost
Hospitalization	\$ 136,840,848	\$ 14,273,870	\$ 151,114,718
Dental	6,720,554	—	6,720,554
Eye Care	2,218,589	—	2,218,589
Life Insurance	143,235	26,690	169,925
Total	\$ 145,923,226	\$ 14,300,560	\$ 160,223,786



Significant actuarial assumptions used in preparing the accompanying Systems' financial statements for the year ended June 30, 2003 follow:

	<u>General Retirement System</u>	<u>Policemen and Firemen Retirement System</u>
Valuation Date	June 30, 2003	June 30, 2003
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent	Level Percent
Remaining Amortization Period	15 years	14 years
Asset Valuation Method	3-year Smoothed Market	3-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.9%	7.8%
Projected Salary Increases	4.0% - 9.5%	5.8% - 10.8%
Includes Inflation at	4.0%	4.8%
Cost-of-Living Adjustments	2.25%	2.25%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.

**Component Units**

The GDRRA is authorized to charge user fees for services provided to residents in the event either the tipping fees or supplemental tipping fees paid by the City and other revenues generated are not sufficient in each operating year to produce revenues equal to at least 100% of the maximum annual debt service requirement, lease obligations, and operating costs. Supplemental tipping fees are provided from certain taxes collected by the State of Michigan which are payable to the City (Distributable Aid). The City's obligation to pay tipping fees and supplemental tipping fees is a full faith and credit limited tax general and unconditional obligation whether or not the facility is operating.

For the year ended June 30, 2004, tipping fees and supplemental tipping fees paid by the City to the GDRRA are as follows:

Tipping Fees	\$ 54,909,343
Supplemental Tipping Fees	<u>16,237,538</u>
Total	<u>\$ 71,146,881</u>

**Special Item:**

On July 31, 2002 the City revised its Development Agreements with the Casinos operating within the city. As a result, the casinos agreed to pay the City an additional \$132 million in exchange for the right to defer the construction of 400 hotel rooms each for five years. All of this revenue was recognized in the entity-wide Statement of Activities, and \$93,750,000 was recognized in the fund financial statements in fiscal year ending 2003. The remaining \$38,250,000 is recognized as revenue in the fund financial statements in fiscal year ending 2004.

**NOTE IV. SUBSEQUENT EVENTS**

On August 27, 2004 the City of Detroit issued \$111,680,000 Unlimited Tax General Obligation Bonds and General Obligation Refunding Bonds. The bonds also refunded \$69.1 million of previously issued debt, resulting in present value savings of \$423,241 or 0.62% of the refunded par amount. The bonds begin to mature April 1, 2009 and will be fully matured in the year 2024.

On August 27, 2004 the City of Detroit issued \$62,285,000 General Obligation Self-Insurance Bonds (Limited Tax) (Federally Taxable). The bonds begin to mature April 1, 2009 and will be fully matured in the year 2014.

On January 5, 2005 the City of Detroit issued \$81,050,000 General Obligation Refunding Bonds. The bonds refunded a portion of previously issued debt resulting in present value savings of \$2,954,135 or 3.65% of the refunded par amount. The Bonds begin to mature April 1, 2006 and will fully mature in the year 2011.

In March 2005, Standard and Poor's revised to the City of Detroit bond ratings, from A- to BBB+ on both the City's Limited and Unlimited Tax General Obligation Bonds, while affirming the City's outlook as stable.

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**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**REQUIRED SUPPLEMENTAL INFORMATION  
HISTORIC PENSION DATA - UNAUDITED**

**Schedule of Employer Contributions (In millions):**

<u>General Retirement System</u>			<u>Policemen and Firemen Retirement System</u>		
<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>	<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1999	\$55.7	100	1999	\$15.7	100
2000	66.7	100	2000	20.0	100
2001	68.1	100	2001	14.4	100
2002	67.8	100	2002	8.4	100
2003	72.9	100	2003	66.8	100
2004	95.9	92	2004	69.5	-

**Schedule of Funding Progress (In millions):**

**General Retirement System:**

<u>Actuarial Valuation Date June 30</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
1999 (a) (b)	\$2,756.6	2,900.4	95.0	143.8	383.4	37.5
2000 (a) (b)	2,902.4	3,077.0	94.3	174.6	417.2	41.8
2001 (a) (b)	2,912.1	3,179.6	91.6	267.5	439.6	60.8
2002	2,761.2	3,276.6	84.3	515.4	440.7	117.0
2003	2,537.7	3,270.6	77.6	733.0	448.6	163.4

**Policemen and Firemen Retirement System:**

<u>Actuarial Valuation Date June 30</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
1999 (a) (b)	\$3,668.4	3,274.1	112.0	(394.3)	216.0	-
2000 (a) (b)	3,964.2	3,342.1	118.6	(622.1)	237.7	-
2001 (a) (b)	3,900.0	3,463.2	112.6	(436.8)	253.3	-
2002 (a)	3,635.1	3,523.4	103.2	(111.7)	248.7	-
2003	3,205.5	3,721.6	86.1	516.1	248.7	207.5

- a) After changes in actuarial assumptions.
- b) Plan amended.

## APPENDIX D

### GLOBAL BOOK-ENTRY SYSTEM

#### *General*

The description that follows of the procedures for record keeping about beneficial ownership of the Certificates, payment of principal of and interest on the Certificates, confirmation and transfer of beneficial ownership interests in the Certificates, and other securities-related transactions is based solely on information furnished by DTC, Clearstream, and Euroclear and has not been independently verified by the City, the Service Corporations, the Funding Trust or the Underwriters.

Beneficial owners of the Certificates may hold their certificates through DTC, which is located in the United States, or Clearstream or Euroclear, which are in Europe, if they are participants of one of those systems, or indirectly through organizations that are participants in any of those systems.

DTC will act as a securities depository for the Certificates. Clearstream and Euroclear will hold omnibus positions, on behalf of their respective participants (**Participants**), through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories (collectively, **Depositories**), which in turn will hold such positions in customers' securities accounts in the names of their respective Depositories on the books of DTC.

#### *DTC*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with it. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies (**Indirect Participants**) that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly. The rules applicable to DTC and its DTC Participants are on file with the SEC.

Transfers between DTC Participants will occur in accordance with DTC rules. Transfers between Clearstream Participants and Euroclear Participants will occur in the ordinary way in accordance with their applicable rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to the Depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and such credits or any transactions in such securities settled during such processing will be reported to the relevant Clearstream Participant or Euroclear Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC. Day traders who use Clearstream or Euroclear and who purchase the Certificates from DTC Participants for delivery to Clearstream Participants or Euroclear Participants should note that these trades may fail on the sale side unless affirmative actions are taken. Participants should consult with their clearing system to confirm that adequate steps have been taken to assure settlement.

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual owner of a Certificate (**Beneficial Owner**) is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Certificates, except when use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by DTC Participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the DTC Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect Participants and some other banks, the Beneficial Owner of a Certificate may be limited in its ability to pledge Certificates to persons or entities that do not participate in the DTC system, or to otherwise take actions with respect to those Certificates due to the lack of a physical certificate for those Certificates.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may desire to make arrangements with a DTC Participant or an Indirect Participant so that all notices of redemption of their Certificates or other communications to DTC which affect these Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant or Indirect Participant. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to advise a Beneficial Owner, of any notice of redemption or its content or effect will not affect the validity of the redemption of Certificates called for redemption or any other action premised on such notice.

Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date, which assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Certificates are credited on the record date, identified in an attached listing.

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit the accounts of the DTC Participants, upon DTC's receipt of funds and corresponding detail information from the Trustee, on payment dates in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Funding Trust, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of DTC Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, if a successor securities depository is not obtained, Certificate certificates are required to be prepared and delivered. The Funding Trust may decide to discontinue use of the system of book-entry transfers through DTC, or a successor Securities depository. In that event, Certificate certificates will be delivered to the Beneficial Owners of the Certificates.

#### *Clearstream*

Clearstream Banking, société anonyme (**Clearstream**) is a limited liability company organized under Luxembourg law and is registered as a bank in Luxembourg. Clearstream holds securities for its Participants and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream Participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

#### *Euroclear*

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (**Euroclear Operator**).

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Non-Participants of Euroclear or any other securities intermediary that holds a book-entry interest in the Certificates through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.



Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, **Terms and Conditions**). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with Persons holding through Euroclear Participants.

#### *Initial Settlement*

All global securities will be held in book-entry form by The Depository Trust Company in the name of Cede & Co. as nominee of The Depository Trust Company. Investors' interests in the global securities will be represented through financial institutions acting on behalf of their participants through their respective depositories, which in turn will hold such positions in accounts as participants of The Depository Trust Company.

Investors electing to hold their global securities through The Depository Trust Company will follow the settlement practices applicable to prior asset-backed certificates issues. Investor securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their global securities through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds, except that there will be no temporary global security and no "lock-up" or restricted period. Global securities will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

#### *Secondary Market Trading*

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

*Trading between Participants of The Depository Trust Company.* Secondary market trading between participants of The Depository Trust Company will be settled using the procedures applicable to prior student loan asset-backed securities issues in same-day funds.

*Trading between Clearstream, Luxembourg and/or Euroclear Participants.* Secondary market trading between Clearstream, Luxembourg participants or Euroclear participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

*Trading between The Depository Trust Company Seller and Clearstream, Luxembourg or Euroclear Purchaser.* When global securities are to be transferred from the account of a participant of The Depository Trust Company to the account of a Clearstream, Luxembourg participant or a Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg participant or Euroclear participant at least one business day prior to settlement. Clearstream, Luxembourg or Euroclear will instruct the respective depository, as the case may be, to receive the global securities against payment. Payment will include interest accrued on the global securities from and including the last coupon payment date to and excluding the settlement date, on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31<sup>st</sup> of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made by the respective depository of the account of the participant of The Depository Trust Company against delivery of the global securities. After settlement has been completed, the global securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the

Clearstream, Luxembourg participant's or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debt will be back-valued to, and the interest on the global securities will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg, or Euroclear cash debt will be valued instead as of the actual settlement date.

Clearstream, Luxembourg participants and Euroclear participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, they may take on credit exposure to Clearstream, Luxembourg or Euroclear until the global securities are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to them, Clearstream, Luxembourg participants or Euroclear participants can elect not to preposition funds and allow that credit line to be drawn upon the finance settlement. Under this procedure, Clearstream, Luxembourg participants or Euroclear participants purchasing global securities would incur overdraft charges for one day, assuming they cleared the overdraft when the global securities were credited to their accounts. However, interest on the global securities would accrue from the value date. Therefore, in many cases the investment income on the global securities earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Clearstream, Luxembourg participant's or Euroclear participant's particular cost of funds.

Since the settlement is taking place during New York business hours, participants of The Depository Trust Company can employ their usual procedures for sending global securities to the respective European depository for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to The Depository Trust Company seller on the settlement date. Thus, to participants of The Depository Trust Company a crossmarket transaction will settle no differently than a trade between two participants of The Depository Trust Company.

*Trading between Clearstream, Luxembourg or Euroclear Seller and The Depository Trust Company Purchaser.* Due to time zone differences in their favor, Clearstream, Luxembourg participants and Euroclear participants may employ their customary procedures for transactions in which global securities are to be transferred from the respective clearing system, through the respective depository, to a participant of The Depository Trust Company. The seller will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg participant or Euroclear participant at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct the depository, as appropriate, to deliver the global securities to the account of the participant of The Depository Trust Company against payment. Payment will include interest accrued on the global securities from and including the last coupon payment to and excluding the settlement date on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31<sup>st</sup> of the month, payment will include interest accrued to and excluding the first day of the following month. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg participant's or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg participant or Euroclear participant have a line of credit with its respective clearing system and elect to be in debt in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg participant's or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear and that purchase global securities from participants of The Depository Trust Company for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

- Borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;
- Borrowing the global securities in the United States from a participant of The Depository Trust Company no later than one day prior to settlement, which would give the global securities sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear accounts in order to settle the sale side of the trade; or
- Staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the participant of The Depository Trust Company is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

#### *Certain United States Federal Income Tax Documentation Requirements*

A beneficial owner of global securities holding securities through Clearstream, Luxembourg, or Euroclear (or through The Depository Trust Company if the holder has an address outside the United States) will be subject to the 30% United States withholding tax that generally applies to payments of interest (including original issue discount) on registered debt issued by U.S. Persons, unless each clearing system, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business in the chain of intermediaries between such beneficial owner and the United States entity required to withhold tax complies with applicable certification requirements and such beneficial owner takes one of the following steps to obtain an exemption or reduced tax rate.

*Exemption for non-US. Persons (Form W-8BEN).* Beneficial owners of global securities that are non-U.S. Persons can obtain a complete exemption from the withholding tax by filing a signed Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Withholding Tax). If the information shown on Form W-8BEN changes, a new Form W-8BEN must be filed within 30 days of such change.

*Exemption for non-US. Persons with Effectively Connected Income (Form W-8ECI).* A non-U.S. Person including a non-United States corporation or bank with a United States branch, for which the interest income is effectively connected with its conduct of a trade or business in the United States, can obtain an exemption from the withholding tax by filing Form W-8ECI (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States).

*Exemption or Reduced Rate for non-US. Persons Resident in Treaty Countries (Form W-8BEN).* Non-U.S. Persons that are security owners residing in a country that has a tax treaty with the United States can obtain an exemption or reduced tax rate (depending on the treaty terms) by filing Form W-8BEN (including Part II thereof).

*Exemption for US. Persons (Form W-9).* U.S. Persons can obtain a complete exemption from the withholding tax by filing Form W-9 (Payer's Request for Taxpayer Identification Number and Certification).

*United States Federal Income Tax Reporting Procedure.* The owner of a global security files by submitting the appropriate form to the person through whom it holds (the clearing agency, in the case of persons holding directly on the books of the clearing agency). Form W-8BEN and Form W-8ECI are effective until the third calendar year from the date the form is signed.

The term "U.S. Person" means:

- A citizen or resident of the United States;
- A corporation or partnership, or other entity taxable as such, organized in or under the laws of the United States or any state (including the District of Columbia);
- An estate the income of which is includible in gross income for United States tax purposes, regardless of its source; or
- A trust, if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

#### *Custody*

Investors who are Euroclear Participants may acquire, hold, or transfer interests in the securities by book-entry to accounts with Euroclear Operator. Investors who are not Participants of Euroclear may acquire, hold, or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear.

#### *Custody Risks*

Investors that acquire, hold, and transfer interest in the securities by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

The Euroclear Operator has advised as follows:

Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the solvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear Participants credited with such interests in securities on the Euroclear Operator's records, all Euroclear Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their *pro rata* share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights, and other entitlements) to any person credited with such interests in securities on its records.

#### *Distributions*

Distributions with respect to Certificates held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants in accordance with the relevant system's rules and procedures, to the extent received by its Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See "UNITED STATES FEDERAL TAX CONSIDERATIONS - Information Reporting and Backup Withholding" in the Offering Circular which precedes this Appendix. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a beneficial owner of the Certificates under the Indenture on behalf

of a Clearstream Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its Depository's ability to effect such actions on its behalf through DTC.

DTC, Clearstream, and Euroclear are under no obligation to perform or continue to perform the foregoing procedures, and such procedures may be discontinued at any time.

No one can give any assurance that DTC, Clearstream, or Euroclear, or any of their direct or indirect Participants, will promptly transfer payments or notices received with respect to the Certificates. The Funding Trust, the Trustee, the Service Corporations and the City are not responsible for the failure of any of those parties to transfer to the Beneficial Owner payments or notices received with respect to the Certificates.

Similarly, no one can give any assurance that any Depository will abide by its procedures or that its procedures will not be changed. In the event the Trustee on behalf of the Funding Trust designates a successor securities depository for the Certificates, the successor may establish different procedures

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## APPENDIX E

### INFORMATION ABOUT FINANCIAL GUARANTY

*Financial Guaranty has supplied the following information for inclusion in this APPENDIX E. No representation is made by the Funding Trust, the Service Corporations, the City or the Underwriters as to the accuracy or completeness of this information.*

#### Payments Under the FGIC Policy

Concurrently with the issuance of the FGIC-insured Certificates, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Certificate New Issue Insurance Policy for the FGIC-insured Certificates (the "FGIC Policy"). The FGIC Policy unconditionally guarantees the payment of that portion of the principal and interest on the FGIC-insured Certificates which has become due for payment, but shall be unpaid by reason of nonpayment of the FGIC-insured Certificates by the Funding Trust (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of FGIC-insured Certificates or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any FGIC-insured Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a FGIC-insured Certificate includes any payment of principal or interest (as applicable) made to an owner of a FGIC-insured Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by Financial Guaranty. The FGIC Policy covers failure to pay principal of the FGIC-insured Certificates on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC-insured Certificates may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC-insured Certificates is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the FGIC-insured Certificate, appurtenant coupon or right to payment of principal or interest on such FGIC-insured Certificate and will be fully subrogated to all of the FGIC-insured Certificateholder's rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure FGIC-insured Certificates, Financial Guaranty may be granted certain rights under the FGIC-insured Certificate documentation. The specific rights, if any,

granted to Financial Guaranty in connection with its insurance of the FGIC-insured Certificates may be set forth in the description of the principal legal documents appearing elsewhere in the Offering Circular which precedes this Appendix, and reference should be made thereto.

The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Financial Guaranty Insurance Company**

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the FGIC Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2005, and the years ended December 31, 2004, and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$14.8 billion, \$59.5 billion and \$42.4 billion par value of securities, respectively (of which approximately 71%, 56% and 79%, respectively, constituted guaranties of municipal FGIC-insured Certificates), for which it had collected gross premiums of approximately \$84.4 million, \$323.6 million and \$260.3 million, respectively. For the three months ended March 31, 2005, Financial Guaranty had reinsured, through facultative and excess of loss arrangements, approximately 0.5% of the risks it had written.

As of March 31, 2005, Financial Guaranty had net admitted assets of approximately \$3.215 billion, total liabilities of approximately \$2.040 billion, and total capital and FGIC Policyholders'

surplus of approximately \$1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of March 31, 2005, the audited financial statements of Financial Guaranty as of December 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”), are hereby included by specific reference in this Appendix. Any statement contained herein under the heading “APPENDIX E” in the Offering Circular, or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix or the Offering Circular. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of the Offering Circular and prior to the termination of the offering of the FGIC-insured Certificates shall be deemed to be included by specific reference into this Appendix and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty’s most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty’s telephone number is (212) 312-3000.

#### **Financial Guaranty’s Credit Ratings**

The financial strength of Financial Guaranty is rated “AAA” by Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc., “Aaa” by Moody’s Investors Service, and “AAA” by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies’ current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC-insured Certificates, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the FGIC-insured Certificates. Financial Guaranty does not guarantee the market price or investment value of the FGIC-insured Certificates nor does it guarantee that the ratings on the FGIC-insured Certificates will not be revised or withdrawn.

**Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Offering Circular which precedes this Appendix or any information or disclosure that is provided to potential purchasers of the FGIC-insured Certificates, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the FGIC Policy herein under the heading “APPENDIX E” in the Offering Circular. In addition, Financial Guaranty makes no representation regarding the FGIC-insured Certificates or the advisability of investing in the FGIC-insured Certificates.**





Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Municipal Bond  
 New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Municipal Bond  
 New Issue Insurance Policy**

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

**President**

**Effective Date:**

**Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

**Authorized Officer**



Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

**Endorsement**  
To Financial Guaranty Insurance Company  
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer  
U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Endorsement**  
**To Financial Guaranty Insurance Company**  
**Insurance Policy**

Policy Number: \_\_\_\_\_ Control Number: 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the \_\_\_\_\_ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer  
 U.S. Bank Trust National Association, as Fiscal Agent

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## APPENDIX F

### INFORMATION ABOUT XL CAPITAL ASSURANCE INC.

The following information has been supplied by XL Capital Assurance Inc. for inclusion in this APPENDIX F. No representation is made by the Funding Trust, the Service Corporations, the City or the Underwriters as to the accuracy or completeness of the information.

XLCA accepts no responsibility for the accuracy or completeness of the Offering Circular which precedes this Appendix or any other information or disclosure contained therein, or omitted therefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth in this APPENDIX F. In addition, XLCA makes no representation regarding the XLCA-insured Certificates or the advisability of investing in the XLCA-insured Certificates.

#### General

XL Capital Assurance Inc. ("XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.**

XLCA was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

#### Reinsurance

XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including its XLCA Policy (as defined below).

Based on the audited financials of XLFA, as of December 31, 2004, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$1,173,450,000, \$558,655,000, \$39,000,000 and \$575,795,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to XLCA under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial XLCAs. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" (Outlook Negative) by Moody's, "AA-" by Standard & Poor's and "AA" (Ratings Watch Negative) by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the XLCA-insured Certificates and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the XLCA-insured Certificateholders will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the XLCA-insured Certificateholders.

#### **Financial Strength and Financial Enhancement Ratings of XLCA**

XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the XLCA-insured Certificates and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the XLCA-insured Certificates. XLCA does not guaranty the market price of the XLCA-insured Certificates nor does it guaranty that the ratings on the XLCA-insured Certificates will not be revised or withdrawn.

#### **Capitalization of XLCA**

Based on the audited financials of XLCA, as of December 31, 2004, XLCA had total assets, liabilities, and shareholder's equity of \$827,815,000, \$593,849,000, and \$233,966,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2004 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$341,937,445, total liabilities of \$144,232,151 and total capital and surplus of \$197,705,294 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$329,701,823, total liabilities of \$121,635,535 and total capital and surplus of \$208,066,288 determined in accordance with SAP.

#### **Incorporation by Reference of Financials**

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Offering Circular. The financial

statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Offering Circular, or after the date of this Offering Circular but prior to termination of the offering of the XLCA-insured Certificates, shall be deemed incorporated by reference in this Offering Circular. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

### **Regulation of XLCA**

XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each XLCA to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

**THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY XLCA, INCLUDING THE XLCA POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

### ***XLCA-insured Certificate Insurance Policy***

Concurrently with the issuance of the particular Certificates specifically identified on the inside cover of the Offering Circular which precedes this Appendix (the "XLCA-insured Certificates"), XLCA will issue its financial guaranty insurance policy (the "XLCA Policy") for the XLCA-insured Certificates. The XLCA Policy guarantees the scheduled payment of principal of and interest on the XLCA-insured Certificates when due as set forth in the form of the policy included in this Appendix on the following pages.



# **XL** CAPITAL ASSURANCE

1221 Avenue of the Americas  
New York, New York 10020  
Telephone: (212) 478-3400

## **MUNICIPAL BOND INSURANCE POLICY**

**ISSUER:** [        ]

**Policy No:** [        ]

**BONDS:** [        ]

**Effective Date:** [        ]

**XL Capital Assurance Inc. (XLCA)**, a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCAP-005 Form of Municipal Policy [Specimen]

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

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## APPENDIX G

### Form of Certificate Counsel Opinion

Upon the issuance and delivery of the Certificates, Certificate Counsel, Lewis & Munday, A Professional Corporation, proposes to deliver its opinion in substantially the following form:

LAW OFFICES  
**Lewis & Munday**  
A PROFESSIONAL CORPORATION  
2490 First National Building  
660 Woodward Avenue  
Detroit, Michigan 48226

TELEPHONE (313) 961-2550  
TELECOPIER (313) 961-1270

\_\_\_\_\_, 2005

Detroit Retirement Systems Funding Trust 2005  
c/o U.S. Bank National Association, as trustee  
Detroit, Michigan

Ladies and Gentlemen:

We acted as Certificate Counsel in connection with the issuance by the Detroit Retirement Systems Funding Trust 2005 (the *Funding Trust*) of the Certificates of Participation Series 2005-A and the Certificates of Participation Series 2005-B, (collectively, the *Certificates*) and in that capacity we examined a transcript of the proceedings relating to the issuance of the Certificates.

The Funding Trust was created by the Trust Agreement, dated \_\_\_\_, 2005 (the *Trust Agreement*), between the Detroit General Retirement System Service Corporation (the *GRS Service Corporation*) and the Detroit Police and Fire Retirement System Service Corporation (the *PFRS Service Corporation*), severally and not jointly, and U.S. Bank National Association, as trustee (the *Trustee*). Each of the GRS Service Corporation and the PFRS Service Corporation is herein called a *Service Corporation* and collectively the *Service Corporations*.

The Certificates are issued pursuant to the below defined Funding Ordinance and Service Contracts and under the Trust Agreement. The Certificates evidence undivided proportionate interests in the rights to receive certain payments (*Funding Trust Receivables*) to be made by the City of Detroit, Michigan (the *City*), under (i) the Detroit General Retirement System Service Contract 2005, dated \_\_\_\_\_, 2005, between the City and the GRS Service Corporation and (ii) the Detroit Police and Fire Retirement System Service Contract 2005, dated \_\_\_\_\_, 2005, between the City and the PFRS Service Corporation (each, a *Service Contract* and collectively, the *Service Contracts*). The Service Corporations were created pursuant to Ordinance No. 05-05 of the City, which also authorized the Service Contracts, the formation of the Funding Trust by the Service Corporations and the issuance of certificates of participation thereunder (*Funding Ordinance*).

The Service Contracts are administered for the Service Corporations and the Funding Trust by U.S. Bank National Association (the *Contract Administrator*), separately and not as

G-1

Trustee, pursuant to the Contract Administration Agreement, dated \_\_\_\_\_, 2005 (the *Contract Administration Agreement*), among the Funding Trust, each of the Service Corporations, severally and not jointly, and the Contract Administrator.

The Certificates are issued for the purpose of funding specific amounts of the unfunded accrued actuarial liabilities (*Subject UAAL*) of each of the City's General Retirement System (the *GRS*) and Police and Fire Retirement System (the *PFRS* and with the *GRS*, the *Retirement Systems* and each, a *Retirement System*). Proceeds from the sale of the Certificates equal to the Subject UAAL are being used by the Funding Trust to purchase the right to receive the respective Corporation's Funding Trust Receivables, and, pursuant to the Service Contracts, these proceeds were paid to the Retirement Systems in the amounts of their respective Subject UAAL. The remainder of the proceeds from the sale of the Certificates is being used to pay costs of issuance of the Certificates and to prepay an amount of the service charges under the Service Contracts.

The effect of funding the Subject UAAL of each Retirement System under the respective Service Contract is to reduce the financial burden of the Retirement Systems to the City in the present and future years. In consideration for such services by the Service Corporations, the City agreed in each Service Contract to pay the Funding Trust Receivables, which include, as service charges, the funding costs of the Service Corporations in obtaining the capital represented by the Certificates.

Based on our examination of the transcript of the proceedings, we are of the opinion that:

1. Each Service Corporation validly exists as a nonprofit corporation under the laws of the State of Michigan and has the corporate power to enter into its Service Contract and the Trust Agreement.

2. Each Service Contract was validly authorized, executed and delivered by the respective Service Corporation and the City and is a valid and binding agreement of such Service Corporation and the City and is enforceable in accordance with its terms. Neither the faith and credit nor the taxing power nor any special revenues of the City are pledged to the payment of Funding Trust Receivables, and the obligation of the City to pay Funding Trust Receivables does not constitute indebtedness within the meaning of any limitation of Michigan law applicable to the City.

3. The Contract Administration Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee on behalf of the Funding Trust and by the Contract Administrator, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.

4. The Trust Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.

5. The Funding Trust was validly created by the Trust Agreement and has the power to issue and deliver the Certificates.

6. The Certificates were validly issued and delivered by the Funding Trust and represent undivided interests in the Funding Trust Receivables in accordance with their terms.

The enforceability of the Service Contracts, the Contract Administration Agreement and the Trust Agreement may be limited or affected by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally applicable and may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

Very truly yours,

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## APPENDIX H

### CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (“**Undertaking**”) is executed and delivered by the City of Detroit, County of Wayne, State of Michigan (“**City**”) in connection with the issuance of the \$640,000,000 Detroit Retirement Systems Funding Trust 2005 Certificates of Participation Series 2005-A and \$800,000,000 Detroit Retirement Systems Funding Trust 2005 Certificates of Participation Series 2005-B (collectively, “**Certificates**”). The City covenants and agrees for the benefit of the Certificateholders (as defined below) as follows:

(a) **Definitions.** The following terms used in this Undertaking have the following meanings:

“**Audited Financial Statements**” means the City’s audited financial statements prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

“**Certificateholder**” means the registered owner of any Certificate or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate (including any person holding a Certificate through a nominee, depository or other intermediary) or (b) treated as the owner of any Certificate for federal income tax purposes.

“**Disclosure Representative**” means the Finance Director of the City or his designee, or such other officer, employee or agent as the City shall so designate from time to time in writing.

“**MSRB**” means the Municipal Securities Rulemaking Board.

“**NRMSIR**” means each nationally recognized municipal securities information repository as designated by the SEC in accordance with the Rule.

“**Rule**” means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

“**SEC**” means the United States Securities and Exchange Commission.

“**SID**” means the state information depository for the State of Michigan, if any, then designated by the SEC in accordance with the Rule, being the Michigan Municipal Advisory Council as of the date of this Undertaking.

(b) **Continuing Disclosure.** The City hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to each NRMSIR and to the SID, on or before the 210th day after the end of the fiscal year of the City, commencing with the fiscal year ended June 30, 2005, the Audited Financial Statements, and updates of certain financial and operating data of the City appearing under the headings and tables in the Offering Circular for the Certificates, as follows: Tables 1 through 30, and 41, inclusive in Appendix B to the Offering Circular.



Such annual financial information described above is expected to be provided directly by the City and in subsequent Official Statements of the City filed with the MSRB.

In the event that the Audited Financial Statements are not available by the date specified above, they will be provided when available and unaudited financial statements in a format similar to the financial statements contained in the Offering Circular will be filed by such date and the Audited Financial Statements will be filed as soon as available.

If the fiscal year of the City is changed, the City shall send notices of such change to each NRMSIR or the MSRB, and to the SID, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) **Notice of Failure to Disclose.** The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of a failure by the City to provide the annual financial information with respect to the City described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) **Occurrence of Events.** The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Certificates, if applicable, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;\*
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates;\*
- (7) modifications to rights of holders of the Certificates;
- (8) Certificate calls;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Certificates; and
- (11) rating changes.

\* (Events listed in clauses (3) & (6) above are not applicable to the Certificates.)

(e) **Materiality Determined Under Federal Securities Laws.** The City agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) **Termination of Reporting Obligation.** The obligation of the City to provide annual financial information and notices of material events, as set forth above, shall be terminated if and when the City no longer remains an "obligated person" with respect to the Certificates within the meaning of the Rule, specifically not including upon economic (as distinct from legal) defeasance of all Certificates.

(g) **Benefit of Certificateholders.** The City agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Certificateholders and shall be enforceable by any Certificateholder; *provided*, that the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the City's obligations hereunder and any failure by the City to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Certificates or under the Trust Agreement or Service Contracts mentioned in the Certificates.

(h) **Amendments to the Undertaking.** Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the Disclosure Representative on behalf of the City; *provided*, that the City agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the City or the type of activities conducted by it, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Certificateholders, as determined by parties unaffiliated with the City (such as independent legal counsel), *but* such interpretations may be changed in the future. If the accounting principles to be followed by the City in preparing the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. A notice of the change in accounting principles shall be sent to each NRMSIR or the MSRB and the SID.

IN WITNESS WHEREOF, the City of Detroit has caused this Undertaking to be executed by its authorized officer.

CITY OF DETROIT  
County of Wayne  
State of Michigan

By \_\_\_\_\_  
Sean K. Werdlow  
Its Finance Director

Dated as of \_\_\_\_\_, 2005

DETROIT.1804605.1

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TRUE COPY CERTIFICATE

Form C of D--16-CE

STATE OF MICHIGAN, }  
City of Detroit } ss.

CITY CLERK'S OFFICE, DETROIT

I, **Jackie L. Currie**, City Clerk of the City of Detroit, in said

**RESOLUTION**

State, do hereby certify that the annexed paper is a TRUE COPY OF \_\_\_\_\_

adopted (passed) by the City Council at session of

February 4, 2005

and approved by Mayor

February 8, 2005

as appears from the Journal of said City Council in the office of the City Clerk of Detroit, aforesaid; that I have compared the same with the original, and the same is a correct transcript therefrom, and of the whole of such original.

In Witness Whereof, I have hereunto set my hand and affixed the corporate seal of said City, at

Detroit, this \_\_\_\_\_ 2nd

day of June A.D. 2005

*Jackie L. Currie*  
CITY CLERK



**APPROVED BY DETROIT CITY COUNCIL  
SPECIAL SESSION  
FRIDAY, FEBRUARY 4, 2005**

ORDINANCE NO. 05-05  
CHAPTER 18

TO APPROVE THE FORM OF A STANDARD SERVICE CONTRACT TO PROVIDE PENSION FUNDING SERVICES TO THE CITY BY REDUCING THE BURDEN OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL) AND TO AUTHORIZE THE CITY TO ENTER INTO TWO SERVICE CONTRACTS FOR 2005 AND TO AUTHORIZE HEDGES IN CONNECTION WITH THE FUNDING OF THE UAAL OF THE RETIREMENT SYSTEMS.

AN ORDINANCE to authorize the formation by the City, pursuant to the *Home Rule City Act*, 1909 PA 279, as amended, of two non-profit corporations under the *Nonprofit Corporation Act*, 1982 PA 162, as amended, namely, the *Detroit General Retirement System Service Corporation*, and the *Detroit Police and Fire Retirement System Service Corporation*, by amending Chapter 18 of the 1984 Detroit City Code by adding Division 9, entitled "the *Detroit Retirement System Service Corporation*," consisting of Sections 18-5-120 through 18-5-144 to assist the City in meeting its pension obligations; to approve the form of a Standard Service Contract to provide pension funding services to the City by reducing the burden of Unfunded Actuarial Accrued Liabilities (UAAL) and to authorize the City to enter into two Service Contracts for 2005 and to authorize Hedges in connection with the funding of the UAAL of the retirement systems.

IT IS HEREBY ORDAINED BY THE PEOPLE OF THE CITY OF DETROIT THAT:

Section 1, Chapter 18 of the 1984 Detroit City Code, be amended by adding Division 9 to Article 5 as follows:

**DIVISION 9. DETROIT RETIREMENT SYSTEM SERVICE CORPORATION  
Sec. 18-5-120. Legislative Findings.**

The Detroit City Council expressly finds and determines that:

(a) The *Home Rule City Act*, 1909 PA 279, at MCL 117.40(1), authorizes cities such as the City of Detroit (the *City*) to authorize the formation of a nonprofit corporation under the *Nonprofit Corporation Act*, 1982 PA 162, at MCL 450.2101, et seq., as amended for valid public purposes of the authorizing city.

(b) Article 9, Section 24 of the 1963 Michigan Constitution obligates the City to maintain the actuarial integrity of its *General Retirement System* (the *GRS*) and its *Police and Fire Retirement System* (the *PFRS*), together, the *Retirement System*.

(c) Maintaining the actuarial integrity of the Retirement System is both a constitutional obligation and an important public purpose of the City.

(d) By Ordinances No. 03-05 and No. 04-05 (the *Alternative Funding Mechanism Ordinances*), the City has provided an alternative funding mechanism for each, respectively, of the GRS and PFRS (each, an *Alternative Funding Mechanism*) to provide for funding unfunded actuarial accrued liability (UAAL) of the GRS (*GRS UAAL*) and the UAAL of the PFRS (*PFRS UAAL*) and either the GRS UAAL or the PFRS UAAL, as the context may require, the *Retirement System UAAL*.

(e) The Alternative Funding Mechanism Ordinances are separate and distinct from this Ordinance, and this Ordinance provides only a means of funding particular Retirement System UAAL and thereby reducing the financial burden to the City of such Retirement System UAAL.

(f) This Ordinance shall not be deemed to affect any benefits under either the GRS or the PFRS or other subjects of collective bargaining or Act 312 Arbitration Awards, and shall be so interpreted.

(g) The respective Retirement System's actuaries (the *Actuaries* of the respective Retirement System) estimate that GRS UAAL is \$732,958,801 and that PFRS UAAL is \$516,076,553, with additional unrecognized market losses of, respectively, \$213,844,162 and

\$327,251,711, as of their respective reports (each, an *Actuary Report*) as of June 30, 2003, with UAAL of each Retirement System expected to increase in the future.

(h) The City desires to act pursuant to *Home Rule City Act* and authorize the formation of a nonprofit corporation with respect to each Retirement System, to be known respectively as the "*Detroit General Retirement System Service Corporation*" and the "*Detroit Police and Fire Retirement System Service Corporation*" (each, a *Corporation*), to assist the City in maintaining the actuarial integrity of the respective Retirement System through the respective Alternative Funding Mechanism by funding the particular Retirement System UAAL and thereby achieving financial benefits for the City.

(i) Each Corporation shall be acting as an instrumentality and enterprise of the City and performing an important public purpose by assisting the City to meet its constitutional obligations with respect to the particular Retirement System and thereby is an integral part of the City for federal income tax purposes and it is intended that the income of each Corporation will not be subject to federal income taxation or any taxation under the laws of the State of Michigan to the extent the same applies to the City.

(j) Each Corporation shall be separate and distinct from the City, and the City shall not be responsible for any debts or other obligations of either Corporation, and no such debt or obligation shall constitute "indebtedness" within the meaning of *The Home Rule City Act*.

(k) It is in the best interest of the City to obtain the services of each Corporation in connection with the Alternative Funding Mechanism for the respective GRS and PFRS by approving the form of service contracts between each of the Corporations and the City (each, a *Service Contract*) to be funded by means of a funding trust for the respective Retirement System (each, a *Funding Trust*) in connection therewith.

(l) It is further in the best interest of the City that it enter into two specific Service Contracts to fund, respectively, not more than (i) the GRS UAAL in an amount not in excess of the UAAL in the Actuary Report as of June 30, 2003, or in the Actuary Report as of June 30, 2004, whichever is greater (*Maximum GRS UAAL*) and (ii) the PFRS UAAL in an amount not in excess of the UAAL in the Actuary Report as of June 30, 2003, or in the Actuary Report as of June 30, 2004, whichever is greater (*Maximum PFRS UAAL*).

**Sec. 18-5-121. Certain Definitions.**

The following terms shall have the following respective meanings unless the context otherwise requires:

**Accreted Value** means, at any particular time, the denominations of the Capital Appreciation COPs as then accreted.

**Capital Appreciation COPs** means Zero Coupon COPs that have denominations that accrete in amount in a manner customary in municipal finance for the accretions in value of capital appreciation bonds.

**Certificates of Participation or COPs** have the meaning given such terms in Sec. 18-5-133.<sup>1</sup>

**Costs of Issuance** means (i) the expense, as an initial one-time expense, of forming each Corporation; and (ii) with respect to COPs issued to fund a particular Service Contract, all items of expense related to the authorization, sale and issuance of such COPs, which may include, but are not limited to, printing costs, costs of reproducing documents, filing and recording fees, fees and charges of the Trustee, original issue discount, legal fees and charges, underwriting fee or discount, professional consultants' fees (including COPs counsel and the financial advisor to the City), costs of credit ratings, fees and charges for execution, transportation and safekeeping of such COPs, fees and charges of any Providers, and other costs, charges and fees in connection with the foregoing or in connection with the authorization, sale and issuance of such COPs then to be authenticated or delivered.

**Credit Facility** means any COPs insurance, letter of credit, line of credit, purchase agreement, surety bond or other financial arrangement intended to protect holders of COPs issued by the respective Funding Trust from loss arising from delinquent Service Payments. **Credit Facility** also means any financial arrangement intended to protect a Hedge Counterparty from a failure of the Corporation to timely pay Hedge Periodic Payables and Hedge Termination Payables.

**Deep-Discount COPs** means Zero Coupon COPs that are issued at a deep original issue discount.

**Disclosure Document** means any preliminary or final official statement or other disclosure document prepared for use by the Underwriters in connection with the initial public offering of COPs.

**Financial Facility** means, as the context may require, any Credit Facility or Liquidity Facility or any combined Credit and Liquidity Facility.

**Finance Director** means the Finance Director of the City of Detroit.

**Hedge** means any interest rate swap or other means of hedging interest rate volatility permitted under the City of Detroit Swap Management Plan.

**Liquidity Facility** means any letter of credit, line of credit, purchase agreement, or other financial arrangement intended to provide funds for the purchase of any COP in the event of a failure of the remarketing thereof.

**Mayor** means the Chief Executive Officer of the City of Detroit pursuant to Section 5-101 of the 1997 Detroit City Charter.

**Ordinance** when used as "this Ordinance" means this ordinance with the number in the caption hereof as originally adopted by the City and thereafter as it may be amended by ordinance of the City; provided that, the term "this Ordinance" does not include any amendment of this Ordinance as originally adopted affecting either Service Contract 2005 unless such amendment expressly so provides and then only if such amendment does not materially impair any obligations to any holders of any Certificates issued in respect of either Service Contract 2005 or the Trustee of the Funding Trust under which such Certificates were issued.

**Person** means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

**Provider** means a Person obligated under a Financial Facility to make payments in respect of COPs or Authorized Hedges.

**Provider Scheduled Payments** means Scheduled Payments representing unpaid disbursements owing to a Provider in respect of a Financial Facility, and may include Service Charges to the extent required by the Provider.

**Representative** means the Person selected by the Financial Director as the representative of the Underwriters.

**Service Contract 2005** means either the GRS Service Contract 2005 or the PFRS Service Contract 2005, as the context may require. The designation "2005" is descriptive and not prescriptive and means the calendar year in which the City enters into the first Service Contract for the respective Retirement System.

**Trustee** means the Person acting as trustee of a Funding Trust.

**Underwriting Agreement** means the agreement between the Corporation, the City and the Underwriters for the purchase of the Certificates of Participation.

**Underwriters** means the Representative and other Persons identified in the Underwriting Agreement as "Underwriters."

**Zero Coupon COPs** means COPs that do not provide for periodic payments in respect of "interest." Zero Coupon COPs are either Capital Appreciation COPs or Deep Discount COPs.

**Sec. 18-5-122. Other Definitions.**

The following terms are defined elsewhere in this Ordinance:

Term	Defined In
Act 34 .....	Sec. 18-5-138
Authorized Hedge .....	Sec. 18-5-137
Additional Service	

Payment.....	Sec. 18-5-134
City Information.....	Sec. 18-5-142
Funding Costs.....	Sec. 18-5-132
Funding Rate.....	Sec. 18-5-132
Funding Rate	
Methodology.....	Sec. 18-5-133
GRS Service Contract	
2005.....	Sec. 18-5-130
Hedge Counterparty.....	Sec. 18-5-135
Hedge Periodic	
Payable.....	Sec. 18-5-132
Hedge Periodic	
Receipt.....	Sec. 18-5-135
Hedge Termination	
Payable.....	Sec. 18-5-132
Hedge Termination	
Receipt.....	Sec. 18-5-135
Maximum Funding	
Rate.....	Sec. 18-5-133
PFRS Service	
Contract 2005.....	Sec. 18-5-130
Provider Prepayments.....	Sec. 18-5-133
Provider Rate.....	Sec. 18-5-133
Rule.....	Sec. 18-5-142
Scheduled Payments.....	Sec. 18-5-132
Service Charges.....	Sec. 18-5-132
Service Contract	
General Terms.....	Sec. 18-5-131
Service Payments.....	Sec. 18-5-132
Sinking Fund	
Installments.....	Sec. 18-5-133
Subject UAAL.....	Sec. 18-5-132
Swap Management	
Plan.....	Sec. 18-5-138
Underwriters' Discount.....	Sec. 18-5-141

**Sec. 18-5-123. Approvals and Determinations.**

Any approval or determination authorized to be given or made by any individual pursuant to this Ordinance shall be conclusively evidenced if an instrument or document executed by such individual provides for the subject matter of such determination, and it shall not be necessary that such determination or the basis therefor be specifically recited in such instrument or document.

**Sec. 18-5-124. General Interpretation.**

(a) Words of the masculine gender include correlative word of the feminine and neuter gender.

(b) Unless the context clearly otherwise requires, words importing the singular include the plural and vice versa.

(c) References to Sections and by number refer to the corresponding Sections of this Ordinance unless otherwise stated.

(d) The terms *hereby*, *hereto*, *herein*, *hereunder* and any similar terms refer to this Ordinance as a whole and not to any particular provision hereof.

(e) The term *or* is not exclusive unless the context otherwise requires.

(f) The enumeration of things after the term *including* is to be interpreted as illustrative and not restrictive.

(g) References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections or Public Acts enacted as substitutes therefor.

**Sec. 18-5-125. Nonprofit Corporation; Authorization to Incorporate; Purpose.**

(A) The Mayor, or the Finance Director acting at the direction of the Mayor, is hereby authorized to incorporate or provide for the incorporation of two nonprofit corporations, respectively to be known as the "Detroit General Retirement System Service Corporation" and the "Detroit Police and Fire Retirement System Service Corporation," under the Michigan Nonprofit Corporation Act.

(B) Each Corporation shall be incorporated solely for the charitable purpose of assisting the City in maintaining the actuarial integrity of the Retirement System by providing for funding of the respective Retirement System UAAL.

**Sec. 18-5-126. Nonprofit Corporation; Articles of Incorporation.**

(a) The original articles of incorporation for each Corporation as filed by the incorporator shall contain provisions to the effect set forth in this Section.

(1) The Corporation is an instrumentality and enterprise of the City, constituting an integral part of the City in assisting it in meeting its obligations with respect to the Retirement System; provided, however, the Corporation shall be a legal entity separate and distinct from the City, and the City shall not be responsible for any debts or other obligations of the Corporation.

(2) The Corporation shall be subject to all local, state and federal laws that apply to the City as provided in *The Home Rule City Act*, and shall be a "public body" for purposes of the *Michigan Campaign Finance Act*, 1976 PA 388, as amended, as further provided in *The Home Rule City Act*.

(3) No part of the net earnings of the Corporation shall inure to the benefit of any director or individual.

(4) The Corporation shall be organized in a directorship basis.

(5) The Corporation shall have five (5) directors to be appointed as follows:

(i) Two directors shall be members of the Detroit City Council (the "Council"), as selected by the Council from time to time, who shall serve as directors at the pleasure of the Council.

(ii) The following three City officers shall serve as directors of the Corporation: Finance Director, Budget Director, and Corporation Counsel, or persons serving in such positions in an interim or acting capacity.

(6) The Finance Director shall serve as president of the Corporation.

(7) Each director shall serve *ex officio* and, upon leaving the position by virtue of which such person is a director or, in the case of Council members, resigning as director or being removed or replaced as a director by Council, shall submit a written resignation or shall be deemed to have been removed. Upon such resignation or removal, such director shall not longer serve as a director of the Corporation; provided, however, that such director may continue as a director until a successor is selected as provided herein, if specifically authorized in writing to remain as a director by the party entitled to fill such director's position notwithstanding such resignation or removal.

(8) Upon dissolution of the Corporation, all assets of the Corporation remaining after the payment of its obligations and liabilities shall be distributed to and shall become the property of the City.

(9) No amendment of any provision required by this Ordinance to be contained in the articles of incorporation shall become effective unless approved by ordinance or resolution of the City.

(b) The original articles of incorporation as filed by the incorporator may otherwise contain such provisions as the incorporator deems necessary or desirable.

**Sec. 18-5-127. Nonprofit Corporation; Dissolution by Finance Director.**

When a Corporation has existed for fifteen (15) years, the Finance Director shall take appropriate action to dissolve the Corporation when it has no obligations outstanding and no COPS are outstanding if dissolution is then permitted under the *Nonprofit Corporation Act*.

**Sec. 18-5-128. Nonprofit Corporation; Corporate Actions Requiring Approval by Ordinance.**

(a) Additional Provisions Required in the Articles of Incorporation.

In addition to the other provisions required by this Ordinance to appear in the original articles of incorporation of each Corporation, the original articles of incorporation as filed by the incorporator shall contain provisions to the effect set forth in this Section.

(b) Corporate Existence; Disposition of Assets.

None of the following actions by the Corporation shall be effective unless approved by ordinance or resolution of the City:

(1) Any dissolution of the Corporation other than as provided in its articles of incorporation.

(2) The liquidation of the Corporation.

(3) The merger or consolidation of the Corporation with or into any other entity, unless:

(i) the resulting or surviving entity (if other than the Corporation) is organized as an instrumentality and enterprise of the City under the *Nonprofit Corporation Act*; expressly assumes all outstanding obligations of the Corporation; and is subject to limitations to the same effect as the Corporation is subject under this Ordinance; and

(ii) Immediately after giving effect to the transaction, no default or event of default has occurred and is continuing under any agreement of the Corporation or to which its property is subject.

(4) The Corporation shall not sell all, or substantially all, of its assets in a single transaction or series of transactions; provided that, this limitation shall not apply to sales, transfers or grants of security interests in assets to obtain funding for any Retirement System UAAL.

(c) Bankruptcy.

(1) The Corporation shall not:

(i) Commence any case, proceeding or other action or file a petition under any existing or future bankruptcy, insolvency or similar law seeking (a) to adjudicate the Corporation a bankrupt or insolvent, (b) to have an order for relief entered with respect to the Corporation, or (c) reorga-

nization, arrangement, adjustment, wind-up, liquidation, dissolution, composition or other relief with respect to the Corporation or its obligations.

(ii) Consent to the institution of bankruptcy or insolvency proceedings against the Corporation;

(iii) Seek or consent to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator (or other similar official) of the Corporation or a substantial part of its assets;

(iv) Except as required by law, admit its inability to pay its obligations as they become due;

(v) Fail generally to pay its obligations as the same become due within the meaning of the United States Bankruptcy Code, as determined by a bankruptcy court of competent jurisdiction;

(vi) Make a general assignment for the benefit of creditors;

(vii) Authorize, take any action in furtherance of, consent to or acquiesce in any of the foregoing or any similar action or other proceedings under any United States or state bankruptcy, insolvency or similar law.

(2) If a court of competent jurisdiction determines that the Corporation may, notwithstanding the prohibition set forth in paragraph (1), above, take an action otherwise prohibited, the Corporation shall not take any such action without it being approved by ordinance of the City.

**Sec. 18-5-129. Nonprofit Corporation; Funding Trusts Established.**

(a) No Funding Trust itself shall create any debt, indebtedness or other obligation of the City, whether "indebtedness" within the meaning of *The Home Rule City Act* or otherwise under Michigan law.

(b) Each Funding Trust and all Certificates of Participation issued thereunder shall contain a statement to that effect set forth in subsection (A) above, but it shall not be a violation thereof if a Funding Trust grants participation in the subject Service Contract or Service Payments to be made thereunder, or grants a security interest in any such Service Contract or such Service Payments.

**Sec. 18-5-130. Nonprofit Corporation; Service Contracts; Service Contract 2005; General Authorization.**

The Finance Director is authorized to enter into Service Contracts, in the name of and on behalf of the City, with the respective Corporation to fund all or a portion of GRS UAAL (the *GRS Service Contract 2005*) and to fund all or a portion of PFRS UAAL (the *PFRS Service Contract 2005*).

**Sec. 18-5-131. Nonprofit Corporation; Service Contract 2005.**

(a) The General Terms and Conditions for Retirement System Service Contracts of the City of Detroit (the *Service Contract General Terms*) shall be in substantially the form submitted with this Ordinance with such changes as may be approved by the Finance Director.

(b) Service Contract 2005 shall incorporate the Service Contract General Terms by reference, and the particular terms of Service Contract 2005 shall be in substantially the form submitted with this Ordinance with such changes or additions as may be approved by the Finance Director.

**Sec. 18-5-132. Nonprofit Corporation; Service Contract 2005; Changes and Additions.**

The authority of the Finance Director to make changes or additions to the form of Service Contract 2005 is subject to the limitations contained in this Section and other Sections of this Ordinance.

(1) The UAAL that may be funded pursuant to the respective Service Contract 2005 (*Subject UAAL*) shall not exceed.

(i) In the case of the GRS Service Contract 2005, the amount of GRS UAAL as determined by the Finance Director not in excess of the Maximum GRS UAAL; and

(ii) In the case of the PFRS Service Contract 2005, the amount of PFRS UAAL as determined by the Finance Director not in excess of the Maximum PFRS UAAL.

(2) Each Service Contract 2005 shall provide for payments to be made by the City for the services of the respective Corporation in reducing the present and future costs of the respective Subject UAAL. These payments (Contract Payments) consist of (i) Service Payments (described in paragraph 3 below) and (ii) Additional Service Payments (described in Sec. 18-5-134).

(3) Service Payments (*Service Payments*) consist of the following:

(i) amounts to be paid in installments (**Scheduled Payments**) representing in the aggregate the amount of the Subject UAAL and any additional amounts permitted by **Sec. 18-5-133(a)(1)** subject to the limitations contained in **Sec. 18-5-133(a)(2)** through (5);

(ii) amounts payable periodically (**Service Charges**) sufficient to pay periodic expenses (**Funding Costs**), incurred by the respective Funding Trust in funding the Subject UAAL and the additional amounts referred to in clause (i) above and calculated in the same manner as interest (a **Funding Rate**) on the outstanding Scheduled Payments, subject to the limitations contained in **Sec. 18-5-133(b)**; and

(iii) such periodic amounts (**Hedge Periodic Payables**) and termination payments (**Hedge Termination Payables**) as may become payable by the Corporation in accordance with any Authorized Hedge.

(4) Each Service Contract 2005 shall permit the sale of participation interests under the respective Funding Trust in such Service Contract 2005 and in the Service Payments of the City to be made thereunder in the form of Certificates of Participation.

**Sec. 18-5-133. Nonprofit Corporation; Service Contract 2005; Limitations on Service Payments.**

**(a) Scheduled Payments**

(1) In addition to the amount of the Subject UAAL, the aggregate amount of Scheduled Payments may include amounts, not in excess of seven percent (7%) of Subject UAAL acceptable to the Finance Director, in connection with the Corporation funding its obligations under the Service Contract through the issuance of COPs, including: Costs of Issuance, prefunded Service Charges, a reserve against delinquent Service Payments, Underwriters' Discount plus accretions in connection with any Capital Appreciation COPs so long as the Accreted Value of Capital Appreciation COPs does not result in such COPs having a yield-to-maturity (computed in accordance with customary municipal finance practice) that exceeds the Maximum Funding Rate.

(2) Scheduled Payments shall be paid over a period of not more than fifteen (15) years, as determined by the Finance Director, provided that, such period may be extended to not in excess of any extension authorized by the Board of the particular Retirement System amortizing period.

(3) Scheduled Payments may be prepaid in accordance with a schedule of mandatory prepayment installments (**Sinking Fund Installments**) as determined by the Finance Director.

(4) Provider Scheduled Payments may be subject to such mandatory prepayment as may be required by the respective Provider (**Provider Prepayments**).

(5) Except for Sinking Fund Installments and Provider Prepayments, no Scheduled Payment shall be subject to mandatory prepayment or acceleration; provided that, nothing in this prohibition shall prohibit the payment of amounts necessary to purchase COPs with a mandatory or optional tender option feature.

**(b) Service Charges**

(1) No Service Charge shall be based on a Funding Rate (expressed as an annual percentage) rate in excess of the maximum rate permitted by law (the **Maximum Funding Rate**).

(2) Funding Rates may be fixed or variable (or any combination of fixed or variable) and if variable may be determined by Dutch auction, index (such as the London Interbank Offered Rate or "LIBOR") or by remarketing or any other means customarily used to determine variable rates in municipal finance (**Funding Rate Methodology**).

(3) It is not required that Service Charges for all installments of Scheduled Payments under a Service Contract 2005 be computed on the basis of one Funding Rate or under one Funding Rate Methodology. Service Charges with respect to different installments of Scheduled Payments under a Service Contract 2005 may be computed under a different Funding Rate or Funding Rate Methodology subject in all cases to paragraph b(1) above.

(4) Service Charges may provide for a rate or rate methodology required by a Provider (a **Provider Rate**) to compensate it for any unrepaid disbursements in respect of its Financial Facility. A Provider Rate shall not exceed the maximum rate permitted by law.

(5) Each Service Contract 2005 may provide that Funding Costs of the Corporation shall be the Provider Rate with respect to Service Payments representing unrepaid amounts in respect of the Financial Facility and that the relevant Service Charges shall be adjusted accordingly.

**Sec. 18-5-134. Nonprofit Corporation; Service Contract 2005; Additional Service Payments.**

Each Service Contract 2005 may provide for the following in addition to the Service Payments (**Additional Service Payments**):

(1) Periodic amounts equal to customary trustee fees and expenses to compensate each Trustee of a Funding Trust;

(2) Periodic amounts equal to customary fees of remarketing agents, auction agents and broker-dealers if the Finance Director determines that it is in the best interest of the City that some or all of the COPs are of the variable rate type.

(3) Periodic amounts equal to customary fees and expenses of a Provider or Providers if the Finance Director determines that it is in the best interest of the City that some or all of the COPs have the benefit of a Financial Facility provided by any such Provider;

(4) Periodic amounts for the general administration of the Corporation.

**Sec. 18-5-135. Nonprofit Corporation; Service Contract 2005; Hedge Provisions.**

(a) No Service Contract shall provide for Service Payments based on payments in respect of a Hedge other than an Authorized Hedge.

(b) A Service Contract 2005 shall contain provisions to the following effect if such Service Contract 2005 provides for Service Payments in respect of an Authorized Hedge:

(1) Any amount due the respective Corporation as a periodic payment of Service Charges shall be offset by any amount (a **Hedge Periodic Receipt**) received by the Trustee on behalf of such Corporation as a correlative periodic payment from the counterparty to the Hedge (the **Hedge Counterparty**) to the extent the City is otherwise current in making Service Payments.

(2) Payments of Hedge Periodic Payables and Hedge Termination Payables shall be made by the City to the Trustee on behalf of the respective Corporation in the amounts and on the due dates thereof.

(3) Any amount received by the Trustee on behalf of the Corporation as a Termination Payment from the Hedge Counterparty (a **Hedge Termination Receipt**) shall be paid to the City to the extent the City is current in making Service Payments.

**Sec. 18-5-136. Nonprofit Corporation; Service Contract 2005; Financial Facilities.**

If the Finance Director determines that one or more Financial Facilities will result in more favorable terms to the City, the Finance Director is authorized to sign a Service Contract on behalf of the City containing provisions with respect to any such Financial Facility.

**Sec. 18-5-137. Nonprofit Corporation; Service Contract 2005; Hedges; Express Approval.**

Such instruments as are acceptable to the Finance Director as being in accordance with **Sec. 18-5-139** shall constitute a Hedge (an **Authorized Hedge**) for which the City may make Service Payments under a Service Contract 2005. One or more Authorized Hedges are permitted for each Service Contract 2005 with Hedge Counterparties selected by the Finance Director.

**Sec. 18-5-138. Nonprofit Corporation; Service Contract 2005; Hedges; References to Act 34 and Swap Management Plan.**

(a) The City Council recognizes that neither the *Revised Municipal Finance Act*, being 2001 PA 34, as amended (Act 34), nor the *City of Detroit, Michigan, Swap Management Plan* as adopted on November 26, 2002, as the same may be thereafter amended (the **Swap Management Plan**), is applicable to the Corporation; however, since a Service Contract 2005 will obligate the City to make payments correlative to payments made by the Corporation under an Authorized Hedge, the City has determined to generally apply criteria of Act 34 and the Swap Management Plan as a prudential matter as they relate to Authorized Hedges.

(b) The use of Act 34 and the Swap Management Plan as prudential criteria shall not make or be interpreted to make Act 34 or the Swap Management Plan

applicable to the Corporation or its transactions as a matter of law.

**Sec. 18-5-139. Nonprofit Corporation; Service Contract 2005; Hedges; Requirements.**

(a) **Counterparty.** The counterparty shall meet the applicable requirements of Act 34.

(b) **Term.** The term of the Hedge shall not extend beyond the due date of the last Scheduled Payment installment.

(c) **Notional Amount.** The notional amount shall not exceed the aggregate amount of the Scheduled Payments.

(d) **Corporation Rate.** The rate payable by the Corporation shall not exceed the Maximum Funding Rate.

(e) **Counterparty Rate.** The rate payable by the counterparty shall not unduly expose the Corporation to material basis risk in the opinion of the Finance Director.

(f) **Termination.** The termination events shall be customary for interest rate swaps of the nature of the Hedge and shall comply with the Swap Management Plan.

(g) **Compliance.** The Hedge shall conform to the requirements of Act 34 and comply with the Swap Management Plan in all material respects.

**Sec. 18-5-140. Nonprofit Corporation; Service Contract 2005; Hedges; Risk Acknowledgment.**

(a) Hedges have inherent risks. Inherent risks that are generally recognized and reasonably foreseen are set forth in the Swap Management Plan as previously approved by the City Council. Any evaluation of risks necessarily involves expectations and assumptions about future events, which by their nature are uncertain and may not occur as anticipated. Furthermore, unforeseen events may occur which may have material adverse effects on present expectations and assumptions. Hence, there can be no assurance that all risks, regardless of remoteness or other unforeseeability, have been evaluated.

(b) Subject to the limitations in any risk evaluation, the City Council expressly acknowledges the risks associated with each Authorized Hedge.

(c) The City Council understands that in order to prudently manage Service Charges and reduce Funding Cost volatility, a Service Contract 2005 may obligate the City to make Service Payments in respect of Hedge Periodic Payables and Hedge Termination Payables even though, due to events beyond the control of the City or the Corporation, the Subject UAAL is not funded.

**Sec. 18-5-141. Nonprofit Corporation; Service Contract 2005; Public Offering of Certificates of Participation; Underwriting Agreement.**

(a) Since the public offering of the COPs is for the benefit of the City, the Finance Director shall make the City a party to the Underwriting Agreement by executing it in the name and on behalf of the City.

(b) The City shall not be a party to the Underwriting Agreement if it provides for compensation to underwriters in excess of one percent (1%) of the aggregate amount of Scheduled Payments (**Underwriters' Discount**) or if the original issue discount in connection with the initial public offering of any COP is greater than ten percent (10%) except in the case of Deep Discount COPs.

(c) The original issue discount for any Deep Discount COPs shall not result in such Deep Discount COPs having a yield-to-maturity (computed in accordance with customary municipal finance practice) that exceeds the Maximum Funding Rate.

(d) An Underwriting Agreement may provide for liquidated damages payable by the City in the event the closing conditions required to be satisfied by either the City or the Corporation are not satisfied. If a good faith check in the amount of the liquidated damages payable by the Underwriters is required to be provided by the Representative, then such good faith check shall be payable to the order of the City.

**Sec. 18-5-142. Disclosure Information.**

(a) The Finance Director is authorized to prepare or cause the preparation of information relating to the City (the **City Information**) for inclusion in the Disclosure Document; to deem the City Information "final" for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the *Securities and Exchange Act of 1934*, as amended (the **Rule**); and to sign the City Information in the name of and on behalf of the City.

(b) The Finance Director may authorize the distribution of the City Information by the Underwriters in connection with the initial public offering of the COPs.

**Sec. 18-5-143. Continuing Disclosure.**

The Finance Director may enter into a Continuing Disclosure Agreement in the name of and on behalf of the City with respect to the City Information in customary form in order to permit the Underwriters and other Persons subject to the Rule to comply therewith in connection with the purchase and sale of COPs.

**Sec. 18-5-144. Actions on Behalf of the City.**

In addition to the authority herein expressly granted to the Finance Director, the Finance Director is hereby authorized and directed to do all things and take all actions necessary or desirable to consummate the other transactions contemplated by this Ordinance.

**Section 2.** If any word, clause, sentence, paragraph, provision, or section of this ordinance is invalidated by any Court of competent jurisdiction, the remaining words, clauses, provisions, paragraphs, and sections shall not be affected and shall continue in full force and effect.

**Section 3.** All ordinances, or parts of ordinances, in conflict with this ordinance are repealed.

**Section 4.** This ordinance is declared necessary to preserve the public peace, health, safety, and welfare of the People of the City of Detroit.

**Section 5.** In the event that this ordinance is approved by a two-thirds (2/3) majority of City Council Members serving, this ordinance shall be given immediate effect and shall become effective upon publication in accordance with Section 4-116 of the 1997 Detroit City Charter.

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'See Sec. 18-5-122 for other terms defined elsewhere in this Ordinance.

(J.C.C. p. )

Passed: February 4, 2005  
Approved: February 8, 2005  
Published: February 14, 2005  
Effective: February 14, 2005  
JACKIE L. CURRIE  
City Clerk

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# AFFIDAVIT OF PUBLICATION

IN THE MATTER OF

STATE OF MICHIGAN

County of Wayne

Pushpa Jayaprakash being duly sworn, deposes and says the annexed printed copy of a notice was taken from:

The Detroit Legal News

a newspaper printed and circulated in said State and County on:

February 07

A.D. 2005 that (s)he is the agent of the printers of said newspaper, and knows well the facts stated herein.

Pushpa Jayaprakash

Pushpa Jayaprakash

Subscribed and sworn to before me this

7th day of February A.D. 2005

Christina Jacobs

Christina Jacobs

Notary Public, Oakland County, MI

My Commission Expires February 24, 2007

Acting in Wayne County, MI

ALL ACTION OF THE CITY COUNCIL APPEARING HEREIN IS SUBJECT TO RECONSIDERATION AND/OR APPROVAL OF THE MAYOR

CITY COUNCIL

(ADJOURNED SESSION)

Detroit, Thursday, January 20, 2005

Pursuant to adjournment of the City Council meeting of January 20, 2005, the Mayor ordered by the President Pro Tem...

CITY COUNCIL

(ADJOURNED SESSION)

Detroit, Friday, January 21, 2005

Pursuant to adjournment of the City Council meeting of January 20, 2005, the Mayor ordered by the President Pro Tem...

FINANCE DEPARTMENT

February 22, 2005

An Alternative Funding Mechanism for Funding Unfunded Actuarial Accrued Liability...

Section 1 Chapter 1 of the 1984 Detroit City Code...

Section 1 Chapter 1 of the 1984 Detroit City Code...

Section 1 Chapter 1 of the 1984 Detroit City Code...

Finance Director meets the President Pro Tem...

Finance Director meets the President Pro Tem...

Finance Director meets the President Pro Tem...

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Alternative Funding Mechanism for Funding Unfunded Actuarial Accrued Liability...



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# **GRS Service Contract 2005**

**between the**

**Detroit General Retirement System Service Corporation**

**and the**

**City of Detroit**

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**Dated May 25, 2005**

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- Schedule 1 – Stated Amounts Funding Schedule**
- Schedule 2 – Scheduled Payments Attachment**
- Schedule 3 – Sinking Fund Installments Attachment**
- Schedule 4 – Schedule of Credit Insurance**
- Schedule 5 – Schedule of Stated Hedges**
- General Terms and Conditions**

**GRS Service Contract 2005**, dated May 25, 2005, between the **Detroit General Retirement System Service Corporation**, a Michigan nonprofit corporation (the *Corporation*), and the **City of Detroit**, Michigan (the *City*),

**W I T N E S S H:**

**Whereas**, the City is authorized by Ordinance No. 05-05 (the *Funding Ordinance*) to enter into this Service Contract to obtain the services of the Corporation of assisting the City in maintaining the actuarial integrity of the General Retirement System (the *Retirement System*);

**Now, Therefore**, in consideration of the premises and the mutual promises contained here, the parties hereto agree as follows:

**Section 1. Definitions**

(a) Undefined capitalized terms used herein and defined in the first paragraph hereof or the preamble hereto are used herein as therein defined.

(b) The following terms have the following respective meanings for the purpose of this Service Contract *unless* the context otherwise clearly requires:

*Business Day* means a day on which both the City and the Trustee are open for the transaction of business.

*Trust Agreement* means the trust agreement, to be dated the Closing Date, between the Corporation and the Trustee establishing the Funding Trust and providing for the issuance of the Certificates.

*Trustee* means U.S. Bank National Association and its successors as trustee under the Trust Agreement.

*Underwriting Agreement* means the Underwriting Agreement, dated the date hereof, among the Corporation, the City and the Representative on behalf of the Underwriters.

**Section 2. Constituent Parts of the Service Contract and Incorporation by Reference**

The Service Contract consists of this instrument (the *Specific Terms*) and the **General Terms and Conditions of GRS Service Contracts**, dated as of May 1, 2005 (the *General Terms*), which is incorporated by reference and made a part hereof as if set forth in full in the Service Contract.

**Section 3. Certain Particulars of the Initial Funding**

(a) Stated Funding Amount, Subject UAAL and Ancillary Amounts

The Stated Funding Amount and the Subject UAAL, the Ancillary Amounts and the components thereof are set forth in **Schedule 1** (the *Stated Amounts Funding Schedule*).

(b) Scheduled Payment Dates and Amounts, Service Charge Classes

The Scheduled Payment Dates, the amounts of Scheduled Payments due on the respective Scheduled Payment Dates and the respective Service Charge Classes are set forth in **Schedule 2** (the *Scheduled Payments Attachment*).

(c) Sinking Fund Installments

The Scheduled Payments subject to Sinking Fund Installments, the amount of the respective Sinking Fund Installments and Scheduled Payment Dates on which the Sinking Fund Installments are due are set forth in **Schedule 3** (the *Sinking Fund Installments Attachment*).

(d) Fixed Rate Funding Portion

The total of the Scheduled Payments for the Fixed Rate Class constitute the Fixed Rate Funding Portion. Such total is \$510,530,000.

(1) The Fixed Rate Service Charges applicable to the Fixed Rate Funding Portion are set forth in the **Scheduled Payments Attachment** opposite the Scheduled Payments comprising the Fixed Rate Funding Portion.

(2) The *Fixed Rate Service Charge Payment Dates* are the fifteenth day of each June and December, commencing December 15, 2005.

(e) Variable Rate Funding Portion

(1) The total of the Scheduled Payments for the Index Rate Class constitute the Variable Rate Funding Portion. Such total is \$269,000,000.

(2) Index Rate Service Charges are the only Type of Variable Rate Service Charges.

(f) Index Rate Funding Cost Supplement

(1) The *Index Rate Service Charges* for any Index Rate Service Charge Period are equal to Three-Month LIBOR plus 0.28% determined by the Contract Administrator on the Index Rate Service Charge Determination Date immediately preceding such Index Rate Service Charge Period and computed using the Index Rate Day Count Convention.

(2) Index Rate Service Charges determined for any Index Rate Service Charge Period are effective on the Index Rate Service Charge Adjustment Date for such Index Rate Service Charge Period.

(3) The following terms have the respective meanings for the purpose of determining Index Rate Service Charges *unless* the context clearly otherwise requires:

*Index Rate Day Count Convention* is the actual number of days elapsed in a year of 12, 30-day months.

*Index Rate Service Charge Determination Dates* are the LIBOR Rate Determination Dates.

*Index Rate Service Charge Adjustment Dates* are the first day of each Index Rate Service Charge Period.

*Index Rate Service Charge Payment Dates* are the 15th day of each calendar quarter (or, if such day is not a Business Day, the immediately following Business Day), commencing with September 2005.

*Index Rate Service Charge Period* is the period beginning on (and including) the Closing Date or the most recent Index Rate Service Charge

Payment Date and ending on (but not including) the Index Rate Service Charge Payment Date on which Index Rate Service Charges were paid in full by the City.

(4) The following terms have the respective meanings for the purpose of determining Three-Month LIBOR *unless* the context clearly otherwise requires:

**LIBOR Business Day** means a Business Day on which banks in both London and New York City also are open for the transaction of business.

**LIBOR Rate Determination Date** means, with respect to a particular Index Rate Service Charge Adjustment Date, the second LIBOR Business Day immediately before such Index Rate Service Charge Adjustment Date.

**Reference Bank** means a leading bank other than the Contract Administrator engaged in transactions in Eurodollar deposits in the international Eurocurrency market *and* not controlled by or under common control with the Contract Administrator.

**Three-Month LIBOR** means for a particular LIBOR Rate Determination Date, the London Interbank Offered Rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m., London time. *If* such rate does not appear on Telerate page 3750, *then* the rate for that day shall be determined by the alternative method described in **paragraph (5)**, below.

(5) The following constitutes the alternative method for determining Three-Month LIBOR when a rate for a London Interbank Offered Rate for deposits with a three-month maturity in U.S. dollars *does not* appear on Telerate Page 3750 as of 11:00 a.m., London time, for a particular LIBOR Rate Determination Date.

(i) The rate for such LIBOR Rate Determination Date shall be determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least US\$1,000,000 are offered at approximately 11:00 a.m., London time, on such LIBOR Rate Determination Date to prime banks in the London interbank market by at least three Reference Banks selected by the Contract Administrator. The Contract Administrator shall request the principal London office of each Reference Bank to provide a quotation of its rate. *If* at least two quotations are provided *then* **Three-Month LIBOR** for such LIBOR Rate Determination Date shall be the arithmetic mean of such quotations.

(ii) *If* fewer than two quotations are provided, *then* the **Three-Month LIBOR** for such LIBOR Rate Determination Date shall be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Contract Administrator, at approximately 11:00 a.m., New York City time, on such LIBOR Rate Determination Date, for loans to leading European banks in U.S. dollars in a principal amount of at least US\$ 1,000,000 having a three-month maturity.

(iii) *If* banks selected by the Contract Administrator for the purposes of **clause (ii)**, above, are not quoting rates for such loans, *then* **Three-Month LIBOR** for such LIBOR Rate Determination Date shall be the Three-Month LIBOR for the immediately preceding LIBOR Rate Determination Date.

(g) Credit Insurance

The Corporation shall enter into the Credit Insurance described in **Schedule 4** (the *Schedule of Credit Insurance*) for, respectively, all Service Charge Classes and the Stated Hedges.

(h) Stated Hedges

The Corporation shall enter in the Hedges described in **Schedule 5** (the *Schedule of Stated Hedges*) with respect to the Index Rate Service Charge Class. The Stated Hedges are acceptable to the Finance Director.

(i) Representative

The Representative is UBS Financial Services Inc.

(j) Closing Date

The Closing Date is provided for in the Underwriting Agreement.

(k) Contract Administration Agreement

The Contract Administration Agreement is the Contract Administration Agreement 2005, dated the Closing Date among the Corporation and the other Persons named therein, for the administration, *inter alia*, of this Service Contract.

#### **Section 4. Initial Funding**

The Corporation shall enter into the Trust Agreement on the Closing Date in order to establish Detroit Retirement Systems Funding Trust 2005 (the *Funding Trust*) for the purpose of issuing Certificates of Participation captioned as provided therein to provide the Initial Funding.

#### **Section 5. Optional Prepayment – Fixed Rate Portion**

(a) The City may prepay the Scheduled Payments (each, a *Selected Scheduled Payment*) of the Fixed Rate Portion in whole or in part on any date by paying the Corporation an amount equal to the greater of:

(i) 100 percent of the outstanding balance of the particular Selected Scheduled Payment being prepaid; *or*

(ii) the sum of the present values of the remaining Sinking Fund Installments of such Selected Scheduled Payment and related Service Charges that would have accrued after the date fixed for prepayment (the *Prepayment Date*) discounted to the Prepayment date on a semiannual basis (assuming a 360-day year consisting of 12, 30-day months) at the Treasury Rate (defined below) *plus* 12.5 basis points (0.125%),

*plus*, in either case, Service Charges accrued from the last Service Charge Payment Date to which Service Charges were paid in full on the particular Selected Scheduled Payment to the Prepayment Date. The *Prepayment Premium* is the amount by which **clause (ii)**, above, exceeds **clause (i)** above.

(b) The following definitions are used to determine the Treasury Rate:

**Treasury Rate** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the Prepayment Date for a price equal to the Comparable Treasury Price, as calculated by the Designated Treasury Dealer.

**Comparable Treasury Issue** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, the United States Treasury security or securities selected by the Designated Treasury Dealer which has an actual or interpolated maturity comparable to the remaining average life of such Selected Scheduled Payment, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Selected Scheduled Payment.

**Comparable Treasury Price** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, (i) if the Designated Treasury Dealer receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such Prepayment Date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Treasury Dealer receives fewer than four such Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations received by it.

**Designated Treasury Dealer** means one of the Reference Treasury Dealers appointed by the Contract Administrator.

**Reference Treasury Dealer** means UBS Financial Services Inc. or its successors, and four other firms, selected by the Contract Administrator from time to time, that are primary U.S. Government securities dealers in the City of New York (each, a **Primary Treasury Dealer**); if any Reference Treasury Dealer ceases to be a Primary Treasury Dealer, then the City will select a replacement Reference Treasury Dealer that is a Primary Treasury Dealer.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any Prepayment Date for a particular Selected Scheduled Payment, the average, as determined by the Designated Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Treasury Dealer by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such Prepayment Date.

## **Section 6. Optional Prepayment – Variable Rate Portion**

The City may prepay any Scheduled Payment payable on and after June 15, 2007, in the Variable Rate Portion in whole or in part on any Variable Rate Service Charge Payment Date at the amount thereof *plus* Service Charges accrued from the last Service Charge Payment Date to which Service Charges were paid in full on the particular Scheduled Payment to the Prepayment Date.

**Section 7. Stated Hedges**

(a) The City acknowledges that it derives a direct benefit from the Stated Hedges by reducing the Funding Cost volatility of the Index Rate Service Charges.

(b) Stated Hedges may provide that the rights and obligations of the parties thereunder shall be governed by the laws of a State of the United States other than Michigan. Such governing law provision may exclude the conflicts of law rules of the particular jurisdiction.

(c) The City understands that the Corporation intends to follow customary practice to mitigate possible interest rate risk and enter into the Stated Hedges prior to the Closing Date. As a consequence, the City will be obligated to make Service Payments in respect of Hedge Payables thereunder even though the Stated Funding Amount is not funded from the proceeds of the anticipated COPs. The City understands and accepts the risk that the Subject UAAL will not be so funded and it will be nonetheless obligated to make such Service Payments.

**Section 8. Special Provisions Concerning the Transfer Party**

(a) The following terms have the following respective meanings:

*Siebert* means SBS Financial Products Company, LLC and its permitted successors and assigns under the Transfer Agreement.

*Siebert Swap* means the ISDA Master Agreement dated May 25, 2005 between the Corporation and Siebert, together with the Schedule thereto and the Confirmation of the Swap Transaction thereunder dated May 26, 2005.

*Transfer Agreement* means the Transaction Transfer Agreement dated May 25, 2005 among Siebert, the Corporation and the Transfer Party, as the same may be amended from time to time with the consent of each Insurer not then in default under its respective Credit Insurance.

*Transfer Event* means the occurrence of an Early Termination Date (as defined in the Siebert Swap) with respect to the Siebert Swap and all Transactions thereunder and the entering into of Transfer Transactions (as defined in the Transfer Agreement) in accordance with Paragraph 2(a) of the Transfer Agreement.

*Transfer Hedge* means the Transfer Swap Agreement identified in the Transfer Agreement.

*Transfer Party* means Merrill Lynch Capital Services, Inc. and its permitted successors and assigns under the Transfer Agreement.

(b) As between Siebert and the Transfer Party, the exercise by Siebert or the Transfer Party of any right or remedy under the Service Contract shall be governed by the Transfer Agreement.

(c) Upon the occurrence of a Transfer Event:

(i) the Transfer Hedge shall constitute a Stated Hedge; and

(ii) the Transfer Party shall be a “Specified Hedge Counterparty” for purposes of the Contract Administration Agreement and shall accede to all the rights and remedies, and be bound by the obligations, of Siebert as a Specified Hedge Counterparty thereunder and shall also accede to all the rights and remedies of Siebert under this Service Contract.

(d) Siebert and the Transfer Party shall give prompt written notice to the Contract Administrator of the occurrence of a Transfer Event (and the Insurer may give such a written notice to the Contract Administrator); provided, however, the failure to give such notice shall not affect the operation of clause (c) above. Until the Contract Administrator receives such a notice and in the absence of actual knowledge to the contrary, it shall be entitled to assume that no Transfer Event has occurred and Siebert is the Specified Hedge Counterparty under the Contract Administration Agreement.

**In Witness Whereof**, the parties hereto have set their respective hands on the date first set forth above.

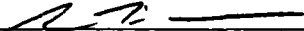
*[Signatures appear on pages S-1 et seq.]*



*[Signature Page to  
GRS Service Contract 2005  
between the Detroit General Retirement  
System Service Corporation and  
the City of Detroit]*

[Service Contract Specific Terms]

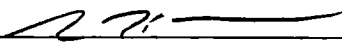
**Detroit General Retirement System Service Corporation**

By  \_\_\_\_\_  
Sean K. Werdlow  
President

[Signature Page to  
**GRS Service Contract 2005**  
*between the Detroit General Retirement  
System Service Corporation and  
the City of Detroit*]

[Service Contract Specific Terms]

**City of Detroit**

By  \_\_\_\_\_

Sean K. Werdlow  
Finance Director

**Schedule 1**  
**Stated Amounts Funding Schedule**  
**to**  
**GRS Service Contract**

The Corporation is obligated to fund the amounts (which constitute the Stated Funding Amount) set forth opposite the respective purposes. Such amounts shall be disposed of as provided below.

<u>Purpose</u>	<u>Amount</u>	<u>Disposition</u>
<b>Subject UAAL</b> .....	\$739,793,898.00	To be paid to the Retirement System
<b>Ancillary Amounts</b>		
Costs of Issuance .....	\$21,278,589.26	To be paid to the Persons entitled thereto
Prepaid Service Charges.....	12,606,007.48	To be paid to the Contract Administrator for application in accordance with the Contract Administration Agreement
Underwriters' Discount.....	5,851,505.26	Paid as a discount from the purchase price of the Certificates
	<hr/>	
Total Ancillary Amounts.....	<u>\$39,736,102.00</u>	
<b>Stated Funding Amount</b> .....	<u>\$779,530,000.00</u>	

**Schedule 2**  
**Scheduled Payments Attachment**  
**To**  
**GRS Service Contract 2005**

Scheduled Payments are due on the following Scheduled Payment Dates in the respective amounts set forth opposite such dates.

<u>Scheduled Payment Dates</u>	<u>Service Charge Class</u>		
	<u>Fixed Rate</u>	<u>Fixed Rate Service Charges</u>	<u>Index Rate Service Charge</u>
<u>(June 15 of each year)</u>	<u>Fixed Rate</u>	<u>Charges</u>	<u>Index Rate</u>
2007	5,055,000	4.004%	
2008	7,435,000	4.154%	
2009	10,095,000	4.234%	
2010	12,930,000	4.314%	
2011	15,995,000	4.404%	
2012	19,270,000	4.453%	
2013	22,885,000	4.503%	
2014	26,750,000	4.563%	
2015	20,170,000	4.613%	
2016			
2017			
2018			
2019			
2020	141,090,000	4.813%	
2021			
2022			
2023			
2024			
2025	228,855,000	4.948%	269,000,000 3M LIBOR + 0.28%
<b>Totals</b>	<b>510,530,000</b>		<b>269,000,000</b>

**Schedule 3**  
**Sinking Fund Installments Attachment**  
**to**  
**GRS Service Contract 2005**

Scheduled Payments due on the following Scheduled Payment Dates are subject to mandatory prepayment on the following Scheduled Payment Dates in the respective amounts set forth opposite such dates, each of which constitutes the Sinking Fund Installment due on the respective Sinking Fund Installment Date.

**Sinking Fund Installments of Scheduled Payments Due 2020**

<u>Scheduled Payment Dates</u> (June 15 of each year)	<u>Service Charge Class</u>	
	<u>Fixed Rate</u>	<u>Index Rate</u>
2016	22,575,000	-
2017	25,200,000	-
2018	28,015,000	-
2019	31,035,000	-
2020	34,265,000	-
<b>Totals</b>	<b>141,090,000</b>	<b>-</b>

**Sinking Fund Installments of Scheduled Payments Due 2025**

<u>Scheduled Payment Dates</u> (June 15 of each year)	<u>Service Charge Class</u>	
	<u>Fixed Rate</u>	<u>Index Rate</u>
2015	-	10,754,000
2016	-	12,859,000
2017	-	15,210,000
2018	-	17,713,000
2019	-	20,414,000
2020	-	23,300,000
2021	37,730,000	26,465,000
2022	41,475,000	29,844,000
2023	45,490,000	33,480,000
2024	49,785,000	37,376,000
2025	54,375,000	41,585,000
<b>Totals</b>	<b>228,855,000</b>	<b>269,000,000</b>

**Schedule 4**  
**Schedule of Credit Insurance**  
**to**  
**GRS Service Contract 2005**

<u>Service Charge Class/ Scheduled Payment Date</u>	<u>Financial Agreement</u>	<u>Provider</u>
Fixed Rate / 2007	Bond Insurance Policy	XL Capital
Fixed Rate / 2008	Bond Insurance Policy	XL Capital
Fixed Rate / 2009	Bond Insurance Policy	XL Capital
Fixed Rate / 2010	Bond Insurance Policy	XL Capital
Fixed Rate / 2011	Bond Insurance Policy	XL Capital
Fixed Rate / 2012	Bond Insurance Policy	XL Capital
Fixed Rate / 2013	Bond Insurance Policy	XL Capital
Fixed Rate / 2014	Bond Insurance Policy	XL Capital
Fixed Rate / 2015	Bond Insurance Policy	FGIC
Fixed Rate / 2020	Bond Insurance Policy	FGIC
Fixed Rate / 2014	Bond Insurance Policy	XL Capital
Index Rate / 2025	Bond Insurance Policy	FGIC

**Schedule 5**  
**Schedule of Stated Hedges**  
**to**  
**GRS Service Contract 2005**

Service Charge Class	Type of Hedge	Hedge Counterparty	Notional Amount	Termination Date
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR	UBS AG	161,400,000	6/15/2025
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR	Citibank, N.A., New York	53,800,000	6/15/2025
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR	SBS Financial Products Company, LLC <sup>1</sup>	53,800,000	6/15/2025

<sup>1</sup> Merrill Lynch Capital Services, Inc. ("MLCS") shall obtain the rights and be subject to the obligations of a Stated Hedge Counterparty hereunder upon the occurrence of a Transfer Party Accession Event (as defined in the Contract Administration Agreement), as a Stated Hedge Counterparty pursuant to the Transaction Transfer Agreement dated as of May 25, 2005 among the Corporation, SBS and MLCS. In no event shall SBS and MLCS simultaneously have the same rights hereunder.

# **General Terms and Conditions**

of

**GRS Service Contract 2005**

between the

**Detroit General Retirement System Service Corporation**

and the

**City of Detroit**

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**Dated as of May 25, 2005**

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**GENERAL TERMS AND CONDITIONS  
OF  
GRS SERVICE CONTRACT 2005  
OF THE  
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION  
Dated as of May 25, 2005  
(the *General Terms*)**

The General Terms govern the GRS Service Contract 2005 between the Detroit General Retirement System Service Corporation (the *Corporation*) and the City of Detroit (the *City*) in which they are incorporated by reference for the funding of unfunded accrued actuarial liability (*UAAL*) of the Detroit General Retirement System (the *Retirement System*).

**Article I — Definitions and Related Matters**

**Section 1.01. Certain Definitions**

In addition to terms elsewhere defined in this Service Contract, the following terms shall have the following respective meanings *unless* the context otherwise clearly indicates:

*Additional Service Payment* means an amount payable as General Corporate Expenses or pursuant to **Section 9.09** *other* than Contract Administrator Payments.

*Ancillary Amounts* means the Costs of Issuance, Prepaid Service Charges and Underwriter's Discount.

*Authorized Investments* means

(i) direct obligations of, or obligations unconditionally guaranteed by, the United States of America (*US Governments*) and

(ii) repurchase agreements whereby the counterparty agrees to repurchase obligations described in **clause (i)** *so long as* the obligations to be repurchased are under the exclusive "control" (as defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) of the Corporation.

STRIPS issued by the United States Treasury are Authorized Investments for the purposes of **clause (i)**, *but* private proprietary stripped US Governments, whether interest or principal strips, are not Authorized Investments.

*Business Day* means any day on which both City and the Trustee are open for the transaction of business and in respect of any Service Charge Class has the meaning given in accordance with the Funding Rate Methodology for such Service Charge Class for actions taken in respect of such Funding Rate Methodology.

*Certificates* or *Certificates of Participation* mean the Certificates of Participation issued by the Funding Trust representing beneficial interests in the Service Payments *other* than Hedge Payables, Contract Administrator Payments and Additional Service Payments.

**Closing** means the delivery of particular Certificates to the Underwriters upon receipt of payment therefor and the other actions contemplated by the Underwriting Agreement to occur in connection therewith.

**Closing Date** means, with respect to particular Certificates, the date provided for in the particular Specific Terms on which the Closing occurs pursuant to the Underwriting Agreement.

**Contract Payments** means Service Payments and Additional Service Payments.

**Contract Administration Agreement** means the agreement identified in the Specific Terms as the "Contract Administration Agreement".

**Contract Administrator** means the Person serving as the "Contract Administrator" under the Contract Administration Agreement.

**Contract Administrator Payments** means amounts equal to amounts payable as fees, expenses and indemnification of the Contract Administrator pursuant to **Section 9.09**.

**Costs of Issuance** means the amount set forth in the particular Specific Terms as the "Costs of Issuance".

**Credit Insurance** means any insurance intended to protect owners of Certificates from loss arising from a failure of the City to timely pay Service Charges or Scheduled Payments. **Credit Insurance** also means any financial arrangement intended to protect a Hedge Counterparty from a failure of the Corporation to timely pay any Hedge Payable.

**Deficiency** means any unsatisfied amount under a Deficiency Clause.

**Deficiency Clause** means the following **clauses** set forth in **Section 8.03: First** (to the extent any fees, expenses and indemnity is at the time due and unpaid to the Contract Administrator), **Second, Fourth and Sixth**.

**Disclosure Document** means any preliminary or final offering document or other disclosure document prepared for use by the Underwriters in connection with the initial public offering of Certificates.

**Finance Director** means the Finance Director of the City.

**Fixed Rate Funding Portion** means that the portion, if any, of the amount to be funded pursuant to the particular Specific Terms equal to the total of the Scheduled Payments set forth for Fixed Rate Service Charges.

**Funding Cost Supplement** means the document or particular provisions, if any, identified in the particular Specific Terms as a "Funding Cost Supplement".

**Funding** means the Initial Funding or an Additional Funding.

**Funding Ordinance** means the ordinance or resolution of the City Council identified in the particular Specific Terms as the "Funding Ordinance".

**Funding Rate Methodology** means the Fixed Rate Funding Methodology or any Variable Rate Funding Methodology as the context may require.

**Funding Rate Portion** means the Fixed Rate Funding Portion or the Variable Rate Funding Portion as the context may require.

**Funding Trust** means the trust established by the Trust Agreement.

**General Corporate Expenses** means such periodic amounts as may be necessary to provide for the general administrative expenses of the Corporation as authorized or permitted by Ordinance No. 05-05, as in effect on the date hereof.

**Hedge** means an interest rate swap or other derivative instrument authorized or permitted by the Funding Ordinance.

**Hedge Counterparty** means, as to any Stated Hedge, the Person identified in the particular Specific Terms as the "Hedge Counterparty".

**Hedge Payable** means, after giving effect to any netting under the particular Stated Hedge, any Hedge Periodic Payable or any Hedge Termination Payable as the context may require.

**Hedge Periodic Payable** means, after giving effect to any netting under the particular Stated Hedge, a periodic amount owing by the Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Periodic Receivables** means, after giving effect to any netting under the particular Stated Hedge, periodic payments owing by the Hedge Counterparty under a Stated Hedge.

**Hedge Receivable** means any Hedge Periodic Receivable or Hedge Termination Receivable as the context may require.

**Hedge Termination Payable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Termination Receivable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Hedge Counterparty under a Stated Hedge.

**Insurer** means the Person obligated under Credit Insurance to make payments with respect to Certificates or a Stated Hedge.

**Investable Funds** means amounts representing Costs of Issuance and Prepaid Service Charges.

**Payment Time** means noon (12:00), Detroit time.

**Person** means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

**Prepaid Service Charges** means the amount set forth in the particular Specific Terms as the "Prepaid Service Charges".

**Regular Scheduled Payment** means the amount of a Scheduled Payment due on its Scheduled Payment Date.

**Representative** means the Person identified in the particular Specific Terms as the "Representative".

**Scheduled Payment Dates** means the dates set forth in the particular Specific Terms as the “Scheduled Payment Dates”.

**Scheduled Payments** means the amounts set forth in the particular Specific Terms as the “Scheduled Payments”.

**Service Charge Payment Date** means a Fixed Rate Service Charge Payment Date or a Variable Rate Service Charge Payment Date for a particular Variable Rate Funding Type, as the context may require.

**Service Charge Class** means all Scheduled Payments that have the same Funding Rate Methodology.

**Service Contract** means an agreement between the City and the Corporation for the funding of particular UAAL and which consists of these General Terms and one or more Specific Terms.

**Service Payment** means any Contract Administrator Payment, Service Charge (regardless of Funding Rate Methodology), Regular Scheduled Payment or Sinking Fund Installment, amounts in respect of any Hedge Payable, Optional Prepayment or Accrued Service Charge as the context may require.

**Specific Terms** means that part of the Service Contract that provides the particulars of the a Funding.

**Stated Funding Amount** means the amount identified in the particular Specific Terms as the “Stated Funding Amount”.

**Stated Hedge** means a Hedge identified in the particular Specific Terms as a “Stated Hedge”.

**Subject UAAL** means the amount set forth in the particular Specific Terms as the “Subject UAAL”.

**Third Party Beneficiary** means any Person so identified in **Section 9.12**.

**Trust Agreement** means the Trust Agreement identified in the particular Specific Terms.

**Trust Estate** means the property identified as the “Trust Estate” in the Trust Agreement.

**Trustee** means the Person acting as trustee under the Trust Agreement.

**Type** as in **Variable Rate Funding Type** (and correlative usages) means a method by which Variable Funding Rates are determined, such as by Dutch auction, by reference to an identified index (such as the London Interbank Offered Rate or “LIBOR”) or by remarketing or any other means customarily used to determine variable rates in municipal or corporate finance. “Type” when used with respect to a Service Charge Class has the correlative meaning.

**Underwriters** means the Representative and the other Persons identified in the Underwriting Agreement as the “Underwriters”.

**Underwriters' Discount** means the amount set forth in the particular Specific Terms as the “Underwriters' Discount”.

**Underwriting Agreement** means the agreement among the Corporation, the City and the Underwriters providing for the public offering of Certificates to fund a Funding.

**Variable Rate Funding Portion** means all or that portion, if any, of the Stated Funding Amount equal to the total of the Scheduled Payments set forth for all types of Variable Rate Service Charge Classes.

**Section 1.02. Other Definitions**

Terms defined elsewhere in these General Terms include the following:

<b><i>Term</i></b>	<b><i>Defined In</i></b>
Accrued Service Charges.....	Section 5.03
Additional Funding.....	Section 4.01
Component.....	Section 1.03
Corporation.....	General Terms, First Paragraph
Day Count Convention.....	Section 6.04
Delivery Notice.....	Section 5.04
Eligible Certificates.....	Section 5.04
Fixed Rate Funding Methodology.....	Section 6.03
Fixed Rate Scheduled Payments.....	Section 6.03
Fixed Rate Service Charge Payment Date.....	Section 6.03
Fixed Rate Service Charges.....	Section 6.01
Funding Costs.....	Section 6.01
Hedge Amount.....	Section 5.03
Initial Funding.....	Section 4.01
Investment.....	Section 7.04
Optional Prepayment Amount.....	Section 5.03
Optional Prepayment Dates.....	Section 5.03
Optional Prepayments.....	Section 5.03
Prepayment Notice.....	Section 5.03
Prepayment Receipt Date.....	Section 5.03
Rating Agency.....	Section 9.02
Related Service Payment.....	Section 7.03
Retirement System.....	General Terms, First Paragraph
Service Charges.....	Section 6.01
Service Charge Determination Dates.....	Section 6.04
Service Payment.....	Section 1.01
Service Payment Component.....	Section 1.03
Sinking Fund Installment Dates.....	Section 5.02
Sinking Fund Installments.....	Section 5.02
Total Prepayment Amount.....	Section 5.03
UAAL.....	General Terms, First Paragraph
Variable Rate Funding Methodology.....	Section 6.04
Variable Rate Scheduled Payments.....	Section 6.04
Variable Rate Service Charge Payment Dates.....	Section 6.04
Variable Rate Service Charges.....	Section 6.01

### **Section 1.03. Service Payment Components**

Service Payments consist of the following components (each, a *Component* or *Service Payment Component*):

- Contract Administrator Payments
- Service Charges (regardless of Funding Rate Methodology)
- Regular Scheduled Payments
- Sinking Fund Installments
- amounts in respect of Hedge Periodic Payables
- amounts in respect of Hedge Termination Payables
- Optional Prepayments
- Accrued Service Charges

### **Section 1.04. Business Days**

If the Service Contract requires an act to be performed on a day that is not a Business Day then such act shall be performed on the first day thereafter that is a Business Day with the same effect as if such act were performed on the day that such act was otherwise required to be performed.

### **Section 1.05. Interpretation**

(a) Words of the masculine gender include correlative words of the feminine and neuter genders.

(b) Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

(c) Articles, Sections, Schedules and Attachments referred to by number or name refer to the corresponding Articles, Sections, Schedules and Attachments of the Service Contract unless otherwise provided.

(d) The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in the Service Contract refer to the Service Contract as a whole and not to any particular portion thereof.

(e) The word *or* is not exclusive.

(f) The enumeration of things after the word *including* is to be interpreted as illustrative and not as restrictive.

(g) References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections or Public Acts enacted as substitutes therefor.

## **Article II — Terms of Service Contract**

### **Section 2.01. Particulars of Specific Terms**

(a) The Specific Terms for the Initial Funding shall:

- (1) Incorporate by reference these General Terms;



(2) State the Stated Funding Amount and the Subject UAAL and Ancillary Amount components thereof;

(3) Set forth the Scheduled Payments to be made pursuant to the Service Contract and classify the Scheduled Payments by Service Charge Class;

(4) Set forth any Scheduled Payments subject to mandatory prepayment (*Sinking Fund Installments*), the amount of the Sinking Fund Installments and the Scheduled Payment Dates on which such Sinking Fund Installments are due;

(5) Provide for the terms required by **Section 6.03** if the particular Specific Terms provides for Fixed Funding Rate Portion;

(6) Identify the Funding Cost Supplement (which shall include the terms required by **Section 6.04**) for each Type of Variable Funding Rate Service Charge Class if the particular Specific Terms provides for a Variable Rate Funding Portion;

(7) Identify the Funding Trust for Certificates and the Trust Agreement establishing such Funding Trust;

(8) Identify any Hedge and any Credit Insurance to be entered into by the Corporation with respect to one or more Service Charge Classes and state that any such Hedge or Credit Insurance is acceptable to the Finance Director;

(9) Identify the Representative;

(10) Provide for the Closing Date and the disposition of the proceeds of the particular funding;

(11) Identify the Contract Administration Agreement, if any; and

(12) Contain such other particulars as agreed to by the Corporation and the City.

(b) The Specific Terms for an Additional Funding shall contain particulars to the same effect as the Initial Funding so far as necessary or appropriate and such other particulars as shall relate to the particular Additional Funding.

(c) Specific Terms for an Additional Funding do not constitute an amendment of the Service Contract to provide new services but rather an implementation of services agreed to be provided on the date of the Service Contract. The Service Contract may be restated to include the Specific Terms for an Additional Funding for convenience of reference.

## **Section 2.02. Variation of General Terms; Conflict with General Terms**

(a) Specific Terms may not change **this Section** of these General Terms.

(b) *Except* as provided above, Specific Terms may delete, modify or otherwise vary these General Terms *but only* as related to a particular Funding *and then only* so long as such does not adversely affect any of the rights of successors to any interest of the Corporation or the rights of any Third Party Beneficiary arising in any prior Funding.

(c) Any conflict between these General Terms and the terms set forth in any Specific Terms of the Service Contract shall be resolved in favor of the particular Specific Terms so far as not in conflict with **this Section**.

### Article III — Representations and Warranties

Each of the Corporation and the City represent and warrant as set forth in this Article for the mutual benefit of each other and for the benefit of the Funding Trust and the holders from time to time of the Certificates.

#### Section 3.01. Representations of the Corporation

The Corporation makes the following representations and warranties on the date hereof and shall make the same on and as of the Closing Date:

(a) Corporate Existence and Power. The Corporation is a nonprofit corporation duly incorporated, validly existing and in good standing under the laws of the State of Michigan.

(b) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Corporation of the Service Contract are within the Corporation's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or bylaws of the Corporation or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Corporation.

(c) Binding Effect. The Service Contract constitutes a valid and binding agreement of the Corporation enforceable in accordance with its terms *except* as may be limited by bankruptcy, insolvency or similar laws affecting the rights of creditors generally.

(d) Litigation. There is no action, suit or proceeding pending against, or to the knowledge of the Corporation threatened against or affecting the Corporation before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely the ability of the Corporation to perform its obligations under the Service Contract or which in any manner questions the validity of the Service Contract.

(e) No Taxation. The Corporation is not subject to federal income tax or taxation by the State of Michigan.

(f) Not an Investment Corporation. The Corporation is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

#### Section 3.02. Representations of the City

The City makes the following representations and warranties on the date hereof and shall make the same on and as of the Closing Date:

(a) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the City of the Service Contract are within the City's powers, have been duly authorized by all necessary action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the City Charter or of any agreement, judgment, injunction, order, decree or other instrument binding upon the City.

(b) Conditions Precedent. All acts, conditions and things required by the Constitution and laws of the State of Michigan or the Funding Ordinance to exist, to have happened and to have been performed precedent to and in the execution and delivery of the Service Contract by the City and the authorization of the Contract Payments in connection with the Initial Funding (*Initial Funding Contract Payments*) exist, have happened and been performed in due time, form and manner required by the Constitution or law in order to make the Service Contract a valid and binding obligation of the City, including the obligation to make the Initial Funding Contract Payments.

(c) No Indebtedness. The obligation of the City to make Contract Payments does not constitute or create any indebtedness of the City within the meaning of the limitation of The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.

(d) Valid and Binding Agreement. The Service Contract constitutes a valid and binding agreement of the City enforceable in accordance with its terms *except* as may be limited by bankruptcy, insolvency or similar laws affecting the rights of creditors generally.

(e) Subject UAAL. The amount of the Subject UAAL does not exceed the amount of UAAL for which City is authorized by the Funding Ordinance to engage the services of the Corporation by entering into the Service Contract.

(f) Ancillary Amounts. The Costs of Issuance, Prepaid Service Charges and Underwriters' Discount represent the costs, fees and expenses that the City is authorized to pay by the Funding Ordinance for the respective purposes and do not exceed the amounts permitted by the Funding Ordinance.

### **Section 3.03. Labor Related Representations of City and Corporation**

Each of the City and the Corporation respectively represents and warrants as to itself, severally and not jointly, that none of the

- (1) execution, delivery and performance of the Service Contract by the City or the Corporation;
- (2) the execution, delivery and performance of the Trust Agreement by the Corporation;
- (3) the conveyance of the Corporation's interests in the Service Charges and Scheduled Payments to the Funding Trust (or the granting of a security interest therein to the Funding Trust) and the issuance and sale of the Certificates; or
- (4) the performance by the Trustee of its duties under the Trust Agreement in respect of the Certificates

requires any action by or in respect of, or filing with any labor union or any governmental body, agency or official responsible for enforcing federal or State of Michigan labor laws or regulations (collectively, *Labor Laws or Regulations*), or contravenes or constitutes a default under, any provision of applicable Labor Laws or Regulations or any collective bargaining agreement (as the same may have been modified by custom or practice) or other labor agreement, or any judgment, injunction, order or decree or other instrument in respect of any Labor Laws or Regulations.

## Article IV — Service and Funding Arrangements

### Section 4.01. Provision of Services

(a) The services of the Corporation consist of reducing the financial burden of the Subject UAAL to the City in the current and in future years. The Corporation shall provide its services through taking the actions set forth below.

(1) The Corporation shall fund the Stated Funding Amount on the Closing Date (the *Initial Funding*).

(2) The Corporation shall fund any Hedge Termination Payable in whole or in part as requested of the City and approved by the City Council.

(3) The Corporation shall fund a reduction or rescheduling (or both) of Service Payments as requested by the City and approved by City Council (funding pursuant to this paragraph or paragraph (2), an *Additional Funding*).

(4) An Additional Funding may include such things in the nature of Costs of Issuance, Prepaid Service Charges and Underwriters' Discount as authorized or permitted by the approval of the City Council of the Additional Funding.

(b) "Funding", as used above, means the provision of money through the issuance of Certificates and does not mean or imply any further authorization of the City to make any Contract Payment *other than* Contract Payments in connection with any Additional Funding.

### Section 4.02. Payment Obligation

(a) The City agrees to make Contract Payments to the Corporation in return for the present and future services of the Corporation under **Section 4.01** as and when Contract Payments become due and payable.

(b) The obligations of the City hereunder, including its obligation to make Contract Payments, are contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City, and are *not* general obligations of the City to which the City has pledged its full faith and credit.

### Section 4.03. Funding Obligation

(a) The obligation of the Corporation to provide the Initial Funding or any Additional Funding is subject to the receipt by the Corporation of proceeds sufficient for the Funding from the sale of Certificates.

(b) The Corporation shall use its best efforts to cause the consummation of the offering and sale by the Underwriters of Certificates to provide sufficient proceeds for the particular Funding.

(c) The City agrees to provide such information about the City of Detroit as may be reasonably required by the Underwriters for inclusion in the Disclosure Document and to otherwise reasonably cooperate in the offering and sale of Certificates by the Underwriters.

(1) The City agrees to become a party to the Underwriting Agreement if the Underwriting Agreement is satisfactory in form and substance to the Finance Director.

(2) The City agrees to enter into a continuing disclosure agreement and take such other actions as shall be necessary or appropriate to assist the Underwriters in meeting their obligations under Rule 15c2-12 of the Securities and Exchange Commission.

**Section 4.04. Disposition of Certificate Proceeds**

The Corporation shall apply the proceeds of the sale of Certificates as provided in the Specific Terms for the particular Funding.

**Article V — Scheduled Payments**

**Section 5.01. Scheduled Payments**

The City agrees to pay the Scheduled Payments of each Funding Rate Portion to the Corporation on the respective Scheduled Payment Dates for such Funding Rate Portion. For the avoidance of doubt, Scheduled Payments do not include Hedge Payables.

**Section 5.02. Mandatory Prepayment by Sinking Fund Installments**

The City agrees to prepay such Scheduled Payments of each Funding Rate Portion in such amounts (*Sinking Fund Installments*) and on the dates (*Sinking Fund Installment Dates*) as shall be set forth in the Specific Terms.

**Section 5.03. Optional Prepayment of Scheduled Payments**

(a) The City shall not voluntarily prepay any Scheduled Payments of a Funding Rate Portion (an *Optional Prepayment*) in whole or in part *unless* (i) such voluntary prepayment is expressly permitted in the Service Contract, (ii) it concurrently pays the Hedge Amount to the Corporation and (iii) it has met the condition precedent contained in **subsection (d)**, below.

(b) The following terms have the following respective meanings:

*Accrued Service Charges* means, *if* an Optional Prepayment Date is *not* a Service Charge Payment Date, the amount of Service Charges accrued on the amount of the Scheduled Payment to be prepaid from the last Service Charge Payment Date before the Optional Prepayment Date to the Optional Prepayment Date.

*Hedge Amount* means the amount, if any, of any Hedge Termination Payable that will be owed by the Corporation pursuant to any Stated Hedge relating to the Scheduled Payments being prepaid as a result of any required reduction in the notional amount of such Stated Hedge due to such prepayment and the Hedge Periodic Payable, if any, accrued to the date of termination.

*Optional Prepayment Amount* means the sum of (i) the amount of the prepayment premium, if any, required by the Service Contract in connection with the prepayment of any selected Scheduled Payments *and* (ii) the amount of Scheduled Payments selected to be prepaid.

*Prepayment Notice* means a notice of the City to the Corporation stating its intention to prepay the Scheduled Payments specified therein on the Optional Prepayment Date specified in such notice.

**Prepayment Receipt Day** means the Payment Time on the day before the Optional Prepayment Date.

**Total Prepayment Amount** means, as to any Optional Prepayment, the amount of the Optional Prepayment Amount, Accrued Service Charges, if any, and the Hedge Amount, if any.

(c) The City shall exercise its option to make any Optional Prepayment by delivering a Prepayment Notice *at least* 45 days (or such fewer days as is acceptable to the Corporation) before the Optional Prepayment Date on which the City shall pay the Total Prepayment Amount to the Corporation in connection with such Optional Prepayment. Such Prepayment Notice shall state:

(1) the Scheduled Payments of the particular Funding Rate Portion to be prepaid in whole or in part by such Optional Prepayment and the date on which such Scheduled Payments are to be prepaid (**Optional Prepayment Date**) *subject* to the following:

(i) a Scheduled Payment may be selected by the City *only if* it is permitted by the Service Contract to be prepaid on the particular Optional Prepayment Date and

(ii) a Scheduled Payment may be selected by the City for partial prepayment only in an amount of at least \$100,000 *unless* otherwise provided in the Service Contract;

(2) the Optional Prepayment Amount;

(3) the Accrued Service Charges, if any;

(4) the Hedge Amount, if any;

(5) such information in tabular or other form so as to readily permit the Corporation to identify:

(i) the Scheduled Payments of the particular Funding Rate Portion selected for prepayment,

(ii) the provisions of the Service Contract authorizing or permitting such prepayment,

(iii) the prepayment premium, if any, required to be paid in connection with the prepayment of each such Scheduled Payment;

(iv) Accrued Service Charges, if any, due in respect of the prepayment of the particular Scheduled Payments; and

(v) the Hedge Amount, if any, due in respect of the prepayment of the particular Scheduled Payments.

(d) It is a condition precedent to the City giving an Optional Prepayment Notice to the Corporation with respect to any Optional Prepayment that would obligate the Corporation that the City provide reasonable evidence satisfactory to the Corporation that the particular Hedge Amount will be paid when due and such prepayment will not cause the Corporation to be default under any agreement to which it is party in connection with the particular Funding.

(e) The “reasonable evidence satisfactory to the Corporation” in **subsection (d)**, above, shall be such evidence as the Corporation is informed by the Hedge Counterparty or Counterparties and the Insurer (if the Insurer is not in default under its Credit Insurance at the time) is reasonably satisfactory to them.

(f) The delivery by the City of a Prepayment Notice to the Corporation is a statement of the intention of the City to pay the Total Prepayment Amount to the Corporation on the Prepayment Receipt Day for the Optional Prepayment Date stated therein but does not obligate the City to so pay the Total Prepayment Amount to the Corporation, and no default shall occur by the City not so paying the Total Prepayment Amount or by the Optional Prepayment not otherwise being effected on the Prepayment Receipt Date.

(g) Any Total Prepayment Amount received by the Corporation shall be used on the Prepayment Receipt Date to the satisfaction of each of the priorities set forth in **Section 8.03** higher than **clause Eighth**.

(1) *If none of the Total Prepayment Amount is used as provided above, then the Optional Prepayment shall be effectuated by using such Total Prepayment Amount to satisfy the Optional Prepayment Amount, the Accrued Service Charges, if any, and the Hedge Amount, if any.*

(2) *If any part of the Total Prepayment Amount is used as provided above, then the Optional Prepayment shall not be effectuated, and the balance, if any of the Total Prepayment Amount shall be returned to the City on the Prepayment Receipt Date.*

(3) Use of the Total Prepayment Amount is subject to **Section 8.02**.

(h) The City shall *not* pay the Total Prepayment Amount to the Corporation on any day prior to the particular Prepayment Receipt Day.

#### **Section 5.04. Satisfaction of Scheduled Payments by Delivery of Certificates**

(a) The City may deliver or cause to be delivered Certificates to the Corporation in satisfaction (whether in whole or in part) of Scheduled Payments at any time and in any denomination upon 45 day’s prior notice to the Corporation (or such fewer days as is acceptable to the Corporation) (a ***Delivery Notice***) subject to the following limitations.

(1) A Scheduled Payment may be satisfied by delivery of Certificates entitled to payment from such Scheduled Payment (***Eligible Certificates***).

(2) The amount of a Scheduled Payment deemed paid shall be equal to the denominations of the particular Eligible Certificates.

(3) No Certificate shall be delivered in payment in whole or in part of the respective Scheduled Payment (whether as payment of a Sinking Fund Installment or as other prepayment) more than 45 days before the respective due date *if* at the time of such delivery the City has not paid all Service Payments then and theretofore due.

(4) No Scheduled Payment shall be satisfied by the delivery of Certificates until such Certificates have been delivered to the Trustee.

(b) If Sinking Fund Installments are to be satisfied (whether in whole or in part) by the delivery of Eligible Certificates, the City shall indicate in the respective Delivery Notice the particular Sinking Fund Installments and amounts thereof to be so satisfied.

(c) All Certificates received by the Corporation in payment of Scheduled Payments pursuant to **this Section** shall be immediately delivered to the Trustee for cancellation.

## Article VI — Service Charges

### Section 6.01. Agreement to Pay Service Charges; Funding Costs

(a) The City agrees to pay amounts (*Service Charges*) to the Corporation on Service Charge Payment Dates sufficient to pay the periodic costs of capital (*Funding Costs*) incurred by the Funding Trust for the particular Funding. For the avoidance of doubt, Service Charges do not include Hedge Payables.

(b) Funding Costs shall be determined by the particular Funding Rate Methodology.

(1) Funding Costs for any Fixed Rate Funding Portion shall be determined in accordance with the Fixed Rate Funding Methodology described in **Section 6.03**, and the corresponding Service Charges shall be *Fixed Rate Service Charges*.

(2) Funding Costs for a Variable Rate Funding Portion shall be periodically determined in accordance with the Variable Rate Funding Methodology described in **Section 6.04**, and the corresponding periodic Service Charges shall be *Variable Rate Service Charges* and may be referred to by the particular Type of Variable Rate Service Charges; e.g., Index Rate Service Charges.

### Section 6.02. Prepaid Service Charges; Hedge Receivables

(a) Prepaid Service Charges shall be used to meet the City's obligation to pay the first occurring Service Charges and Hedge Periodic Payables of the Corporation *except* as otherwise may be provided in the Specific Terms.

(b) Hedge Receivables received by the Corporation shall be used to satisfy the City's obligation in respect of then existing Deficiencies in accordance with **Section 7.05** or then current Service Charges not otherwise paid.

### Section 6.03. Fixed Rate Funding Methodology

(a) The provisions of **this Section** constitute the *Fixed Rate Funding Methodology*.

(b) The particular Specific Terms shall state the dates (*Fixed Rate Service Charge Payment Dates*) on which the Fixed Rate Service Charges are payable.

(c) The Fixed Rate Service Charges applicable to the Fixed Rate Funding Portion shall be set forth for the respective Scheduled Payments comprising the Fixed Rate Funding Portion (*Fixed Rate Scheduled Payments*). Fixed Rate Service Charges may be different for different Scheduled Payment Dates in the Fixed Rate Funding Portion.

(d) Fixed Rate Service Charges shall be computed as if the Fixed Rate Scheduled Payments bore interest at the respective rates at which Fixed Rate Service Charges are determined and computed on the basis of a 360-day year consisting of 12, 30-day months.



(e) On each Fixed Rate Service Charge Payment Date the City shall pay a Fixed Rate Service Charge equal to the Fixed Rate Service Charge accrued on the respective unpaid Fixed Rate Scheduled Payments from the later of the Closing Date or the last Fixed Rate Service Charge Payment Date on which Fixed Rate Service Charges were paid in full by the City.

**Section 6.04. Variable Rate Funding Methodology**

(a) The provisions of **this Section** constitute the *Variable Rate Funding Methodology*.

(b) The periodic Variable Rate Service Charge for each Scheduled Payment set forth under a particular type of Service Charge Class in the Variable Rate Funding Portion (*Variable Rate Scheduled Payments*) shall be determined in accordance with the particular Type of Variable Rate Funding.

(c) Each Funding Cost Supplement for a Type of Variable Rate shall provide for a procedure by which the Variable Rate Service Charges are determined for the particular Variable Rate Funding Type and shall further provide:

(1) The *Variable Rate Service Charge Payment Dates*: the dates on which the Variable Rate Service Charges are payable for such Type;

(2) The *Service Charge Determination Dates*: the dates on which the Variable Rate Service Charges of such Type are determined;

(3) The *Service Charge Adjustment Dates*: the dates on which the Variable Rate Service Charges of such Type are adjusted; and

(4) The *Day Count Convention*: the number of days in a month and in a year used to determine the amount of the Variable Rate Funding Service Charges of such Type.

(d) Variable Rate Service Charges for each Variable Rate Funding Type in the Variable Rate Funding Portion shall be computed as if the Variable Rate Scheduled Payments of the particular Variable Rate Type bore interest at a rate (i) determined as of each Service Charge Determination Date for such Type and effective as of the respective Service Charge Adjustment Date for such Type and (ii) computed using the applicable Day Count Convention for such Type.

(e) Variable Rate Funding Costs for any Variable Rate Funding Type may be tranching such that not all Variable Rate Funding Scheduled Payments of the particular Type are computed in the same manner; e.g., some may be determined on a weekly basis and others may be determined on a monthly basis.

(f) On each Variable Rate Service Charge Payment Date for a particular Type the City shall pay a Variable Rate Service Charge equal to the applicable Variable Rate Funding Costs accrued on the unpaid Variable Rate Funding Scheduled Payments of that Type from the later of the Closing Date or the last applicable Variable Rate Funding Service Charge Payment Date on which the Variable Rate Funding Service Charges of that Type were paid in full by the City.

## **Article VII — General Provisions Governing Service Payments and Contract Administrator Payments**

### **Section 7.01. Time of Service Payments**

The City shall make all Service Payments other than Contract Administrator Payments by the Payment Time on the day immediately before the date when due. The City shall make all Contract Administrator Payments on the date when due.

### **Section 7.02. Hedge Payables**

The City agrees to pay the amount of any Hedge Payable to the Corporation promptly upon receipt of notice thereof from the Corporation; *provided* that the City is not required to pay such amount before the Payment Time on the day before the due date of the particular Hedge Payable.

### **Section 7.03. Subrogation**

(a) No payment of any amount to a holder of Certificates or a Hedge Counterparty made from an amount paid by an Insurer under its Credit Insurance (a *Credit Insurance Payment*) shall discharge the City's obligation to pay any Service Payment in respect of which such Credit Insurance Payment was paid (a *Related Service Payment*).

(b) An Insurer making a Credit Insurance Payment shall be subrogated to the rights of Certificateholders or a Hedge Counterparty, as the case may be, to receive the Related Service Payment and shall be entitled to exercise all rights and remedies that the Person to which it is the subrogee would have otherwise been entitled to exercise.

### **Section 7.04. Investment**

(a) The Corporation shall not invest any amounts received by it under the Service Contract *except* as provided in **this Section**. *Invest* means the transfer, disposition or other use of such amounts in expectation of gain, and *Investment* means any investment of Investable Funds.

(b) Investable Funds shall be invested by the Corporation as directed by the City in Authorized Investments that mature in the amounts and at the times the related Investable Funds are needed to make the payments for which such Investable Funds were received by the Corporation.

(c) Investments shall be made by Funding Rate Portion but may be commingled for investment purposes *so long as* records are kept showing each particular Funding Rate Portion and the gain and loss attributable to it.

(d) No Investment shall be sold prior to the maturity thereof.

(e) All Investments shall be made directly by the Corporation having exclusive control over the related securities entitlement (as "control" and "security entitlement" are defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) *except* that Investments may also be made through one or more investment companies registered under the Investment Companies Act of 1940, as amended, *if* (i) such investment company has a rating by Standard & Poor's Corporation or any national statistical ratings organization (as

defined by the Securities and Exchange Act of 1934, as amended, or any successor to it) at least equal to the rating of the Authorized Investment *and* (ii) such registered investment company invests only in debt instruments.

(f) Gain and loss from Investments shall be attributed to the type of Investable Funds giving rise to it.

(1) Gain shall be paid to the City when realized to the extent it is not needed to satisfy any then existing Deficiency in accordance with **Section 7.05** or satisfy any then current Service Payment.

(2) The City is responsible for all such loss and shall reimburse the Corporation for such loss upon demand by the Corporation.

### **Section 7.05. Satisfying Deficiencies**

(a) **This Section** governs the use of certain amounts to satisfy Deficiencies. *If* the City has not provided funds sufficient to satisfy the requirements of **Section 8.03**, *then* the amounts subject to this Section, in an amount not exceeding any Deficiency, shall be applied in accordance with **Section 8.03**.

(b) The amounts subject to this Section and the order of use are (i) Hedge Receivables and (ii) gain from Investments

(c) Such amounts are subject to **Section 8.02**.

### **Section 7.06. No Set-Off**

The obligation of the City to make payments hereunder shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Corporation, the Trustee, any holder or beneficial owner of any Certificate or any other person whether in connection herewith or with any unrelated transaction and the obligation of the City to make such payments shall not be conditioned on its receipt of future services of the Corporation under **Sections 4.01(a)(2)** through **(4)**. The City will not suspend or discontinue its obligation to make any such payment for any cause whatsoever, and, to the extent permitted by law, the City waives all rights now or hereafter conferred by statute or otherwise to quit, terminate, cancel or surrender any such obligation of the City under the Service Contract or to any abatement, suspension, deferment, diminution or reduction in such payments.

## **Article VIII — Satisfaction of Service Payments and Contract Administrator Payments**

### **Section 8.01. Certain Defined Terms**

An amount is *about to become due* for the purposes of **Section 8.03** (i) when there are 6 or fewer days before its due date *except* when the amount is payable more frequently than once a calendar week and (ii) when an amount is payable more frequently than once a calendar week, that amount is *about to become due* the day after its most recent due date.

*all Service Contracts* means the Service Contract and the Other Service Contract.

*each Service Contract* means the Service Contract or the Other Service Contract as the context may require.

*each Service Corporation* means the Service Corporation or the Other Service Corporation as the context may require.

*Other Service Contract* means a service contract between the City and the Other Service Corporation for the funding of unfunded accrued actuarial liability of the City with respect to a different pension system maintained by the City, certain payments under which Other Service Contract are part of the Trust Estate.

*Other Service Corporation* means the nonprofit corporation party to the Other Service Contract.

*pro-rata* for the purposes of **this Article** means for any priority class under **Section 8.03** and as of any computation date, a fraction, the numerator of which is the amount owing to any particular Person who is entitled to a payment in such priority class and the denominator of which is the total of all such payments owing to all such Persons in such priority class.

#### **Section 8.02. Preservation of Parity among Service Contracts**

All Service Payments payable under this Service Contract shall be made and the Corporation shall be entitled to receive such payments on a pro-rata basis with the Service Payments under the Other Service Contract so that each Service Payment Component having a specified priority under **Section 8.03** is made on a pro-rata basis with the Service Payment Components having the same defined term under Section 8.03 of the Other Service Contract, and no Service Payment Component shall be satisfied *until* all Service Payment Components under all Service Contracts having the same defined term but having a greater priority under **Section 8.03** of each Service Contract are first satisfied in full.

#### **Section 8.03. Satisfaction of Service Payments**

Service Payments under all Service Contracts shall be satisfied in the following order and priority:

- First:** Contract Administrator Payments; *then*
- Second:** all theretofore due and unpaid Service Charges (regardless of the Funding Rate Methodology) and amounts in respect of Hedge Periodic Payables; *then*
- Third:** all then due or about to become due Service Charges (regardless of the Funding Rate Methodology) and amounts in respect of Hedge Periodic Payables; *then*
- Fourth:** all theretofore due and unpaid Regular Scheduled Payments and Sinking Fund Installments; *then*
- Fifth:** all then due or about to become due Regular Scheduled Payments and Sinking Fund Installments; *then*

- Sixth:** all theretofore due and unpaid amounts in respect of Hedge Termination Payables; *then*
- Seventh:** all then due or about to become due amounts in respect of Hedge Termination Payables; *then*
- Eighth:** all then due or about to become due Optional Prepayment Amounts and Accrued Service Charges.

## Article IX — Miscellaneous

### Section 9.01. Acceleration on Bankruptcy

If the City shall (i) commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, (ii) consent to the institution of any such proceeding or the filing of any such petition or (iii) make a general assignment for the benefit of creditors, *then* all payments due hereunder shall become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived notwithstanding anything to the contrary herein.

### Section 9.02. Termination or Assignment of Stated Hedges

(a) At the request of the City and with the prior written consent of the Insurer that has Credit Insurance in respect of the particular Stated Hedge, the Corporation shall terminate any Stated Hedge or assign its interest in any Stated Hedge to a Person that agrees to perform and observe all of the duties and obligations of the Counterparty to such Stated Hedge.

(b) Any such substitute Hedge Counterparty shall have the rating required by Public Act 34 of the Public Acts of 2001, as amended, *as if* the City were a party to the particular Stated Hedge.

(c) No such termination or substitution of a Hedge Counterparty shall take effect unless each Rating Agency confirms its rating of the particular Certificates.

(d) **Rating Agency** means each national statistical rating organization (as defined in the Securities and Exchange Act of 1934, as amended) that at the time has a rating of the Certificates in effect.

### Section 9.03. Required Ratings of Hedge Counterparties

(a) The Corporation shall only enter into Hedges with Persons who have, on the date the Hedge is entered into, or, alternatively, whose Hedge obligations are guaranteed by a Person who has on the date the Hedge is entered into, a rating of its long-term, senior secured debt at least A- by Standard & Poor's Corporation and at least A3 by Moody's Investment Service.

(b) It is not a breach of **subsection (a)**, above if the Hedge is subject to an Insurer approved transaction transfer agreement with a Person who qualifies, or whose Hedge obligations are guaranteed by a Person who qualifies, under **subsection (a)**, above.

**Section 9.04. Addresses for Notices.**

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered

if to the City, at

City of Detroit, Michigan – Finance Department  
1200 Coleman A. Young Municipal Center  
2 Woodward Avenue  
Detroit, Michigan 48226  
Attention: Finance Director

if to the Corporation, at

c/o Lewis & Munday, P.C.  
Suite 2490  
660 Woodward Avenue  
Detroit, Michigan  
Attention: President

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to **this Section**.

**Section 9.05. Amendment**

The Service Contract may be amended only by written instrument signed by the parties hereto *except* that no amendment shall be valid:

(i) *if* such amendment diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary;

(ii) *unless* the Trustee of any Funding Trust that is a transferee of or successor to any rights or entitlements hereunder and that received an opinion of counsel in connection with the organization of the Funding Trust to the effect that such Funding Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, shall have received an opinion reasonably acceptable in form and substance to such Trustee of counsel reasonably acceptable to such Trustee to the effect that such amendment shall not result in such Funding Trust being treated as other than such a grantor trust;

(iii) *unless* the Trustee has received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such amendment will not result in the Service Charges and Scheduled Payments failing to constitute payments in respect of indebtedness for U.S. federal income tax purposes; and

(iv) *unless* every Insurer who is not in default under its Credit Insurance at the time has consented to the amendment, including such prior written consent as

may be set forth in the Contract Administration Agreement or any other agreement to which the Corporation is a party.

**Section 9.06. No Waiver; Remedies.**

No failure on the part of the Corporation or any permitted successor or assign or any Third Party Beneficiary to exercise, and no delay in exercising, any right hereunder shall be a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other further exercise thereof or the exercise of any other right.

**Section 9.07. Binding Obligation.**

The Service Contract is a continuing obligation of the City and shall until the date on which all amounts due and owing hereunder are paid in full (i) be binding upon the City and its successors and (ii) inure to the benefit of and be enforceable by the Corporation, its successors and permitted assigns, and by Third Party Beneficiaries.

**Section 9.08. General Corporate Expenses**

The City shall pay the General Corporate Expenses of the Corporation as and when they become due.

**Section 9.09. Fees and Expenses.**

(a) The Corporation shall pay compensation, expenses and indemnification due the Trustee in accordance with the Trust Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent thereunder or any amendment thereof, or in connection with the enforcement thereof.

(b) The Corporation shall pay compensation, expenses and indemnification due the Contract Administrator and the Enforcement Officer (defined in the Contract Administration Agreement), if any, in accordance with the Contract Administration Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent hereunder or any amendment hereof or thereof, or in connection with the enforcement hereof.

(c) The Corporation shall pay the fees of remarketing agents, auction agents and broker-dealers, or any of them, as provided for any particular Variable Rate Funding Type.

(d) The Corporation shall pay the expenses and other amounts due each Insurer in accordance with **Section 10.5** of the **Contract Administration Agreement**;

(e) The Corporation shall pay all amounts due the Enforcement Officer under **Section 8.19** of the **Contract Administration Agreement** and not otherwise paid by an Affected Party (as such terms defined in the Contract Administration Agreement), *but* the Corporation shall have no obligation to pay any indemnity required by the Enforcement Officer;

(f) The Corporation shall pay all other payments required to be paid by the Corporation under Contract Administration Agreement and not otherwise paid.

**Section 9.10. Permitted Assignment.**

(a) The Service Contract shall be binding upon the parties hereto and their respective successors and permitted assigns. No assignment by either party of its interests herein shall be valid *except* as provided in this Section.

(b) The Corporation may transfer (as defined below in **this subsection**) the Scheduled Payments and Service Charges to the Funding Trust, *provided* that the Corporation shall not do so without:

- (1) delivering prior written notice thereof to the City,
- (2) listing the Funding Trust as the owner of the Scheduled Payments and Service Charges on the registration book (described below), and
- (3) obtaining the agreement of the Funding Trust not to effect any subsequent transfer of any Scheduled Payments and/or the Service Charges without
  - (i) delivering to the City prior written notice of any such transfer(s) of the Scheduled Payments and/or the Service Charges and
  - (ii) obtaining the agreement of the transferee (x) not to effect any further transfer without prior delivery to the Corporation of notice thereof in the manner of the notice described in **clause (i)** above, and (y) to obtain the same agreement of any further transferee (i.e., to give such notice and obtain such agreement of further transferees).

For the avoidance of doubt, the prior written notice referred to in **this subsection** only applies to the holder of legal title to the Scheduled Payments and the Service Charges and not to owners of Certificates.

A provision in the Trust Agreement to the effect, “For the avoidance of doubt, the Trustee acknowledges that it has no power to transfer, assign or otherwise convey legal title to the Funding Trust Receivables and that beneficial interests in the Funding Trust Receivables may be transferred as transfers of Certificates.” shall satisfy the agreement referred to in **clause (ii)**, above.

The City shall record each such transfer of the Scheduled Payments and/or the Service Charges for which it receives any such notice in its official records (which shall constitute the “registration book” referred to in **this subsection**), and such recording shall identify the subsequent transferee.

The term *transfer* in **this subsection** means a sale, assignment, transfer or conveyance.

(c) No assignment of the Service Contract or any amounts receivable thereunder shall include the right to receive Additional Service Payments, Contract Administrator Payments or Hedge Payables except that the Corporation may assign or grant a security interest in amounts received by it as payment of Hedge Payables to the Hedge Counterparties.

**Section 9.11. Direct Payment of Service Payments; “Successor” Defined**

(a) Additional Service Payments shall be payable by the City to the Persons originally entitled to receive them or their successors on the dates when due.



(b) The term *successor* in **this Article** means either a successor to a particular Person by law (e.g., the surviving corporation in a merger) or a successor to the particular office for which Additional Service Payments or Contract Administrator Payments are payable (e.g., a new Person, not by operation of law, becomes successor Trustee). *Successor* does *not* include any other Person without the written consent of the City.

### **Section 9.12. Third Party Beneficiaries**

(a) Persons that are Third Party Beneficiaries

(1) The Persons, including the Trustee and the Contract Administrator, originally entitled to Additional Service Payments or Contract Administrator Payments and their respective successors are third party beneficiaries of the Service Contract as to the City's promises to pay Additional Service Payments or Contract Administrator Payments to the Service Corporation.

(2) Hedge Counterparties, and their respective successors and subrogees, are third party beneficiaries of the Service Contract as to the City's promises to pay amounts in respect of Hedge Payables to the Corporation.

(3) Insurers are third party beneficiaries of the Service Contract.

(4) The Funding Trust is a third party beneficiary of the Corporation's promises in respect of Service Charges and Scheduled Payments.

(5) The Contract Administrator and the Enforcement Officer (as defined in the Contract Administrator Agreement) are third party beneficiaries as to the Corporation's promises in **Section 9.09**.

(b) Rights of Third Party Beneficiaries

Third Party Beneficiaries have the right to enforce the respective promises made in the Service Contract as if such promises were made directly to them. As between the Insurers, any Insurer that has the right, pursuant to **Section 6.9** of the **Contract Administration Agreement**, to control enforcement proceedings instituted pursuant to the Contract Administration Agreement shall also have the right to control enforcement proceedings instituted by an Insurer pursuant to the Service Contract.

(c) Effect of Amendments on Third Party Beneficiaries

Any amendment that diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary is acknowledged to have the effect in fact of hindering, delaying and defrauding such Third Party Beneficiary in the collection of an obligation owed to it.

### **Section 9.13. Reliance on Representations and Warranties**

(a) Each permitted assignee and any subrogee of any rights hereunder and Third Party Beneficiary shall have the benefit of the representations and warranties of the City and the Corporation made herein as if such representations and warranties had been made directly to it.

(b) Each permitted assignee and any subrogee of any rights hereunder and Third Party Beneficiary shall be conclusively presumed to have relied upon such representations and

warranties, and such reliance shall survive any investigation made by such permitted assignee or Third Party Beneficiary.

**Section 9.14. Contract Administration**

(a) Nothing in the Service Contract shall prohibit the Corporation from employing one or more agents and attorneys-in-fact to collect Service Payments or to otherwise administer the Contract.

(b) The City agrees to make Service Payments due the Corporation to any such agent or attorney-in-fact upon receipt of notice of its appointment.

**Section 9.15. Governing Law**

The rights and obligations of the parties hereunder shall be governed by and construed in accordance with the law of the State of Michigan exclusive of its conflicts of law rules.

**Section 9.16. Headings**

Article and Section headings in the Service Contract are included herein for convenience of reference only and do not constitute a part of the Service Contract for any other purpose.

**Section 9.17. Integration**

The Service Contract is intended by the parties as the final, complete and exclusive statement of the transactions evidenced by the Service Contract. All prior contemporaneous promises, agreements and understandings relating to such transaction, whether oral or written, are deemed to be superseded by the Service Contract, and no party is relying on any promise, agreement or understanding not set forth or referred to in the Service Contract.

**Section 9.18. Counterparts**

The Service Contract may be executed in multiple counterparts, *but* all such counterparts taken together shall evidence by one and the same original.

*[End of General Terms]*

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# **Trust Agreement**

between the

**Detroit General Retirement System Service Corporation**

and the

**Detroit Police and Fire Retirement System Service Corporation,**

severally and not jointly,

and

**U. S Bank National Association,**

as Trustee

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**Dated June 2, 2005**

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establishing the

**Detroit Retirement Systems Funding Trust 2005**

and providing for the issuance of

**Detroit Retirement Systems Funding Trust 2005**

**Certificates of Participation Series 2005-A**

and

**Detroit Retirement Systems Funding Trust 2005**

**Certificates of Participation Series 2005-B**

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This **Trust Agreement**, dated June 2, 2005, between the **Detroit General Retirement System Service Corporation** (the *GRS Corporation*) and the **Detroit Police and Fire Retirement System Service Corporation** (the *PFRS Corporation*), each a Michigan nonprofit corporation, severally and not jointly, and **U.S. Bank Trust National Association**, as trustee,

## W I T N E S S T H

**Whereas**, the GRS Corporation entered into the GRS Service Contract 2005, dated the date hereof (the *GRS Service Contract*), with the City of Detroit (the *City*), and the PFRS Corporation entered into the PFRS Service Contract 2005, dated the date hereof (the *PFRS Service Contract*), with the City;

**Whereas**, the *Trust Agreement* referred to in the first paragraph of this instrument (i) consists of this instrument (the *Specific Terms*) and the **General Terms**, hereafter defined and incorporated by reference herein and (ii) is further defined in the General Terms;

**Whereas**, the GRS Corporation is entering into this Trust Agreement in order to fund its Stated Funding Amount, which, as defined in GRS Service Contract, is equal to \$779,530,000 (the *GRS Stated Funding Amount*);

**Whereas**, the PFRS Corporation is entering into this Trust Agreement in order to fund its Stated Funding Amount, which, as defined in PFRS Service Contract, is equal to \$660,470,000 (the *PFRS Stated Funding Amount*); and

**Whereas**, this Trust Agreement provides for the issuance of certificates of participation representing undivided interests in certain of the respective Service Payments, as defined in the Service Contracts;

**Now, Therefore**, in consideration of the premises and the mutual promises contained herein, the parties hereto agree as follows:

### **Section 1. Incorporation by Reference**

#### **1.1. General Terms**

The **General Terms and Conditions of Detroit Retirement Systems Funding Trusts**, dated as of May 1, 2005, and attached hereto (the *General Terms*) is incorporated by reference herein and made a part hereof as if set forth in full in this Trust Agreement *except* to the extent of any conflict with any particular terms of the General Terms may conflict with the terms of these Specific Terms. Any such conflict shall be resolved in favor of the terms of these Specific Terms.

### **Section 2. Definitions**

#### **2.1. Certain Definitions**

The following terms have the following respective meanings for the purposes of this Trust Agreement *unless* the context otherwise clearly otherwise requires.

*Additional Certificates* means one or more series of participation certificates established by supplement to this Trust Agreement.

*Certificates* means the Initial Certificates and any Additional Certificates.

**Corporation** means either the GRS Corporation or the PFRS Corporation as the context may require.

**Funding Trust** means the Funding Trust established by this Trust Agreement.

**GRS Corporation** means the corporation defined in the first paragraph of these Specific Terms as the “GRS Corporation” *unless and until* a Person becomes the successor to the GRS Corporation pursuant to law; *thereafter*, **GRS Corporation** means such successor.

**Index Rate Interest** means an amount equal to Interest computed with respect to the Principal Amount of Outstanding Index Rate Certificates determined for the particular Index Rate Interest Period at the applicable rate in accordance with the Index Rate Supplement.

**Initial Certificates** means the certificates of participation of the series established in Section 7.

**PFRS Corporation** means the corporation defined in the first paragraph of these Specific Terms as the “PFRS Corporation” *unless and until* a Person becomes the successor to the PFRS Corporation pursuant to law; *thereafter*, **PFRS Corporation** means such successor.

**Service Contract** means either the GRS Service Contract or the PFRS Service Contract as the context may require.

**Stated Funding Amount** means the GRS Stated Funding Amount or the PFRS Stated Funding Amount as the context may require.

**Trustee** means the bank described in the first paragraph of these Specific Terms as “trustee” *unless and until* a successor as trustee is appointed pursuant to this Trust Agreement; *thereafter*, **Trustee** means such successor.

## 2.2. Interpretation

2.2.1. Unless otherwise provided, references to Sections with numbers less than 100 are references to the corresponding Sections of these Specific Terms.

2.2.2. Unless otherwise provided, references to Sections with numbers 100 or greater are references to the corresponding Sections of the General Terms.

2.2.3. References to Schedules and Exhibits refer to the corresponding schedules and exhibits attached hereto unless otherwise provided.

## Section 3. Establishment of Funding Trust; Trust Estate

3.1.1. There is hereby established a Funding Trust to be known as the ***Detroit Retirement Systems Funding Trust 2005*** for the purpose of funding the respective Stated Funding Amount of each Corporation on an aggregate, several and not joint, basis.

3.1.2. The Trust Estate consists of:

- The Funding Trust Receivables arising under the GRS Service Contract
- The Funding Trust Receivables arising under the PFRS Service Contract
- All proceeds of the foregoing

**Section 4. Establishment of Funding Costs**

The Funding Costs that each Corporation shall incur in funding the portions set forth below of its respective Stated Funding Amount shall be determined in accordance with the Funding Rate Methodology set forth before each such portion.

<b>Funding Rate Methodology</b>	<b>Funding Table</b>		<b>Total Stated Funding Amount</b>
	<b>GRS Corporation</b>	<b>PFRS Corporation</b>	
Fixed Rate .....	\$510,530,000	\$129,470,000	\$ 640,000,000
Index Rate .....	269,000,000	531,000,000	800,000,000
<b>Total.....</b>	<b>\$779,530,000</b>	<b>\$660,470,000</b>	<b>\$1,440,000,000</b>

**Section 5. Representation and Warranty of Each Corporation**

Each Corporation represents and warrants for itself that the Stated Funding Amount Portion set forth under its name in the table in **Section 5 (the Funding Table)** opposite the respective Funding Rate Methodology is equal to the total amount of Scheduled Payments for the Service Charge Class for the corresponding Funding Rate Methodology in the Scheduled Payments Attachment to its Service Contract.

**Section 6. The Initial Certificates**

**6.1. Title**

The general title of the Initial Certificates shall be as provided in **Section 303** of the General Terms with the further designation of this Funding Trust. The title of each Series of the Initial Certificates shall include the series designation provided in this Section so that the general title of the Certificates of each Series shall be ***Detroit Retirement Systems Funding Trust 2005 Certificates of Participation Series [particular Series designation]***.

**6.2. Establishment of Series; Form; Denominations**

6.2.1. A Series of Initial Certificates is hereby established to be designated ***Series 2005-A (the Fixed Rate Certificates)***, and another Series of Initial Certificates is hereby established to be designated ***Series 2005-B (the Index Rate Certificates)***.

6.2.2. The Initial Certificates shall be substantially in the form prescribed in **Exhibit 7.2**.

6.2.3. The Fixed Rate Certificates shall be in denominations of \$5,000 and any multiple thereof.

6.2.4. The Index Rate Certificates shall be in the denominations of \$25,000 and multiples of \$1,000 in excess thereof.

**6.3. Authorized Principal Amount**

6.3.1. The Principal Amount of the Fixed Rate Certificates on initial issuance shall equal the Total Stated Funding Amount set forth opposite Fixed Rate in the Funding Table.

6.3.2. The Principal Amount of the Index Rate Certificates on initial issuance shall equal the Total Stated Funding Amount set forth opposite Index Rate in the Funding Table.

## Section 7. Miscellaneous.

### 7.1. Notices.

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered

if to the GRS Corporation or the PFRS Corporation, at the respective Corporation's address set forth in its Service Contract.

if to the Trustee, at

U.S. Bank National Association  
HO-MI-DTGR  
535 Griswold, Suite 550  
Detroit, Michigan 48226  
Attention: Trust Officer

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to this Section.

## Section 8. Insurance Claim Procedures

### 8.1 FGIC

8.1.1 As used herein, *Financial Guaranty* means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto

8.1.2 Upon receipt by the Trustee of a Shortfall Notice from the Contract Administrator pursuant to **Section 4.2.3** of the **Contract Administration Agreement**, the Trustee shall immediately notify Financial Guaranty and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the *Fiscal Agent*) of the amount of such deficiency and the respective amounts thereof attributable to principal and interest. If, by said interest payment date, there has not been provided the amount of such deficiency, the Trustee shall simultaneously make available to Financial Guaranty and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

8.1.2(1) The Trustee shall provide Financial Guaranty with a list of the Certificateholders entitled to receive principal or interest payments from Financial Guaranty under the terms of its Credit Insurance and shall make arrangements for Financial Guaranty and its Fiscal Agent (i) to mail checks or drafts to Certificateholders entitled to receive full or partial interest payments from Financial Guaranty and (ii) to pay principal of the Certificates surrendered to the Fiscal Agent by the Certificateholders entitled to receive full or partial principal payments from Financial Guaranty; and

8.1.2(2) The Trustee shall, at the time it makes the registration books available to Financial Guaranty pursuant to **Section 8.1.2(1)**, notify Certificateholders



entitled to receive the payment of principal of or interest on the Certificates from Financial Guaranty (i) as to the fact of such entitlement, (ii) that Financial Guaranty will remit to them all or part of the interest payments coming due subject to the terms of its Credit Insurance, (iii) that, except as provided in **Section 8.1.3**, in the event that any Certificateholder is entitled to receive full payment of principal from Financial Guaranty, such Certificateholder must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of Financial Guaranty, and (iv) that, except as provided in **Section 8.1.3**, in the event that such Certificateholder is entitled to receive partial payment of principal from Financial Guaranty, such Certificateholder must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of Financial Guaranty, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Certificateholder subject to the terms of its Credit Insurance.

8.1.3 In the event that the Trustee has written notice that any payment of principal of or interest on a Certificate has been recovered from a Certificateholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to Financial Guaranty, notify all Certificateholders that in the event that any Certificateholder's payment is so recovered, such Certificateholder will be entitled to payment from Financial Guaranty to the extent of such recovery, and the Trustee shall furnish to Financial Guaranty its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Certificateholders, and the dates on which such payments were made.

8.1.4 Financial Guaranty shall, to the extent it makes payment of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of its Credit Insurance and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books maintained by the Trustee upon receipt from Financial Guaranty of proof of the payment of interest thereon to the Certificateholders of such Certificates and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Certificateholders of such Certificates. Notwithstanding anything in this authorizing document or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to Financial Guaranty to the extent that Financial Guaranty is a subrogee with respect thereto.

## 8.2 XLCA

8.2.1 As used herein, *XLCA* means XL Capital Assurance Inc., a New York stock insurance company, or any successor thereto.

8.2.2 Upon receipt by the Trustee of a Shortfall Notice from the Contract Administrator pursuant to **Section 4.2.3** of the **Contract Administration Agreement**, the Trustee shall send immediate Notice to XLCA and its designated agent (if any) of the amount of such deficiency and the respective amounts thereof attributable to principal and interest, together with a

certification in form and substance satisfactory to XLCA as to the Trustee's right to receive payments under the Credit Insurance. If, by said interest payment date, there has not been provided the amount of such deficiency, the Trustee shall simultaneously make available to XLCA the registration books for the Certificates maintained by the Trustee.

For the purposes of the preceding paragraph, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to XLCA, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment. "Due for Payment", when referring to the principal of the Certificates, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on the Certificates, means when the stated date for payment of interest has been reached. In addition:

8.2.2(1) The Trustee shall provide XLCA with a list of the Certificateholders entitled to receive principal or interest payments from XLCA under the terms of its Credit Insurance and shall make arrangements for XLCA (i) to mail checks or drafts to Certificateholders entitled to receive full or partial interest payments from XLCA and (ii) to pay principal of the Certificates surrendered to XLCA by the Certificateholders entitled to receive full or partial principal payments from XLCA; and

8.2.2(2) The Trustee shall, at the time it makes the registration books available to XLCA pursuant to **Section 8.2.2(1)**, notify Certificateholders entitled to receive the payment of principal of or interest on the Certificates from XLCA (i) as to the fact of such entitlement, (ii) that XLCA will remit to them all or part of the interest payments coming due subject to the terms of its Credit Insurance, (iii) that, except as provided in **Section 8.2.3**, in the event that any Certificateholder is entitled to receive full payment of principal from XLCA, such Certificateholder must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of XLCA, and (iv) that, except as provided in **Section 8.2.3**, in the event that such Certificateholder is entitled to receive partial payment of principal from XLCA, such Certificateholder must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of XLCA, to XLCA, which will then pay the unpaid portion of principal to the Certificateholder subject to the terms of its Credit Insurance.

8.2.3 In the event that the Trustee has written notice that any payment of principal of or interest on a Certificate has been recovered from a Certificateholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to XLCA, notify all Certificateholders that in the event that any Certificateholder's payment is so recovered, such Certificateholder will be entitled to payment from XLCA to the extent of such recovery, and the Trustee shall furnish to XLCA its records evidencing the payments of principal of and

interest on the Certificates which have been made by the Trustee and subsequently recovered from Certificateholders, and the dates on which such payments were made.

8.2.4 XLCA shall, to the extent it makes payment of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of its Credit Insurance and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note XLCA's rights as subrogee on the registration books maintained by the Trustee upon receipt from XLCA of proof of the payment of interest thereon to the Certificateholders of such Certificates and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note XLCA's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Certificateholders of such Certificates. Notwithstanding anything in this authorizing document or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to XLCA to the extent that XLCA is a subrogee with respect thereto.

Upon payment of a claim under the Credit Insurance, the Trustee shall establish a separate special purpose trust account for the benefit of holders of Certificates referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Credit Insurance in trust on behalf of holders of Certificates and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of Certificates in the same manner as principal and interest payments are to be made with respect to the Certificates under the sections hereof regarding payment of Certificates. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following a Certificate payment date shall promptly be remitted to XLCA.

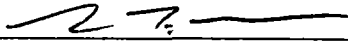
**In Witness Whereof**, the parties hereto have set their respective hands on the date first set forth above.

*[Signatures appear on pages S-1 et seq.]*

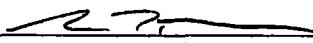
[Signature Page to  
**Trust Agreement between the  
Detroit General Retirement System  
Service Corporation and the Detroit  
Police and Fire Retirement System  
Service Corporation, severally and not  
jointly, and U.S. Bank National Association,  
as Trustee, establishing the Detroit  
Retirement Systems Funding Trust 2005]**

[Trust Agreement Specific Terms]

**Detroit General Retirement System Service Corporation**

By   
Sean K. Werdlow  
President

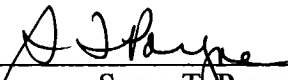
**Detroit Police and Fire Retirement System Service Corporation**

By   
Sean K. Werdlow  
President

[Signature Page to  
**Trust Agreement** between the  
**Detroit General Retirement System  
Service Corporation and the Detroit  
Police and Fire Retirement System  
Service Corporation**, severally and not  
jointly, and **U.S. Bank National Association**,  
as Trustee, establishing the **Detroit  
Retirement Systems Funding Trust 2005**]

[Trust Agreement Specific Terms]

**U.S. Bank National Association**

By  \_\_\_\_\_  
Susan T. Payne  
Vice President

## **Exhibit 7.2**

### **Form of Initial Certificates**

The Initial Certificates shall be in the following form and tenor with such changes as are appropriate for the particular Funding Rate Methodology or are otherwise approved by the Person executing the same on behalf of the funding Trust, such signature to be conclusive evidence of such approval.

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**General Terms and Conditions**

**of**

**Trust Agreements**

**creating**

**Detroit Retirement Systems Funding Trusts**

**established severally and not jointly by the**

**Detroit General Retirement System Service Corporation  
and the**

**Detroit Police and Fire Retirement System Service Corporation**

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**Dated as of May 1, 2005**

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**GENERAL TERMS AND CONDITIONS  
OF  
TRUST AGREEMENTS  
CREATING  
DETROIT RETIREMENT SYSTEMS FUNDING TRUSTS  
ESTABLISHED SEVERALLY AND NOT JOINTLY BY THE  
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION  
AND THE  
DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

**Dated as of May 1, 2005  
(the *General Terms*)**

The General Terms govern Trust Agreements of the Detroit General Retirement Service Corporation and the Detroit Police and Fire Retirement Service Corporation (each, a *Corporation*) in which they are incorporated by reference (each, a *Trust Agreement*) for the establishment of Funding Trusts (each, a *Funding Trust*) for the purpose of funding of the several and not joint unfunded accrued actuarial liability (in each instance, *UAAL*) of the Detroit General Retirement System and the Detroit Police and Fire Retirement System (each, a *Retirement System*).

**Article I — Definitions and Interpretation**

**Section 101. Certain Definitions.**

The following terms have the following respective meanings for all purposes of the Trust Agreement *unless* the context clearly otherwise requires:

*Accreted Value* means, at any time, the Principal Amount of particular Capital Appreciation COPs determined in accordance with the Trust Agreement.

*Authorized Officer* means the President of a Corporation or any other individual designated as an “Authorized Officer” in a Corporation Order signed by the President.

*Capital Appreciation COPs* means Zero Coupon COPs that have Principal Amounts that accrete in accordance with the Accreted Value of such COPs.

*Certificates, Certificates of Participation* or *COPs* mean the Certificates of Participation identified in the Trust Agreement.

*Certificateholder* or *Holder* means, as of any time with respect to any Certificate, the Person in whose name such Certificate is registered in the Registry.

*City* means the City of Detroit, Michigan.

*Corporation* has the meaning given that term in the Specific Terms.

*Corporation Certificate, Corporation Request, Corporation Order* and *Corporation Consent* mean, respectively, a written certificate, request, order or consent signed in the name of a Corporation by an Authorized Officer, and delivered to the Trustee.

**Contract Administrator** means the bank serving as Trustee, in its separate capacity as Contract Administrator and not as Trustee.

**Contract Administration Agreement** means the agreement captioned as such among the Corporations, severally and not jointly, the Trustee and the Contract Administrator for the administration of the Service Contract.

**Deficiency Payment** means any Deficit Interest Related Payment or any Deficit Principal Related Payment as the context may require.

**Funding Trust** means the trust established by the Trust Agreement.

**Funding Trust Receivable** means any Principal Related Receivable or Interest Related Receivable.

**Funding Cost Supplement** means each document identified in a Service Contract as a "Funding Cost Supplement" and appended to the Trust Agreement.

**Interest** means (whether or not capitalized) amounts received by the Trustee as Service Charges.

**Interest Payment Dates** means (whether or not capitalized) dates that correspond to Service Charge Payment Dates.

**Interest Related Receivable** means an amount owing by the City as a Service Charge, including any Accrued Service Charges.

**Maturity or Maturity Date** means (whether or not capitalized), (i) as to any Certificate, the Scheduled Payment Date on which the Holder of such Certificate is entitled to receive a regular Scheduled Payment is due and (ii) as to any Regular Scheduled Payment, the Scheduled Payment Date on which such Regular Scheduled Payment is due from the City under a Service Contract. The verb *mature* has a correlative meaning.

*on* as in "Interest payable on a Certificate" or *of* as in "a Principal Payment of a Certificate" means "in respect of" as in "Interest payable in respect of a Certificate" and "a Principal Payment in respect of a Certificate".

**Outstanding** means (whether or not capitalized) all Certificates authenticated under the Trust Agreement *except*:

- (1) Certificates theretofore canceled or surrendered to the Trustee for cancellation and
- (2) Certificates replaced pursuant to **Section 313** *unless* the Trustee receives proof that the Holder of the replaced Certificate is a protected purchaser.

**Percentage Interest** means, as to any Certificate of a Series, the percentage obtained by dividing the denomination of such Certificate by the sum of the denominations of the outstanding Certificates of such Series.

**Person** means any individual, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

**Predecessor Certificate** of any particular Certificate means every previous Certificate evidencing all or a portion of the same beneficial interest as that evidenced by such particular Certificate; and for the purpose of this definition, any Certificate delivered under Section 313 in lieu of a lost, destroyed or stolen Certificate shall be deemed to evidence the same beneficial interest as such lost, destroyed or stolen Certificate.

**Principal** or **Principal Amount** means (whether or not capitalized), (i) as to any Certificate, a notional amount equal to the denomination of such Certificate and (ii) as to any Series of Certificates, a notional amount equal to the total of the denominations of the Outstanding Certificates of such Series.

**Principal Payment Dates** means the dates that correspond to Scheduled Payment Dates for Regular Scheduled Payments.

**Principal Related Receivable** means an amount owing by the City as a Scheduled Payment (whether a Regular Scheduled Payment or a Sinking Fund Installment) or an Optional Prepayment Amount.

**Qualifying Opinion** means an opinion of counsel to the effect that the Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended.

**Redeemed** or **Redemption** means (whether or not capitalized), the prepayment of all or a portion of the Principal Amount of a Certificate before its Maturity. A Certificate is redeemed to the extent of the prepayment of the Principal Amount thereof. Correlative terms have correlative meanings.

**Redemption Date** means the date that corresponds to a Sinking Fund Installment Date or an Optional Prepayment Date.

**Redemption Price** means an amount equal to the amount due from the City as a Sinking Fund Installment or an Optional Prepayment Amount plus any Accrued Service Charges.

**Regular Record Date** means, as to any Interest Payment Date with respect to Certificates of a Series, the date set forth in or determined pursuant to the Service Contract for such Series as the "Regular Record Date".

**Series** means all Certificates designated by the Trust Agreement as belonging to a particular series.

**Securities Depository** means The Depository Trust Company and any Person succeeding to the business of The Depository Trust Company qualified to do so under the rules of the Securities and Exchange Commission.

**Service Contract** means the agreement between a Corporation and the City identified in the Trust Agreement as a "Service Contract".

**Service Contract Specific Terms** means the Specific Terms of a Service Contract.

**Trust Agreement** means the Trust Agreement between the Corporations and the Trustee incorporating these General Terms as such Trust Agreement may be amended in accordance with its terms.

**Trust Estate** means the revenues and assets identified as the “Trust Estate” in the Trust Agreement.

**Trustee** means the Person so named in the first paragraph of the Trust Agreement until a successor is appointed pursuant to applicable provisions of the Trust Agreement; thereafter, **Trustee** means such successor.

**Zero Coupon Certificates** means COPs that do not provide for periodic payments of Interest.

**Section 102. Definitions Elsewhere in General Terms**

The terms defined elsewhere in the General Terms include:

<u><b>Term</b></u>	<u><b>Defined In</b></u>
Beneficial Owner.....	Section 315
Supplemental Trust Agreement.....	Section 701
Participant .....	Section 315
Registry .....	Section 311

**Section 103. Definitions in Service Contract**

Undefined capitalized terms used herein and defined in the Service Contract are used here as therein defined, *unless* the context otherwise clearly requires, including:

<u><b>Term</b></u>	<u><b>Defined In</b></u>
Credit Insurance .....	GT, Section 1.01
Prepayment Receipt Day .....	GT, Section 5.03
Rating Agency.....	GT, Section 9.02
Regular Scheduled Payment.....	GT, Section 1.01
Scheduled Payment Dates .....	SP, Scheduled Payments Attachment
Scheduled Payments .....	SP, Scheduled Payments Attachment
Service Payments .....	GT, Section 8.01
Sinking Fund Installments .....	SP, Sinking Fund Installment Attachment
Sinking Fund Installment Dates .....	SP, Sinking Fund Installment Attachment
Subject UAAL.....	GT, Section 1.01

*GT* refers to Service Contract General Terms, and *SP* refers to Service Contract Specific Terms

**Section 104. Definitions in Contract Administration Agreement**

Undefined capitalized terms used herein and defined in the Service Contract are used here as therein defined, *unless* the context otherwise clearly requires, including:

<u><b>Term</b></u>	<u><b>Defined In</b></u>
Deficit Interest Related Payment.....	Section 4.6
Deficit Principal Related Payments.....	Section 4.6
Interest Related Payments .....	Section 4.6
Principal Related Payments.....	Section 4.6
Redemption Related Payments.....	Section 4.6

**Section 105. Interpretation.**

- (a) Words of the masculine gender include correlative words of the feminine and neuter genders.
- (b) *Unless* the context otherwise indicates, words importing the singular include the plural and vice versa.
- (c) Articles, Sections, Schedules and Exhibits referred to by number mean the corresponding Articles, Sections, Schedules and Exhibits of the Trust Agreement.
- (d) The terms *hereby, hereof, hereto, herein, hereunder* and any similar terms used in the Trust Agreement refer to the Trust Agreement as a whole and not to any particular portion thereof.
- (e) The term *or* is not exclusive.
- (f) The enumeration of things after the term *such as, including* or *for example (e.g.)* is to be interpreted as illustrative and not restrictive.
- (g) References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections or Public Acts enacted as substitutes therefor.

**Article II — The Funding Trust**

**Section 201. Conveyance of Funding Trust Receivables; Grant of Security Interest**

(a) Effective as of the Closing Date, each Corporation hereby transfers, assigns and otherwise conveys to the Funding Trust all of its right, title and interest in, to and under the Funding Trust Receivables now or hereafter created under its respective Service Contract, and all monies due or to become due with respect thereto and all proceeds (as defined in Section 9-315 of the Uniform Commercial Code as in effect in the State of Michigan) of such Funding Trust Receivables. For the avoidance of doubt, the Trustee acknowledges that it has no power to transfer, assign or otherwise convey legal title to the Funding Trust Receivables and that beneficial interests in the Funding Trust Receivables may be transferred as transfers of Certificates.

(b) Each Corporation intends that such sale, assignment and conveyance be an absolute transfer of such property for all purposes. However, in order to preserve rights if such sale, assignment and conveyance is deemed a pledge of such property, each Corporation hereby grants a security interest in all of its right, title and interest in, to and under such property to the Funding Trust for the benefit of the Certificateholders.

**Section 202. No City Indebtedness**

The Funding Trust and the Funding Trust Receivables do not constitute or create any indebtedness of the City within the meaning of the limitation contained in The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.

**Section 203. Tax Treatment; Restriction on Trustee's Powers**

(a) *Except* to the extent otherwise provided in the Trust Agreement, each Corporation entered into the Trust Agreement, Certificates will be issued and the Funding Trust will acquire the Funding Trust Receivables, with the intention that for federal, state and local income, business, franchise and modified value added tax purposes,

(i) the Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended;

(ii) each Beneficial Owner of Certificates will be treated as the owner of an undivided pro rata interest in the portion of the Trust Estate attributable to such Beneficial Owner's Certificates; and

(iii) the Funding Trust Receivables will constitute payments in respect of indebtedness.

(b) In furtherance of such intention, except to the extent otherwise provided in the Trust Agreement, the Trustee shall not have the power to vary the investment of the Beneficial Owners of the Certificates within the meaning of U.S. Treasury Department regulations section 301.7701-4(c) or to engage in any business unless the Trustee shall have received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such activity will not cause the Trust to fail to be treated as such a grantor trust.

(c) Each Corporation and the Trustee by entering into the Trust Agreement and each Certificateholder by its acceptance of its Certificate agree to treat the Funding Trust, the Certificates and the Funding Trust Receivables in accordance with the intention expressed in **this Section** (or any alternative intention expressed in the Trust Agreement) for federal, state and local income, business, franchise and modified value added tax purposes.

**Section 204. Authentication and Delivery of Certificates by Trustee; Execution of Other Documents**

(a) The Trustee shall deliver the Certificates in accordance with a Corporation Order of each Corporation (a *Delivery Order*) stating the amount of Certificate proceeds to be received by the Trustee in respect of the particular Corporation and providing for the disposition of such proceeds in accordance with **Section 205**.

(b) The Trustee is authorized and directed to execute and deliver the Contract Administration Agreement in the name of and on behalf of the Funding Trust and such other documents and instruments as may be specified in a Delivery Order or other writing signed by the Authorized Officer of each Corporation.

**Section 205. Disposition of Certificate Proceeds.**

The proceeds of the sale of Certificates shall be applied as provided in each Service Contract.

**Section 206. Additional Certificates**

(a) One or more Series of Additional Certificates may be established by supplement to the Trust Agreement *if* (i) the City approves an amendment to either Service Contract to provide for (i) the funding of obligations under the particular Service Contract not part of the Initial Funding or (ii) to provide for the payment of all or a portion of Outstanding Certificates *and* (ii) the requirement of **Section 704** is met if applicable.

(b) Such Series of Additional Certificates shall not have an aggregate principal amount that exceeds the total Scheduled Payments added by such amendment to the Service Contract, and the maturity dates and amounts maturing on such dates of such Additional Certificates shall correspond to the Scheduled Payments added by such amendment and their respective Scheduled Payment Dates.

(c) Such Series of Additional Certificates shall provide for Service Charges determined in accordance with the Funding Methodology provided in such amendment.

**Article III — The Certificates**

**Section 301. Interest Evidenced by Certificates.**

The Certificates evidence the entire beneficial interest in the Trust Estate.

**Section 302. Limitation on Amount.**

The total of the denominations of the Certificates that may be authenticated and delivered under the Trust Agreement is limited to the total specified in the Trust Agreement plus the denominations of any Certificates authenticated and delivered pursuant to **Section 311** or **Section 307**.

**Section 303. General Title.**

The general title of the Certificates shall be *Detroit Retirement Systems Funding Trust [designation of particular Funding Trust] Certificates of Participation Series [Series designation]*, and the specific title of Certificates shall include such other designations as may be provided in the Trust Agreement.

**Section 304. Required Statement**

Each Certificate shall state on its face that it does not create any indebtedness of the City within the meaning of any limitation contained in the constitution and non-tax statutes of the State of Michigan or in the City of Detroit Charter.

**Section 305. Issuable in Series**

The Certificates shall be issued in one or more Series as provided in the Trust Agreement.

**Section 306. Form, Numbers, Denominations and Dating**

(a) The Certificates shall be issued as fully registered securities in the form prescribed by the Trust Agreement. Certificates authenticated and delivered in definitive form



shall be printed, lithographed or typewritten on plain or safety paper with or without printed or steel engraved borders.

(b) *Unless* otherwise provided in the Trust Agreement, the Certificates shall be:

(1) numbered consecutively from “R-1” within each Series; *provided* that a distinctive designation shall be in addition to such number to, or notation made on, any Certificate authenticated and delivered in substitution for any lost, mutilated or destroyed Certificate;

(2) issued in the denomination of \$5,000 and any multiple thereof; and

(3) dated the date of initial issuance.

### **Section 307. Authentication.**

No Certificate shall be valid for any purpose or be entitled to any security or benefit under the Trust Agreement unless and until a certificate of authentication on such Certificate, substantially in the form prescribed by the Trust Agreement, has been manually executed by the Trustee. Such executed certificate of the Trustee upon a Certificate shall be the only and conclusive evidence that such Certificate has been authenticated and delivered under the Trust Agreement.

### **Section 308. Capital Appreciation COPs**

The Principal Amount of any Capital Appreciation COPs shall accrete in accordance with the Accreted Value provided for in the Trust Agreement.

### **Section 309. Payments in US Dollars**

All payments on Certificates shall be made by negotiable instruments payable in funds representing legal tender in the United States or by means of transferring such funds.

### **Section 310. Payment of Interest; Interest Rights Preserved.**

(a) Interest payable on any Certificate and paid on an Interest Payment Date shall be paid to the Person in whose name that Certificate (or one or more Predecessor Certificates) is registered at the close of business on the Regular Record Date for such Series.

(b) Interest payable on any Certificate and *not* paid on an Interest Payment Date when due shall be *not* paid to the registered Holder on the relevant Regular Record Date by virtue of being such Holder and shall be payable as a Deficit Interest Related Payment to the Person in whose name such Certificate (or a Predecessor Certificate) is registered at the close of business on a Special Record Date for the payment of such Deficit Interest Related Payment.

(c) If an amount is payable as all or any part of a Deficit Interest Related Payment received by the Trustee, the Trustee shall establish a day for the payment of such amount not less than 10 days after the receipt of such amount and shall establish a Special Record Date which shall be not more than 15 nor fewer than 10 days before the date set for payment of such amount. The Trustee shall mail notice of a Special Record Date to the Certificateholders at least 10 days before such Special Record Date.

(d) Subject to the foregoing provisions of **this Section**, each Certificate delivered under the Trust Agreement upon transfer of or in exchange for or in lieu of any other Certificate

shall carry all the rights to Interest accrued and unpaid, and to accrue, which were carried by such other Certificate.

**Section 311. Registration, Exchanges and Transfers.**

(a) There shall be kept by the Trustee at the designated corporate trust office of the Trustee a register (the *Registry*) for the registration of Certificates and for the registration of transfers of Certificates as herein provided *subject* to such reasonable regulations as the Trustee may prescribe.

(b) Upon surrender of any Certificate for transfer of the registration thereof, the Trustee shall authenticate and register in the name of the designated transferee or transferees one or more new Certificates of the same tenor in any authorized denomination in like aggregate Principal Amount.

(c) At the option of the Holder, Certificates may be exchanged for other Certificates of the same tenor in any authorized denomination, of like aggregate principal amount, upon surrender of the Certificates to be exchanged at the designated corporate trust office of the Trustee. Whenever any Certificates are surrendered for exchange, the Trustee shall authenticate and deliver the Certificates that the Certificateholder making the exchange is entitled to receive.

(d) All Certificates issued upon any transfer of registration or exchange of Certificates shall constitute valid evidences of beneficial interests in the Trust Estate evidencing the same beneficial interests and entitled to the same benefits under the Trust Agreement as the Certificates surrendered in such transfer or exchange.

(e) No service charge may be made for any transfer of registration or exchange of Certificates, but the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect such transfer or exchange. The Trustee may make the payment of such tax, fee or other governmental charge and the cost of preparing each new Certificate delivered in such transfer or exchange a condition precedent to making any transfer of registration or exchange of any Certificate, to be paid by the Person requesting such transfer or exchange *unless* otherwise provided in the Trust Agreement.

(f) The Trustee shall not be required (i) to transfer or exchange any Certificate during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Certificate and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Certificate selected for redemption in whole or in part, during a period beginning at the opening of business on any Regular Record Date for such Certificates and ending at the close of business on the relevant Interest Payment Date therefor.

**Section 312. Persons Deemed Owners.**

The Trustee may treat the Person in whose name any Certificate is registered in the Registry as the owner of such Certificate, whether payments with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of the principal thereof, premium, if any, and (subject to **Section 310**) Interest thereon and for all other purposes whatsoever.

**Section 313. Mutilated, Destroyed, Stolen or Lost Certificates.**

(a) To the extent not otherwise provided by law, *if* (i) any mutilated Certificate is surrendered to the Trustee, or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Certificate, and (ii) there is delivered to the Trustee such security or indemnity as may be required by the Trustee to save the Trustee harmless, *then*, in the absence of notice to the Trustee that such Certificate has been acquired by a protected purchaser, the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Certificate, a new Certificate of the same maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Certificate has become or is about to become due and payable at Maturity, the Trustee in its discretion may, instead of issuing a new Certificate, pay such Certificate.

(c) Upon the issuance of any new Certificate under **this Section**, the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

(d) Every new Certificate issued pursuant to **this Section** in lieu of any destroyed, lost or stolen Certificate, shall constitute an original additional beneficial interest in the Funding Trust, whether or not the destroyed, lost or stolen Certificate shall be at any time enforceable by anyone, and shall be entitled to all the security and benefits of the Trust Agreement equally and ratably with all other Certificates issued thereunder

(e) The provisions of **this Section** are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Certificates.

**Section 314. Cancellation and Destruction of Certificates.**

(a) All Certificates surrendered for payment, redemption, transfer or exchange shall be promptly cancelled by the Trustee upon its receipt thereof if not already cancelled.

(b) No Certificate shall be authenticated in lieu of or in exchange for any Certificate cancelled as provided in **this Section**, *except* as expressly provided by the Trust Agreement.

(c) All cancelled Certificates held by the Trustee shall be destroyed and disposed of by the Trustee in accordance with applicable record retention requirements.

**Section 315. Book-Entry Certificates; Securities Depository.**

(a) As used herein:

**Beneficial Owner** means any Person who indirectly owns Certificates pursuant to Part 5 of Article 8 of the Uniform Commercial Code in effect in the State of Michigan.

**Participant** means any Person whose ownership of Certificates and other securities is shown on books of the Securities Depository.

(b) For so long as Certificates are registered in the name of a Securities Depository or its nominee, the Trustee shall not have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to the following:

(1) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership Interest in the Certificates,

(2) the delivery to any Participant, and Beneficial Owner or any other Person, other than the Securities Depository of any notice with respect to the Certificates, including any notice of redemption, or

(3) the payment to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal of or premium, if any, or Interest on the Certificates.

(c) The Trustee shall pay all principal (and premium, if any) of and Interest on such Certificates only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Funding Trust's obligations with respect to the principal (and premium, if any) of, and Interest on such Certificates to the extent of the sum or sums so paid.

(d) Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository and upon receipt of notice from the Securities Depository containing sufficient information, the Trustee shall authenticate and deliver Certificates in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any Authorized Denomination.

(e) Notwithstanding any other provision of the Trust Agreement to the contrary, *so long as* any Certificate is registered in the name of the Securities Depository or its nominee:

(1) all payments with respect to the Principal and Interest on such Certificate and all notices of redemption, tender and otherwise with respect to such Certificate shall be made and given, respectively, to Securities Depository as provided in the representation letter with respect to such Certificates;

(2) if less than all such Certificates of a maturity and series are to be redeemed, then the particular Certificates or portions of Certificates of such maturity and series to be redeemed shall be selected by the Securities Depository in such manner as the Securities Depository may determine; and

(3) all payments with respect to principal of such Certificate and premium, if any, and Interest on such Certificate shall be made in such manner as shall be prescribed by the Securities Depository.

## **Article IV — Redemption of Certificates**

### **Section 401. Selection of Certificates to be Redeemed.**

(a) Whenever any Certificates of a Series are to be redeemed, the Trustee shall select the maturity or maturities that correspond to the prepaid Scheduled Payments giving rise to such redemption.

(b) Whenever Certificates of less than all of a maturity are to be redeemed, the Trustee shall select the particular Certificates to be redeemed from the Outstanding Certificates of such maturity and Series that have not previously been called for redemption in such manner as results in pro-rata redemption among all Holders of Certificates of the maturity being redeemed.

(1) All Certificates of the same Series and having the same maturity shall constitute a class for purposes of pro-rata redemption.

(2) The Trustee shall select Certificates for redemption pro-rata within each class.

(c) In the case of any maturity of Certificates for which Sinking Fund Installments have been established, any optional redemption of such Certificates shall be credited among such Sinking Fund Installments pro rata in accordance with the unpaid amounts thereof.

#### **Section 402. Notice of Redemption.**

(a) When any Certificates are to be redeemed, notice of any such redemption shall be given by the Trustee by first class mail, no fewer than 30 days and no more than 45 days before the Redemption Date to each Holder of Certificates to be redeemed at his/her last address in the Registry.

(b) All notices of redemption shall be dated and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) if less than all Outstanding Certificates are to be redeemed, the identification number, maturity dates and, in the case of a partial redemption of Certificates, the respective principal amounts of the Certificates to be redeemed;

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date;

(5) the place where the Certificates to be redeemed are to be surrendered for payment of the Redemption Price, which place of payment shall be the designated corporate trust office of the Trustee or other Paying Agent; and

(6) the proposed redemption (except in the case of a redemption from Sinking Fund Installments (a *Sinking Fund Redemption*) is conditioned on the Trustee having received a Redemption Related Payment on the Prepayment Receipt Day sufficient to pay the full Redemption Price of the Certificates to be redeemed.

(c) The failure of the Holder of any Certificate to receive notice of redemption given as provided above, or any defect therein, shall not affect the sufficiency of the proceedings for the redemption of any Certificates as to which no failure or deficiency occurred.

(d) Concurrently with giving any notice of redemption, the Trustee shall provide additional notices in accordance with **this subsection** to the extent applicable:

(1) An additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (Dec. 3, 1986) as the same may be modified, amended or supplemented from time to time by formal action of the Securities and Exchange Commission or by generally accepted practice of corporate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

(2) Except in the case of a Sinking Fund Redemption, an additional notice that identifies the Certificates to be redeemed and the principal amounts and CUSIP numbers thereof shall be provided to each Insurer.

(3) No failure to give any additional notice provided for in **this subsection** or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

#### **Section 403. Certificates Payable on Redemption Date.**

(a) Notice of redemption having been given as aforesaid, the Holders of the Certificates so to be redeemed shall be entitled, on the Redemption Date, to payment of an amount equal to the Redemption Price therein specified and from and after such date (unless the full amount of the Redemption Price is not distributed) the Holders of such Certificates shall cease to be entitled to any further payment in respect of Interest. Upon surrender of any such Certificate for redemption in accordance with said notice, the Holder of such Certificate shall be paid by the Trustee an amount equal to the Redemption Price. Installments of Interest with a due date on or prior to the Redemption Date shall be payable to the Holders of the Certificates as of the relevant Record Dates.

(b) If any Certificate called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear Interest from the Redemption Date at the rate prescribed in the Certificate.

#### **Section 404. Certificates Redeemed in Part.**

Any Certificate which is to be redeemed only in part may, at the option of the Holder thereof:

(1) be presented for notation thereon by the Trustee of the payment as of the Redemption Date of the redeemed portion of the principal thereof; or

(2) be surrendered at the place of payment therefor (with, if the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Holder thereof or his attorney or legal representative duly authorized in writing), and the Trustee shall authenticate and deliver to such Holder, without service charge, a new Certificate or Certificates of the same maturity and Series of any authorized denomination or denominations as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Certificate so surrendered.

## Article V — Payments to Certificateholders

### Section 501. Deficiency Payments

(a) On the day that the Trustee receives a Deficit Interest Related Payment from the Contract Administrator, the Trustee shall establish a Special Record Date pursuant to Section 310 and pay the same to the Certificate Holders entitled thereto in accordance with their relative Percentage Interests.

(b) On the day that the Trustee receives a Deficiency Payment, other than a Deficit Interest Payment, from the Administrator the Trustee shall pay the same to the Certificate Holders entitled thereto in accordance with their relative Percentage Interests.

### Section 502. Other Payments

(a) On each Interest Payment Date for which the Trustee has received an Interest Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Interest by the terms of their Certificates as of the Regular Record Date in accordance with their relative Percentage Interests.

(b) On each Principal Payment Date for which the Trustee has received a Principal Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Certificates entitled to such Principal Related Payment by the terms of their Certificates in accordance with their relative Percentage Interests.

(c) On each Sinking Fund Installment Date for which the Trustee has received a Sinking Fund Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Sinking Fund Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

(d) On each Redemption Date that *is* also an Interest Payment Date for which the Trustee has received a Redemption Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Redemption Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

(e) On each Redemption Date that is *not* also an Interest Payment Date for which the Trustee has received a Redemption Related Payment that includes associated Accrued Service Charges from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Redemption Related Payment and Accrued Service Charges by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

### Section 503. Payments Made From Credit Insurance

In determining if any payment under the Certificates has been made, no effect shall be given to any payment made with funds provided under any Credit Insurance.

## Article VI — The Trustee

### Section 601. Certain Duties and Responsibilities.

(a) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee.

(b) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Trustee and conforming to the requirements of the Trust Agreement or the Service Contract; *but* in the case of any such certificates, documents, other instruments or opinions which by any provision hereof or thereof are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine the same to determine whether or not they conform to the requirements of the Trust Agreement.

(c) No provision of the Trust Agreement or the Service Contract shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, *except* that

(1) the Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Trustee, *unless* it is proved that the Trustee was negligent in ascertaining the pertinent facts;

(2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement or the Service Contract; and

(3) no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Article.

### Section 602. Certain Rights of Trustee.

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction or consent of a Corporation mentioned in the Trust Agreement shall be sufficiently evidenced respectively by a Corporation Request, Corporation Order or Corporation Consent.



(c) Whenever in the administration of the Trust Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of the Contract Administrator.

(d) The Trustee may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon.

(e) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Certificateholders pursuant to the Trust Agreement, *unless* such Certificateholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, *but* the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(h) The Trustee shall have no duty to see to the recording, filing or registration of any instrument or document (including financing or continuation statements or filing under tax or security laws) or any rerecording, refiling or re-registration.

(i) The Trustee shall not have any responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Certificateholder or any other Person in the nature of an official statement or offering circular, preliminary or final.

**Section 603. Not Responsible for Recitals or Issuance of Certificates.**

The Trustee assumes no responsibility for the correctness of the recitals contained in the Trust Agreement, in a Service Contract or in the Certificates *except* the certificate of authentication on the Certificates. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title thereto or as to the security afforded thereby or hereby, or as to the validity or sufficiency of the Trust Agreement or of the Certificates.

**Section 604. May Hold Certificates.**

The Trustee, in its individual or any other capacity, may become the owner or pledgee of Certificates with the same rights it would have if it were not Trustee.

**Section 605. Money Held in Trust.**

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law or by other provision of the Trust Agreement. The Trustee shall be under no liability for interest on any money received by it hereunder.

**Section 606. Compensation and Reimbursement**

(a) The Trustee is entitled to payment or reimbursement:

(1) from time to time for reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); and

(2) except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of the Trust Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence, willful misconduct or bad faith.

(b) The Trustee is also entitled indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Trust Agreement, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

(c) The compensation, expenses and indemnification of the Trustee here under shall be an Additional Service Payment under the Service Contracts.

**Section 607. No Lien**

The Trustee shall not have any lien on any funds held by it under the Trust Agreement.

**Section 608. Corporate Trustee Required; Eligibility.**

(a) There shall at all times be a Trustee hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Trustee shall resign immediately in the manner and with the effect specified in this Article if it becomes ineligible under **this Section**.

**Section 609. Replacement of Trustee.**

(a) ***No Vacancy.***

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall be effective until the successor Trustee accepts its appointment as provided in **this Section**.

(b) ***Resignation.***

The Trustee may resign at any time, but such resignation shall become effective only in accordance with **subsection (a)**, above. Notice of any such resignation shall be given to the Corporations, the Holders of all Outstanding Certificates and any Insurer not then in default under its Credit Insurance.

(c) ***Removal by Certificateholders.***

(1) The Holders of a majority in principal amount of Outstanding Certificates may remove the Trustee by so notifying the Trustee and any Insurer.

(2) If the Trustee becomes ineligible under **Section 608**, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor.

(d) ***Appointment of Successor.***

(1) The retiring Trustee or the Corporations may appoint a successor at any time prior to the date on which a successor Trustee takes office.

(2) If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(3) Within one year after a successor Trustee appointed by the Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Trustee to replace such successor Trustee.

(e) ***Acceptance of Appointment.***

(1) A successor Trustee shall deliver written acceptance of its appointment to the retiring Trustee and to each Corporation. Thereupon the resignation or removal of the retiring Trustee shall be effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Trust Agreement.

(2) The successor Trustee shall mail a notice of its succession to the Certificateholders.

(3) Upon the appointment of a successor Trustee becoming effective as provided in **this Section**, the retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

**Section 610. Merger, Consolidation and Succession to Business.**

If the Trustee consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act

shall be the successor Trustee *if* such successor corporation is eligible under **Section 608**. The successor Trustee may adopt the authentication of Certificates authenticated by the predecessor Trustee and deliver such Certificates with the same effect as if the successor Trustee had authenticated such Certificates.

**Section 611. ERISA**

The Trustee acknowledges and agrees that, in the event that assets of the Funding Trust are deemed to be plan assets of a Certificateholder that is an employee benefit plan subject to Title I of ERISA (an **ERISA Plan**), the Trustee is a fiduciary to such ERISA Plan with respect to such ERISA Plan's undivided interests in the Trust Estate, and this Trust Agreement shall be deemed to be the management agreement between the Trustee and such ERISA Plan.

**Article VII — Supplemental Trust Agreements**

**Section 701. Supplemental Trust Agreements without Consent of Certificateholders.**

Without the consent of the Holders of any Certificates, the Corporations and the Trustee may from time to time enter into one or more Trust Agreements supplemental to the Trust Agreement (a **Supplemental Trust Agreement**) for any of the following purposes:

- (1) to correct or amplify the description of Trust Estate, or better to assure, convey and confirm unto the Trustee any of the Trust Estate or the lien of the Trust Agreement thereon, or to add to the Trust Estate subject to the lien of the Trust Agreement additional property; or
- (2) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the issue, authentication and delivery of the Certificates, as herein set forth, additional conditions, limitations and restrictions thereafter to be observed; or
- (3) to evidence the succession of a new trustee under the Trust Agreement; or
- (4) to add to rights, powers and remedies of the Trustee for the benefit of the Holders of the Certificates; or
- (5) to cure any ambiguity, to correct or to supplement any provision in the Trust Agreement which may be inconsistent with any other provision herein; or
- (6) to provide for the issuance of Additional Certificates; or
- (7) to make any other change that does not adversely affect the rights of Certificateholders.

**Section 702. Supplemental Trust Agreements with Consent of Certificateholders.**

(a) With the consent of the Holders of not less than a majority in principal amount of the Certificates then Outstanding, the Trustee may enter into one or more Supplemental Trust Agreements for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Agreement or of modifying in any manner the rights of the Holders of the Certificates under the Trust Agreement; *provided*, however, that no

such Supplemental Trust Agreement shall, without the consent of the Holder of each Outstanding Certificate affected thereby; or

(1) change any Principal Payment Date, or Interest Payment Date of any Certificate, or reduce the principal amount thereof or Sinking Fund Installment or the Interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, any Certificate, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the Redemption Date); or

(2) reduce the percentage in principal amount of the Outstanding Certificates, the consent of whose Holders is required for any such Supplemental Trust Agreement, or the consent of whose Holders is required for any waiver provided for in the Trust Agreement of compliance with certain provisions of the Trust Agreement or certain defaults hereunder and their consequences; or

(3) modify any of the provisions of **Sections 202 and 203**; or

(4) modify any of the provisions of **this Section**, or **Section 701** *except* to increase any percentage provided thereby or to provide that certain other provisions of the Trust Agreement cannot be modified or waived without the consent of each Holder affected thereby.

(b) It is not necessary that the required percentage in principal amount of Certificateholders under **this Section** approve the particular form of any proposed Supplemental Trust Agreement. It is sufficient if the Certificateholders approve the substance thereof.

### **Section 703. Execution of Supplemental Trust Agreements.**

(a) Prior to executing, or accepting the additional trusts created by, any Supplemental Trust Agreement permitted by this Article or the modification thereby of the trusts created by the Trust Agreement, the Trustee shall be entitled to receive and shall be fully protected in relying upon, an opinion of counsel addressed and delivered to the Trustee stating to the effect that the execution of such Supplemental Trust Agreement is authorized or permitted by the Trust Agreement and that the Supplemental Trust Agreement will be a valid and binding agreement of each Corporation, upon the execution and delivery thereof.

(b) The Trustee is not obligated to enter into any Supplemental Trust Agreement that affects the Trustee's own rights, duties or immunities under the Trust Agreement.

### **Section 704. Preconditions to Effectiveness**

(a) *If* the Trustee received a Qualifying Opinion in connection with the formation of the Trust, *then no* Supplemental Trust Agreement shall become effective *unless and until* the Trustee receives an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such supplement will not cause the Trust to fail to be treated as such a grantor trust.

(b) Each Supplemental Trust Agreement is subject to the prior written consent of any Insurer not then in default under its Credit Insurance.

(c) Any Rating Agency shall receive notice of each Supplemental the Trust Agreement and a copy thereof at least 15 days in advance of its execution.

**Section 705. Effect of Supplemental Trust Agreements.**

Upon the execution of any Supplemental Trust Agreement under this Article, the Trust Agreement shall be modified in accordance therewith and such Supplemental Trust Agreement shall form a part of the Trust Agreement for all purposes; and every Holder of Certificates theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

**Section 706. Copies to Insurer**

Any Insurer shall be provided with a full transcript of all proceedings relating to the execution of any Supplemental Trust Agreement.

**Section 707. Reference in Certificates to Supplemental Trust Agreements.**

(a) Certificates authenticated and delivered after the execution of any Supplemental Trust Agreement pursuant to this Article may, and if required by the Trustee shall, bear a notation in form approved by the Trustee as to any matter provided for in such Supplemental Trust Agreement.

(b) If a Corporation shall so determine, new Certificates so modified as to conform, in the opinion of the Trustee and such Corporation, to any such Supplemental Trust Agreement may be prepared and executed by such Corporation and authenticated and delivered by the Trustee in exchange for Outstanding Certificates.

**Article VIII — Miscellaneous Provisions**

**Section 801. Notices to Certificateholders; Waiver.**

(a) Where the Trust Agreement provides for the publication of notice to Certificateholders, such notice shall be sufficiently given (unless otherwise expressly provided in the Trust Agreement) if in writing and mailed, first-class postage prepaid, to each Certificateholder at his address as it last appears in the Registry, no later than the latest date and no earlier than the earliest date provide for the first publication of such notice.

(b) Where the Trust Agreement provides for notice in any manner, such notice may be waived by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice shall be filed with the Trustee, *but* such filing shall not be a condition precedent to the validity of any action taken in reliance on the waiver.

**Section 802. Insurer Treated as Certificateholder**

*Notwithstanding any other provision hereof*, any Insurer not then in default under its Credit Insurance shall be treated as the Holder of the Certificates insured by it for the purposes of actions to be taken by Certificateholders under the Trust Agreement and for the purpose of giving all other consents, directions and waivers that Certificateholders may give.

**Section 803. Severability**

The invalidity or unenforceability of any provision of the Trust Agreement shall not affect the remaining provisions hereof.

**Section 804. Payments Due on Saturdays, Sundays and Holidays**

In any case where the date fixed for payment of the Certificates shall not be a Business Day, *then* such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such payment.

*[End of General Terms]*

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# **Contract Administration Agreement 2005**

**among**

**Detroit Retirement Systems Funding Trust 2005,**

**Detroit General Retirement System Service Corporation  
and**

**Detroit Police and Fire Retirement System Service Corporation,  
severally and not jointly,**

**U.S. Bank National Association,**

**separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005**

**and the**

**Other Persons Party Hereto**

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**Dated June 2, 2005**

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**Contract Administration Agreement 2005**, dated June 2, 2005 (the *Agreement*), among the **Detroit Retirement Systems Funding Trust 2005** (the *Funding Trust*), the **Detroit General Retirement System Service Corporation** (the *GRS Corporation*) and the **Detroit Police and Fire Retirement System Service Corporation** (the *PFRS Corporation*), each a Michigan nonprofit corporation acting severally and not jointly, **U.S. Bank National Association**, separately and not as trustee of the Funding Trust (the *Contract Administrator*), and the Persons whose signatures appear on the signature pages hereto;

In consideration of the mutual promises contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

## **Article I -- Definitions and Related Matters**

### **Section 1.1. Certain Definitions**

The following terms have the following respective meanings unless the context otherwise clearly requires:

*Collateral* means the Funding Trust Receivable Collateral, the Hedge Payables Collateral and the Hedge Receivables Collateral.

*Contract Administrator* means the bank identified in the first paragraph of this Agreement as the "Contract Administrator" *unless and until* a successor is appointed successor Contract Administrator pursuant to applicable provisions of this Agreement; *thereafter*, *Contract Administrator* means such successor.

*Creditor Liens* means any and all liens and security interests granted by this Agreement in the Hedge Payables Collateral and by the Trust Agreement in the Funding Trust Receivables.

*Default* means any Event of Default or event that with the passage of time or the giving of notice, or both, would constitute an Event of Default.

*Deficiency* means as of any date, an amount referred to in **clause Second, Fourth, Sixth or Eighth of Section 8.03** of either **Service Contract**.

*Entitled Person* or *Person Entitled* means the Person entitled to receive the proceeds of a specific Component.

*Funding Rate* means the rate at which Service Charges are determined for each Service Charge Class according to the applicable Funding Rate Methodology.

*Funding Trust Receivable Collateral* means the Funding Trust Receivables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

*GRS Corporation* means the Person so defined in the first paragraph of this Agreement and the successors of such Person.

*Hedge Payables Collateral* means the amounts payable by the City under the Service Contracts in respect of Hedge Payables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

*Hedge Receivables Collateral* means the amounts payable by any Specified Hedge Counterparty as Hedge Receivables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

**PFRS Corporation** means the Person so defined in the first paragraph of this Agreement and the successors of such Person.

**Receipt Day** means a day on which the Contract Administrator receives an amount of money at or before the Payment Time *or if* the Contract Administrator receives an amount of money after the Payment Time on a day *then* the following day.

**Service Contract** means the GRS Service Contract or the PFRS Service Contract as the context may require.

**Service Contract Priority Sections** means Sections 8.02 and 8.03 of the each Service Contract.

**Specified Hedge Counterparties** means the Persons named in **Schedule 5** to the **Specific Terms** *subject* to **Section 8** of the **Specific Terms**.

**UCC** means the Uniform Commercial Code as in effect in the State of Michigan.

### Section 1.2. Other Definitions — This Agreement

Terms defined elsewhere in this Agreement include the following:

<b><i>Term</i></b>	<b><i>Defined In</i></b>
Affected Certificate .....	Section 6.3
Deficit Interest Related Payments .....	Section 4.7
Deficit Principal Related Payments .....	Section 4.7
Distribution Date .....	Section 4.6
Interest Related Payments.....	Section 4.7
Principal Related Payments .....	Section 4.7
Redemption Related Payments .....	Section 4.7
Sinking Fund Related Payments .....	Section 4.7
Transfer Party Accession Event.....	Section 2.4

### Section 1.3. Other Definitions — Service Contracts

Capitalized terms not defined herein and defined in either Service Contract are used herein as therein defined unless the context clearly otherwise requires. Such terms include:

<b><i>Term</i></b>	<b><i>Defined In</i></b>
Accrued Service Charges.....	Section 5.03
Closing Date .....	Section 3
Component.....	Section 1.03
Credit Insurance.....	Schedule of Credit Insurance to Specific Terms
Funding Rate Portion.....	Section 1.01
Funding Trust.....	Section 4
Hedge Counterparty.....	Section 1.01
Hedge Periodic Payable.....	Section 1.01
Hedge Payable .....	Section 1.01
Hedge Periodic Receivable.....	Section 1.01
Hedge Receivable .....	Section 1.01
Hedge Termination Payable .....	Section 1.01

<i><b>Term</b></i>	<i><b>Defined In</b></i>
Hedge Termination Receivable .....	Section 1.01
Index Rate Service Charges.....	Section 3
Insurer .....	Schedule of Credit Insurance to Specific Terms
Notice of Transfer Event .....	Section 8
Payment Time .....	Section 1.01
Rating Agency .....	Section 9.02
Service Payment .....	Section 1.03
Siebert .....	Section 8
Stated Hedge.....	Section 1.01
Third Party Beneficiary .....	Section 9.12
Transfer Party .....	Section 8
Trust Agreement .....	Section 1
Trustee .....	Section 1
Section numbers with a leading zero (e.g., 1.01) refer to sections in a Service Contract General Terms. Section numbers without a leading zero (e.g., 1) refer to sections in a Service Contract Specific Terms.	

**Section 1.4. Other Definitions — Trust Agreement**

Capitalized terms not defined herein and defined in the Trust Agreement are used herein as therein defined unless the context clearly otherwise requires. Such terms include:

<i><b>Term</b></i>	<i><b>Defined In</b></i>
Principal Amount.....	Section 101
Funding Trust Receivable.....	Section 101
Corporation Request, Corporation Order or Corporation Consent.....	Section 101

**Section 1.5. Business Days**

If this Agreement requires an act to be performed on a day that is not a Business Day then such act shall be performed on the first day thereafter that is a Business Day with the same effect as if such act were performed on the day that such act was otherwise required to be performed.

**Section 1.6. Interpretation**

**1.6.1.** Words of the masculine gender include correlative words of the feminine and neuter genders.

**1.6.2.** Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

**1.6.3.** Articles and Sections referred to by number or name refer to the corresponding Articles and Sections of this Agreement *unless* otherwise provided.

**1.6.4.** The terms *hereby, hereof, hereto, herein, hereunder* and any similar terms used in this Agreement refer to this Agreement as a whole and not to any particular portion thereof.

**1.6.5.** The word *or* is not exclusive.

**1.6.6.** The enumeration of things after the word *including* is to be interpreted as illustrative and not as restrictive.

**1.6.7.** References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections of Public Acts enacted as substitutes therefor.

## **Article II — Appointment; Grant of Security Interest**

### **Section 2.1. Collection of Receivables**

Each of the Corporations, the Specified Hedge Counterparties and the Funding Trust hereby appoint the Contract Administrator as its respective agent and attorney-in-fact to receive Service Payments.

### **Section 2.2. Appointment by Funding Trust**

**2.2.1.** The Funding Trust hereby also appoints the Contract Administrator as its agent and attorney-in-fact to take such actions and exercise such rights and remedies as to Funding Trust Receivables as the Funding Trust is or may become entitled to exercise under law and in equity to enforce the payment thereof and otherwise realize Funding Trust Receivables. For the avoidance of doubt, all parties to this Agreement shall be entitled to enforce their respective rights.

### **Section 2.3. Appointment by Each Corporation**

**2.3.1.** Each Corporation hereby also appoints the Contract Administrator as its agent and attorney-in-fact to enforce such Corporation's rights and remedies under the Stated Hedges, including the collection of Hedge Receivables from the Specified Hedge Counterparties under the respective Stated Hedges, and to take all such actions and exercise such rights and remedies as the respective Corporation is or may become entitled to exercise under the particular Stated Hedge and otherwise at law or in equity.

**2.3.2.** Each Corporation also appoints the Contract Administrator as its agent and attorney to take to perform all ministerial acts in the name and stead of such Corporation that are called for to be performed by such Corporation under the Service Contract subject to the specific limitations contained in **Article VII**.

**2.3.3.** Each Corporation further appoints the Contract Administrator to invest amounts received by the Contract Administrator as Costs of Issuance and Prepaid Service Charges in Authorized Investments in accordance with the Service Contract.

### **Section 2.4. Grant of Security Interests**

#### **2.4.1. Hedge Periodic Payables**

2.4.1(1). Effective as of the Closing Date, to secure its payment obligations under its Stated Hedges, each Corporation hereby grants to each Specified Hedge Counterparty and the Transfer Party a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables, any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights

to proceeds and rights of enforcement (collectively, the *Hedge Periodic Payables Security Interest*).

2.4.1(2). All of the parties hereto acknowledge that the Hedge Periodic Payables Security Interest granted by each Corporation shall be deemed to give to each Specified Hedge Counterparty and the Transfer Party a first priority security interest in and an equal and parity first lien upon, all of the Corporations' right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables. Each Specified Hedge Counterparty agrees and acknowledges the parity first priority security interest and parity first lien upon such amounts granted to it, the other Specified Hedge Counterparties and the Transfer Party by each Corporation.

2.4.1(3). The Transfer Party acknowledges and agrees that the Hedge Periodic Payables Security Interest granted it is enforceable against the Hedge Periodic Payables Collateral *if but only if* it accedes to the status of Stated Hedge Counterparty under the Service Contract (the *Transfer Party Accession Event*).

2.4.1(4). Each Specified Hedge Counterparty agrees that the Transfer Party shall accede to all of the rights and remedies and be bound by all the obligations of Siebert as a Specified Hedge Counterparty hereunder upon the occurrence of the Transfer Party Accession Event and that thereupon Siebert shall have no further rights, obligations or remedies hereunder as a Specified Hedge Counterparty.

#### **2.4.2. Hedge Termination Payables**

2.4.2(1). Effective as of the Closing Date, to secure its payment obligations under its Stated Hedge, each Corporation hereby grants to each Specified Hedge Counterparty and the Transfer Party a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables, any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the *Hedge Termination Payables Security Interest*).

2.4.2(2). All of the parties hereto acknowledge that the Hedge Termination Payables Security Interest granted by each Corporation shall be deemed to give each Specified Hedge Counterparty and the Transfer Party a first priority security interest in and an equal and parity first lien upon all of the Corporations' right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables, and each Specified Hedge Counterparty agrees and acknowledges the parity first priority security interest and parity first lien upon such amounts granted to it, the other Specified Hedge Counterparties and the Transfer Party by each Corporation.

2.4.2(3). The Transfer Party acknowledges and agrees that the Hedge Termination Payables Security Interest granted it is enforceable against the Hedge Termination Payables Collateral *only* on and after the occurrence of the Transfer Party Accession Event.

2.4.2(4). Each Specified Hedge Counterparty agrees that the Transfer Party shall accede to all of the rights and remedies and be bound by all of the obligations of Siebert



hereunder with respect to the Hedge Termination Payables Collateral upon the occurrence of the Transfer Party Accession Event and that thereupon Siebert shall have no further rights, obligations or remedies hereunder as a Specified Hedge Counterparty.

#### **2.4.3. Hedge Periodic Receivables**

2.4.3(1). Effective as of the Closing Date, to secure the City's obligations to the Funding Trust in respect of Service Charges, each Corporation hereby grants to the Funding Trust a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by any Specified Hedge Counterparty as a Hedge Periodic Receivable (a *Hedge Periodic Receivable Amount*), any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the *Hedge Periodic Receivables Security Interest*).

2.4.3(2). All of the parties hereto acknowledge that the Hedge Periodic Receivables Security Interest granted by each Corporation shall be deemed to give Funding Trust a first priority security interest in and an equal lien upon, all of the Corporations' right, title and interest in, to and under Hedge Periodic Receivable Amounts.

#### **2.4.4. Hedge Termination Receivables**

2.4.4(1). Effective as of the Closing Date, to secure the City's obligations to the Funding Trust in respect of Service Charges, each Corporation hereby grants to the Funding Trust a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by any Specified Hedge Counterparty as a Hedge Termination Receivable (a *Hedge Termination Receivable Amount*), any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the *Hedge Termination Receivables Security Interest*).

2.4.4(2). All of the parties hereto acknowledge that the Hedge Termination Receivables Security Interest granted by each Corporation shall be deemed to give the Funding Trust a first priority security interest an equal lien upon, all of the Corporations' right, title and interest in, to and under Hedge Termination Receivable Amounts.

### **Article III — Representations and Warranties**

Each Corporation makes the representations and warranties contained in **this Article** for only itself and not for the other Corporation.

#### **Section 3.1. Incorporation by Reference**

**3.1.1.** Each of the Corporations makes the representations and warranties made by it in its Service Contract, on and as of the dates therein made, for the benefit of the Contract Administrator as if any reference therein to the "Service Contract" also included a reference to this Agreement for the mutual benefit of each other and for the benefit of the Underwriters, the Specified Hedge Counterparties, the Funding Trust and the holders from time to time of the Certificates.

**3.1.2.** Such representations and warranties, together with related definitions and ancillary provisions, are hereby incorporated herein, *mutatis mutandis*, with the same force and effect as if set forth in full herein.

### **Section 3.2. Corporation Property**

Each Corporation represents and warrants for the benefit of the Contract Administrator, the Underwriters, the Funding Trust, the Specified Hedge Counterparties, the holders from time to time of the Certificates and the other Corporation that on the date hereof and on and as of the Closing Date its respective Service Contract and Stated Hedges are its property subject to no lien, charge, encumbrance or other interest *except* the rights of Third Party Beneficiaries as set forth in the Service Contracts and (i) the rights of the Funding Trust on and after the Closing Date to Funding Trust Receivables and Hedge Receivables, and ancillary rights, (ii) the rights of the Specified Hedge Counterparties on and after the Closing Date to Hedge Payables and ancillary rights and (iii) the security interest granted on and after the Closing Date to the Transfer Party in Hedge Payables.

### **Section 3.3. General Representations and Warranties**

Each Corporation represents and warrants as follows for the benefit of the Contract Administrator, the Underwriters, the Funding Trust, the Specified Hedge Counterparties, the holders from time to time of the Certificates and the other Corporation.

**3.3.1.** The Corporation's name as indicated on the signature page of this Agreement is such Corporation's name as indicated on the public record of the Corporation's jurisdiction of organization which shows the Corporation to have been organized.

**3.3.2.** The Corporation is a "registered organization," within the meaning of Article 9 of the UCC, of the type and organized under the laws of the State of Michigan.

**3.3.3.** **Section 9.04** of the respective **Service Contract** accurately sets forth the Corporation's place of business or, if more than one place of business, its chief executive office as well as such Corporation's mailing address if different and such Corporation has not had any other place of business or, if more than one place of business, any other chief executive office since its formation.

### **Section 3.4. Conveyance and Security Interests to the Funding Trust**

**3.4.1.** Each Corporation represents and warrants as follows for the benefit of the Contract Administrator, the Funding Trust and the other Corporation on and as of the Closing Date.

3.4.1(1). The transfer and assignment of the Funding Trust Receivables that the Trust Agreement purports to transfer, assign and otherwise convey to the Funding Trust is a valid and binding absolute transfer of the Funding Trust Receivables *provided* that such Corporation shall not be in breach of this representation and warranty if, contrary to the intent of such Corporation, such transfer is hereafter determined to be a pledge of such property to the Funding Trust.

3.4.1(2). The security interest granted to the Funding Trust in the Funding Trust Receivables is a valid security interest to the extent of the rights of such Corporation's interests therein, and such security interest is a perfected, first priority security interest.

3.4.1(3). The security interest granted to the Funding Trust in the Hedge Receivables is a valid security interest therein, and such security interest is a perfected, first priority security interest.

3.4.2. (i) Each Corporation has not granted control (for purposes of Articles 8 and 9 of the UCC) over the Funding Trust Receivables and the Hedge Receivables, or any bank account or securities account in which they are held, to any Person other than the Funding Trust and (ii) each Corporation has not entered into any agreement granting control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Receivables other than this Agreement or over the Funding Trust Receivables other than the Trust Agreement.

3.4.3. Each Corporation has never granted or permitted to exist, any lien, mortgage, pledge, charge, claim, encumbrance, easement, lease or security interest on the Hedge Receivables and Funding Trust Receivables, or any bank account or securities account in which they are held, in favor of any Person other than the Funding Trust.

### **Section 3.5. Security Interests Granted the Specified Hedge Counterparties**

3.5.1. Each Corporation represents and warrants for the benefit of the Specified Hedge Counterparties and the other Corporation on and as of the Closing Date that the security interest granted to the Specified Hedge Counterparties in the Hedge Payables Collateral is a valid security interest therein, and such security interest is a perfected, first priority security interest.

3.5.2. (i) Each Corporation has not granted control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Payables Collateral, or any bank account or securities account in which they are held, to any Person other than the Hedge Counterparties and (ii) each Corporation has not entered into any agreement granting control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Payables Collateral other than this Agreement.

3.5.3. Each Corporation has never granted or permitted to exist, any lien, mortgage, pledge, charge, claim, encumbrance, easement, lease or security interest on the Hedge Payables Collateral, or any bank account or securities account in which they are held, in favor of any Person other than the Specified Hedge Counterparties.

### **Section 3.6. Corporate Identification**

Each Corporation represents only as to its own organizational identification number as follows:

3.6.1. The organizational identification number of GRS Corporation is 793781.

3.6.2. The organizational identification number of PFRS Corporation is 793782.

## **Article IV — Receipt and Disposition of Receivables**

### **Section 4.1. Property Acknowledgments; Payment Entitlements**

For the avoidance of doubt, the following are statements of the property interests of the parties hereto in the Components of Service Payments.

4.1.1(1). Contract Administrator Payments are property of the Contract Administrator, and the Contract Administrator is the Person Entitled thereto.

4.1.1(2). Funding Trust Receivables are property of the Funding Trust, and the Funding Trust is the Person Entitled thereto.

4.1.1(3). Amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables are property of the Corporations, and pursuant to **Section 4.3.2** the Specified Hedge Counterparties are the Persons Entitled thereto.

4.1.1(4). Amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables are property of the Corporations, and pursuant to **Section 4.3.3** the Specified Hedge Counterparties are the Persons Entitled thereto.

4.1.1(5). Hedge Periodic Receivables are the property of the Corporations, and pursuant to **Section 4.4.1**, the Funding Trust is the Person Entitled thereto, to the extent provided in such Section, and thereafter, pursuant to **Section 4.4.2**, each Corporation is the Person Entitled to any remaining portion of its respective Hedge Periodic Receivables.

4.1.1(6). Hedge Termination Receivables are the property of the Corporations, and pursuant to **Section 4.4.1**, the Funding Trust is the Person Entitled thereto, to the extent provided in such Section, and, thereafter, each Corporation is the Person Entitled to any remaining portion of its respective Hedge Termination Receivables.

## **Section 4.2. Receipt of Service Payments; Determination of Property Interests**

**4.2.1.** Service Payments (including Prepaid Service Charges) shall be applied in accordance with the priorities set forth in the Service Contract Priority Sections.

**4.2.2.** On each Receipt Day that the Contract Administrator receives a Service Payment, the Contract Administrator shall properly determine the Components and pro-rata application thereof satisfied under the Service Contract Priority Sections by such Service Payment, and the Persons Entitled thereto, in accordance with the Service Contract and shall distribute such payments in accordance with **Section 4.7**.

**4.2.3.** At least one day prior to each Distribution Date for any Service Charges or Scheduled Payments, the Contract Administrator shall determine whether the amount available under this Agreement for such payment is sufficient to make the distribution as if no Deficiency existed. If the Contract Administrator determines that the amount available under this Agreement for such payment is insufficient to make such distribution on such Distribution Date, the Contract Administrator shall deliver a notice (a **Shortfall Notice**) to each Insurer and the Trustee that states the amount of the shortfall and the respective amounts thereof attributable to Service Charges and Scheduled Payments.

**4.2.4.** At least one day prior to each Distribution Date for a Hedge Periodic Payable, the Contract Administrator shall determine whether the amount available under this Agreement for such payment is sufficient to pay such Hedge Periodic Payable. If the Contract Administrator determines that the amount available under this Agreement for such payment is insufficient to make such payment on such Distribution Date, the Contract Administrator shall deliver a notice to the Insurer and the applicable Specified Hedge Counterparty or Counterparties that states the amount of the shortfall.

**Section 4.3. Prepaid Service Charges; Hedge Payables**

**4.3.1.** Prepaid Service Charges received by the Contract Administrator shall be used to pay the first occurring Service Charges and Hedge Periodic Payables of each Corporation.

**4.3.2.** Receipts by the Contract Administrator of amounts paid by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables shall be used to pay current and past due Hedge Periodic Payables, and once credited to the account referred to in **Section 4.5.1** shall not be subject to direction to any other use by the Corporation.

**4.3.3.** Receipts by the Contract Administrator of amounts paid by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables shall be used to pay current and past due Hedge Termination Payables and once credited to the account referred to in **Section 4.5.1** shall not be subject to direction to any other use by the Corporation.

**Section 4.4. Receipt and Disposition of Hedge Receivables and Investment Gain**

**4.4.1.** Hedge Receivables received by the Contract Administrator shall be used to satisfy the City's obligations in respect of then current or past due Service Charges not otherwise paid.

**4.4.2.** To the extent that a balance of a paid Hedge Receivable remains after application in accordance with **Section 4.4.1**, such balance shall be the property of the respective Corporation.

**4.4.3.** Gain from Authorized Investments received by the Contract Administrator from the investment of Costs of Issuance and Prepaid Service Charges shall be paid to the City.

**Section 4.5. Books and Records; Funds and Accounts; Trust Funds and Accounts**

**4.5.1.** The Contract Administrator shall maintain books and records properly showing satisfied Components. To facilitate maintaining proper records of ownership, the Contract Administrator shall establish the funds and accounts named in **Exhibit 4.5** and shall credit the respective Components pending distribution and shall distribute the amounts credited thereto on the respective Distribution Dates to the respective Entitled Persons.

**4.5.2.** In addition to bearing the name of the particular fund or account, each fund or account shall be captioned *Detroit Retirement Systems Funding Trust 2005* and shall identify the property owner(s) as set forth in **Exhibit 4.5**.

**4.5.3.** In addition to the funds and accounts required by **Exhibit 4.5**, the Contract Administrator may establish such other funds and accounts as it determines necessary or appropriate.

**4.5.4.** The funds and accounts required by **Exhibit 4.5**, and such other funds and accounts that the Contract Administrator establishes hereunder shall be held and administered as trust funds and accounts.

**Section 4.6. Distribution Dates**

Each of the following dates is a *Distribution Date*.

<u>Date</u>	<u>Component</u>
As and When Due .....	Contract Administrator Payments Amounts in respect of Hedge

	Periodic Payables
	Amounts in respect of Hedge
	Termination Payables
First day of a calendar month.....	Any Deficiency
Service Charge Payment Dates.....	Service Charges
Scheduled Payments Dates.....	Regular Scheduled Payments
Sinking Fund Installment Dates.....	Sinking Fund Installments
Optional Prepayment Dates.....	Optional Prepayment Amounts
	Accrued Service Charges

**Section 4.7. Distributions of Service Payments**

On each Distribution Date, the Contract Administrator shall distribute the amount of the Components satisfied since the last such Distribution Date to the respective Entitled Persons.

4.7.1(1). If the Entitled Person is the Contract Administrator, the amounts of satisfied Components shall be paid to the Contract Administrator.

4.7.1(2). If the Entitled Person is the Funding Trust, the amounts of satisfied Components shall be distributed to the Funding Trust to be applied in accordance with the Trust Agreement.

(i) Amounts distributed to the Trustee representing satisfied Components constituting Service Charges and Accrued Service Charges described in **clause Second** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as ***Deficit Interest Related Payments***;

(ii) Amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments described in **clause Fourth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as ***Deficit Principal Related Payments***;

(iii) Amounts distributed to the Trustee representing satisfied Components constituting Sinking Fund Installments described in **clause Fourth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as ***Deficit Principal Related Payments***;

(iv) Amounts distributed to the Trustee representing satisfied Components constituting Service Charges described in **clause Third** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as ***Interest Related Payments***;

(v) Amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments and Sinking Fund Installments described in **clause Fifth** of **Section 8.03** of each **Service Contract** shall constitute and be identified to the Trustee as, respectively, ***Principal Related Payments*** and ***Sinking Fund Related Payments***; and

(vi) Amounts distributed to the Trustee representing satisfied Components constituting Optional Prepayment Amounts and Accrued Service Charges described in **clause Eighth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as ***Redemption Related Payments***.

4.7.1(3). If the Entitled Persons are the Specified Hedge Counterparties, the amounts of satisfied Components constituting amounts in respect of Hedge Payables shall be paid to the Specified Hedge Counterparties to whom such amounts are owing in proportion to the amounts owed to each under the respective Stated Hedges.

4.7.1(4). If distributions are to be made on the same Distribution Date for two or more different priorities of Components pursuant to the Service Contract Priority Sections, no distribution shall be made in respect of a lower priority to the extent that each of the higher priorities is not satisfied in full.

#### **Section 4.8. Satisfaction and Priority of Payments**

**4.8.1.** Each party acknowledges that the Service Contract Priority Sections establish the order and priority of the payment of Components and the Persons Entitled to Components are entitled to receive those Components in the order and priority set forth in the Service Contract Priority Sections. Each party acknowledges it is undertaking and entering into the transaction which is the subject of this Agreement based on the understanding, and with the intent and effect of the Service Contract Priority Sections. Each party hereto agrees to be bound by the order and priority of the payments of Components set forth in Service Contract Priority Sections and the terms and provisions of the Service Contract Priority Sections are hereby incorporated into this Agreement by this reference as if the same were recited in its entirety.

**4.8.2.** Notwithstanding any other provision hereof, upon the occurrence of a payment default under the Service Contracts or this Agreement, to the extent that a party enforces its rights with respect to Collateral on which it has a Creditor Lien, such Collateral or the proceeds thereof may only be applied to satisfy payments of Components due and owing to the parties that have a Creditor Lien that secures payments of such Components.

#### **Article V — Corporation Covenants**

Each Corporation covenants with the Contract Administrator, the Funding Trust, the Specified Hedge Counterparties and with the other Corporation as provided in this Article.

#### **Section 5.1. Concerning the Security Interests**

**5.1.1.** The Corporation will not change its name, its place of business or, if more than one place of business, its chief executive office, or its mailing address or organizational identification number, if it has one, without providing prior written notice to the parties hereto at least ten Business Days prior to the effective date of any such change.

**5.1.2.** The Corporation will not, except as expressly permitted by this Agreement, change its type of organization, its jurisdiction of organization, its legal structure or its “location” as determined in Article 9 of the UCC, without the prior written consent of each of the other parties hereto (other than a Corporation).

#### **Section 5.2. No Conveyance or Assignment**

**5.2.1.** The Corporation shall not convey, transfer or assign Funding Trust Receivables under its Service Contract or any interest therein to any Person *other than* the Funding Trust as provided in the Trust Agreement.

**5.2.2.** The Corporation shall not convey, transfer or assign Hedge Payables under its Service Contract or any interest therein to any Person *other than* the Specified Hedge Counterparties as provided herein.

**5.2.3.** The Corporation shall not convey, transfer or assign any Stated Hedge or any interest therein to any Person *other than* as provided in the Service Contract.

### **Section 5.3. Negative Pledge**

**5.3.1.** The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the amounts payable by the City under **Section 7.02** of its **Service Contract** in respect of Hedge Periodic Payables, any “securities account” and/or any “deposit account” (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

**5.3.2.** The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the amounts payable by the City under **Section 7.02** of its **Service Contract** in respect of the Hedge Termination Payables, any “securities account” and/or any “deposit account” (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

**5.3.3.** The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the Funding Trust Receivables, any “securities account” and/or any “deposit account” (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

### **Section 5.4. Defense of Interests; Further Assurance**

The Corporation agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and will take all actions or cause all such actions to be taken as may be required by law or as shall reasonably be requested by any Hedge Counterparty or the Trustee for respectively, the attachment, perfection and/or continuance of any security interests granted by this Agreement or the Trust Agreement for the preservation and protection of all rights of, respectively, the Specified Hedge Counterparties under this Agreement or the Funding Trust under the Trust Agreement.

## **Article VI — Events of Default; Remedies**

### **Section 6.1. Right of Enforcement**

For the avoidance of doubt, all parties to this Agreement shall be entitled to enforce their respective rights except as otherwise provided in **Section 6.9** and **Article VIII**.

### **Section 6.2. Events of Default**

Each of the following constitutes an “Event of Default”:

6.2.1(1). the City fails to pay any Funding Trust Receivables as and when the same shall become due under either Service Contract; or

6.2.1(2). an event occurs described in **clause (i), (ii) or (iii)** of **Section 9.01** of either **Service Contract** (each, a ***Service Contract Acceleration Clause***).



### **Section 6.3. Remedies**

Upon the occurrence of an Event of Default and during the continuance thereof, the Contract Administrator may and shall, at the request of Certificateholders representing either:

(i) at least 25 percent in principal amount of Outstanding Certificates, the payments on which have not been made as a result of such Event of Default (*Affected Certificates*), or

(ii) at least 50 percent in principal amount of all Outstanding Certificates,

enforce the Service Contract under which the Event of Default occurred by such remedies as are available to the Contract Administrator.

### **Section 6.4. Contract Administrator May File Proofs of Claim**

**6.4.1.** If an event occurs described in any Service Contract Acceleration Clause and a judicial proceeding is commenced in connection therewith, the Contract Administrator is entitled and empowered, by intervention in such proceeding:

6.4.1(1). to file and prove a claim for the whole amount of the Funding Trust Receivables then due and payable and to file such papers and documents as may be necessary or desirable in order to have the claims of the Contract Administrator (including any claim for reasonable compensation, expenses, disbursements and advances of the Contract Administrator, its agents or counsel) and of the Certificateholders allowed in such judicial proceeding; and

6.4.1(2). to collect and receive any amounts payable or deliverable on any such claims and to distribute the same;

and any trustee (or similar official) in any such judicial proceeding is hereby authorized by the Funding Trust to make such payments to the Contract Administrator, and in the event the Contract Administrator shall consent to making of such payments directly to the Trustee, to pay to the Contract Administrator any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Contract Administrator, its agents or counsel.

**6.4.2.** Nothing herein contained shall authorize the Contract Administrator to authorize or consent to or accept or adopt on behalf of any Certificateholder any plan of adjustment or composition affecting the Certificateholders or the rights of any Holder, or to authorize the Contract Administrator to vote in respect of the claim of any Certificateholder in any such proceeding.

### **Section 6.5. Application of Money Collected.**

Any money collected or received by the Contract Administrator pursuant to this Article shall be applied in the order of the Service Contract Priority Sections *except* as otherwise provided in **Section 4.8.2.**

### **Section 6.6. No Duty of Inquiry**

**6.6.1.** The Contract Administrator is under no duty to inquire into the performance by the City of its obligations under the Service Contracts; however, *if* the Contract Administrator receives notice (a *Default Notice*) from Holders of either

(i) at least 25 percent in principal amount of the Outstanding Affected Certificates or

(ii) at least 50 percent in principal amount of all Outstanding Certificates

specifying the failure of the City to pay Funding Trust Receivables *then* the Contract Administrator shall give notice of such failure to the City and demand that such failure be remedied.

**6.6.2.** Upon receipt of any Default Notice, the Contract Administrator shall give notice to all Certificateholders and the Specified Hedge Counterparties that did not join in such Default Notice.

**Section 6.7. Notice of Defaults.**

**6.7.1.** Promptly upon obtaining actual knowledge of the occurrence of any Event of Default, the Contract Administrator shall give written notice of such Event of Default by mail to all Certificateholders, Specified Hedge Counterparties and Rating Agencies *unless* such Event of Default has been cured or waived.

**6.7.2.** Any Insurer who is not then in default under its Credit Insurance shall be entitled to receive all notices in respect of Certificates insured by it, and no notices under **Section 6.7.1** shall be sent to the Holders of such Certificates.

**Section 6.8. Limitation on Suits by Certificateholders.**

No Certificateholder shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Service Contract *unless*

6.8.1(1). such Holder has previously given written notice to the Contract Administrator of an Event of Default that is then continuing;

6.8.1(2). the Holders of either

(i) at least 25 percent in principal amount of the Outstanding Affected Certificates or

(ii) at least 50 percent in principal amount of all Outstanding Certificates

have made written request to the Contract Administrator to institute proceedings in respect of such Event of Default in its own name as Contract Administrator;

6.8.1(3). such Holder or Holders have offered to the Contract Administrator satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

6.8.1(4). the Contract Administrator for 30 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

6.8.1(5). in the case of a written request made pursuant to **Section 6.8.1(2)** from the Holders of at least 25 percent in principal amount of the Outstanding Affected Certificates, no direction inconsistent with such written request has been given to the Contract Administrator during such 30-day period by the Holders of a greater percentage of the Holders of Outstanding Affected Certificates (for the avoidance of doubt, this paragraph does not apply when a written request has been made pursuant to **Section 6.8.1(2)** from Holders of at least 50 percent in principal amount of all Outstanding Certificates);

it being understood and intended that no one or more Holders of Certificates shall have any right in any manner to affect, disturb or prejudice the interest of the parties hereto or the rights of any other Holders of Certificates, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under any Service Contract, *except* in the manner herein provided and for the equal and ratable benefit of all Entitled Persons.

### **Section 6.9. Control by Majority**

**6.9.1.** The Holders of a majority in principal amount of all Outstanding Certificates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator to exercise any power exercisable by the Contract Administrator (including any proceeding instituted following the delivery of notice pursuant to **Section 6.8.1(2)**); *provided* that such direction is not in conflict with any rule of law or this Agreement.

**6.9.2.** Notwithstanding any other provision hereof, any Insurer not then in default under its Credit Insurance shall:

6.9.2(1). be treated as the Holder of Outstanding Certificates equal to the principal amount of Certificates insured by it for the purposes of actions permitted to be taken by Certificateholders under **this Article** and for the purpose of giving all other consents, directions and waivers that Certificateholders may give; and

6.9.2(2). control all actions that may be taken by any Specified Hedge Counterparty that is the beneficiary of such Credit Insurance, including for purposes of actions permitted to be taken by such Specified Hedge Counterparty under this Agreement and for the purposes of giving all other directions, consents and waivers that such Specified Hedge Counterparty may give.

### **Section 6.10. Actions by Beneficial Owners**

**6.10.1.** For the purpose of providing any consent, waiver or instruction to the Contract Administrator, **Holder** and **Certificateholder** includes a Person who provides the Contract Administrator an affidavit of beneficial ownership of a Certificate together with satisfactory indemnity against any loss, liability or expense to the Contract Administrator to the extent that it acts on the affidavit of beneficial ownership (including any consent, waiver or instruction given by a Person providing such affidavit and indemnity).

**6.10.2.** The principal amount of Outstanding Certificates owned by a Beneficial Owner meeting the requirements of **Section 6.10.1** shall be deemed held by such Beneficial Owner and *not* held by Certificateholders for the purposes of providing any consent, waiver or instruction to the Contract Administrator.

## **Article VII — Concerning the Contract Administrator**

### **Section 7.1. Certain Duties and Responsibilities.**

**7.1.1.** *Except* during the continuance of an Event of Default:

7.1.1(1). the Contract Administrator undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Contract Administrator and no

permissive power or authority availability to the Contract Administrator shall be considered a duty; and

7.1.1(2). in the absence of bad faith on its part, the Contract Administrator may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Contract Administrator and conforming to the requirements of this Agreement or the Service Contract; *but* in the case of any such certificates, documents, other instruments or opinions which by any provision hereof or thereof are specifically required to be furnished to the Contract Administrator, the Contract Administrator is under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

**7.1.2.** *If* an Event of Default occurs and is continuing, *then* the Contract Administrator shall exercise such of the rights and powers in respect of Funding Trust Receivables and use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances.

**7.1.3.** No provision of this Agreement shall be construed to relieve the Contract Administrator from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, *except* that

7.1.3(1). **this subsection** shall not be construed to limit the effect of **Section 7.1.1.**

7.1.3(2). the Contract Administrator shall not be liable for any error of judgment made in good faith by an authorized officer of the Contract Administrator, *unless* it is proved that the Contract Administrator was negligent in ascertaining the pertinent facts;

7.1.3(3). the Contract Administrator shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of all Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator, or exercising any trust or power conferred upon the Contract Administrator, by or under this Agreement; and

7.1.3(4). no provision of this Agreement shall require the Contract Administrator to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

**7.1.4.** Whether or not therein expressly so provided, every provision of this Agreement relating to the conduct or affecting the liability of or affording protection to the Contract Administrator is subject to the provisions of this Article.

## **Section 7.2. Certain Rights of Contract Administrator.**

*Except* as otherwise provided in **Section 7.1.1:**

7.2.1(1). The Contract Administrator may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or docu-

ment believed by it to be genuine and to have been signed or presented by the proper party or parties.

7.2.1(2). Any request, direction or consent of a Corporation mentioned in this Agreement shall be sufficiently evidenced respectively by a Corporation Request, Corporation Order or Corporation Consent.

7.2.1(3). Whenever in the administration of this Agreement, any Service Contract or any Stated Hedge the Contract Administrator shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Contract Administrator (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of a representative of the particular Corporation.

7.2.1(4). The Contract Administrator may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Contract Administrator hereunder in good faith and in reliance thereon.

7.2.1(5). The Contract Administrator is under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Certificateholders pursuant to this Agreement, *unless* such Certificateholders shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

7.2.1(6). The Contract Administrator shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, *but* the Contract Administrator, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

7.2.1(7). The Contract Administrator may execute any of its powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Contract Administrator shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

7.2.1(8). *Except* as provided in **Section 7.3**, the Contract Administrator shall have no duty to see to the recording, filing or registration of any instrument or document (including financing or continuation statements or filing under tax or security laws) or any rerecording, re-filing or re-registration.

7.2.1(9). The Contract Administrator shall have the right at any time to seek instructions concerning the administration of the Service Contracts from any court of competent jurisdiction.

7.2.1(10). The Contract Administrator shall not have any responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Certificateholder or any other Person in the nature of an official statement or offering circular, preliminary or final.

### **Section 7.3. Specific Duties of the Contract Administrator**

*Except* during an Event of Default or as required by applicable law, the duties of the Contract Administrator are limited to the following:

- 7.3.1(1). deliver notice to the City to pay Hedge Payables pursuant to Section 7.02 of the respective Service Contract;
- 7.3.1(2). continue the financing statements filed with respect to the Funding Trust Receivables and Hedge Payables;
- 7.3.1(3). take such actions in the name and stead of either Corporation as may be required by **Section 5.4**;
- 7.3.1(4). the specific duties set forth in **Article II** to receive Service Payments;
- 7.3.1(5). the specific duties set forth in **Articles IV and VI**;
- 7.3.1(6). notify the City of any realized loss resulting from the investment of Investable Funds, demand immediate payment of such loss and receive payment of such loss;
- 7.3.1(7). pay to the City any realized gain from the investment of Investable Funds or otherwise apply such gain in accordance with **Section 7.04** of each **Service Contract**;
- 7.3.1(8). perform such duties, if any, as may be required to be performed by the Contract Administrator in the Specific Terms of a Service Contract;
- 7.3.1(9). the specific duties set forth in **Article X**; and
- 7.3.1(10). receive, recognize and give effect to a Notice of Transfer Event.

### **Section 7.4. May Hold Certificates.**

The Contract Administrator, in its individual or any other capacity, may become the owner or pledgee of Certificates with the same rights it would have if it were not Contract Administrator.

### **Section 7.5. Money Held in Trust.**

Money held by the Contract Administrator in trust hereunder need not be segregated from other funds except to the extent required by law or by other provision of this Agreement. The Contract Administrator shall be under no liability for interest on any money received by it hereunder.

### **Section 7.6. Compensation and Reimbursement**

**7.6.1.** The Contract Administrator is entitled to payment or reimbursement:

- 7.6.1(1). from time to time for reasonable compensation for all services rendered by it hereunder; and
- 7.6.1(2). except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Contract Administrator in accordance with any provision of this Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and

counsel), except any such expense, disbursement or advance as may be attributable to the Contract Administrator's negligence, willful misconduct or bad faith.

**7.6.2.** The Contract Administrator is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of this Agreement or the exercise of its powers hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

**7.6.3.** The compensation, expenses and indemnification of the Contract Administrator hereunder shall constitute Contract Administrator Payments, a Component of Service Payments as provided in the Service Contracts.

### **Section 7.7. Lien of Contract Administrator**

The Contract Administrator shall not have any lien on any funds held by it under this Agreement.

### **Section 7.8. Corporate Contract Administrator Required; Eligibility.**

**7.8.1.** There shall at all times be a Contract Administrator hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**7.8.2.** The Contract Administrator shall resign immediately in the manner and with the effect specified in this Article if it becomes ineligible under **this Section**.

### **Section 7.9. Replacement of Contract Administrator.**

#### **7.9.1. No Vacancy.**

No resignation or removal of the Contract Administrator and no appointment of a successor Contract Administrator pursuant to this Article shall be effective until the successor Contract Administrator accepts its appointment as provided in **this Section**.

#### **7.9.2. Resignation.**

The Contract Administrator may resign at any time, but such resignation shall become effective only in accordance with **Section 7.9.1**, above. A resigning Contract Administrator shall give notice of its resignation to each Insurer.

#### **7.9.3. Removal by Certificateholders.**

7.9.3(1). The Holders of a majority in principal amount of Outstanding Certificates may remove the Contract Administrator by so notifying the Contract Administrator.

7.9.3(2). If the Contract Administrator becomes ineligible under **Section 7.8**, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor.

**7.9.4. Appointment of Successor.**

7.9.4(1). The retiring Contract Administrator or the Corporations may appoint a successor at any time prior to the date on which a successor Contract Administrator takes office.

7.9.4(2). If a successor Contract Administrator does not take office within 45 days after the retiring Contract Administrator resigns or is removed, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor Contract Administrator.

7.9.4(3). Within one year after a successor Contract Administrator appointed by the Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Contract Administrator to replace such successor Contract Administrator.

**7.9.5. Acceptance of Appointment.**

7.9.5(1). A successor Contract Administrator shall deliver written acceptance of its appointment to the retiring Contract Administrator, each of the other parties hereto and to each Insurer. Thereupon the resignation or removal of the retiring Contract Administrator shall be effective, and the successor Contract Administrator shall have all the rights, powers and duties of the Contract Administrator under the Trust Agreement.

7.9.5(2). The successor Contract Administrator shall mail a notice of its succession to the Certificateholders.

7.9.5(3). Upon the appointment of a successor Contract Administrator becoming effective as provided in **this Section**, the retiring Contract Administrator shall promptly transfer all property held by it as Contract Administrator to the successor Contract Administrator.

**Section 7.10. Merger, Consolidation and Succession to Business.**

**7.10.1.** If the Contract Administrator consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Contract Administrator *if* such successor corporation is eligible under **Section 7.8**.

**7.10.2.** The successor Contract Administrator may adopt the authentication of Certificates authenticated by the predecessor Contract Administrator and deliver such Certificates with the same effect as if the successor Contract Administrator had authenticated such Certificates.

**Article VIII — Enforcement of Rights**

**Section 8.1. Effectiveness of Article**

At any time of determination, **this Article** shall be in force and effective *if, but only if*, all Insurers are then in default under their respective Credit Insurance.

**Section 8.2. Article Controlling**

Whether or not herein expressly so provided, every provision of this Agreement relating to the enforcement of rights and remedies by any of the parties hereto, and their successors and



assigns, is subject to the provisions of **this Article** notwithstanding anything in this Agreement to the contrary.

### **Section 8.3. Certain Definitions**

*Affected Parties* means the Holders of Outstanding Certificates and Specified Hedge Counterparties affected by a particular Article 8 Event of Default; *affected Outstanding Certificates* and *affected Stated Hedges* have correlative meanings.

*Article 8 Event of Default* means any Event of Default described in Article VI or the City fails to pay any Hedge Payable as and when the same shall become due.

*Controlling Affected Parties* means on any particular date the Affected Parties in good standing having a majority of the Article 8 pro rata interests.

*Enforcement Committee* means the committee established pursuant to this Article.

*Enforcement Officer* means the same Person as the Person who is acting as Contract Administrator but in its separate capacity and not as Contract Administrator unless and until a successor Enforcement Officer is selected and thereafter *Enforcement Officer* means such successor.

### **Section 8.4. Determination of Article 8 Pro Rata**

**8.4.1.** The *Combined Denominator* for determining Article 8 pro rata interests is the sum of (i) the total principal amount of all then affected Outstanding Certificates *and* (ii) the total of the maximum termination payments of the affected Specified Hedge Counterparties insured under the Credit Insurance.

**8.4.2.** When used with respect to affected Outstanding Certificates, *Article 8 pro rata* means a fraction, the numerator of which is the principal amount of the particular affected Outstanding Certificate and the denominator of which is the Combined Denominator.

**8.4.3.** When used with respect to affected Stated Hedges, *Article 8 pro rata* means a fraction, the numerator of which is the maximum termination payments of the particular affected Specified Hedge Counterparty insured under the Credit Insurance and the denominator of which is the Combined Denominator.

**8.4.4.** Article 8 pro rata interests determined for the purposes of **Section 8.7.1(2)(i)**, shall be determined for all Certificateholders and all Specified Hedge Counterparties without consideration of whether or not they are affected by the particular Article 8 Event of Default.

### **Section 8.5. Determination of Good Standing**

An Affected Party is in *good standing* as of any particular date when it, or it and all others acting with it on a collective basis, have met all requirements by the Enforcement Officer for contributions to payments of its fees, expenses and indemnification.

### **Section 8.6. Insurers**

Any Insurer not in default under its Credit Insurance that is insuring Article 8 pro rata interests of an Affected Party shall be the only Affected Party with respect to those interests for all purposes of **this Article**.

## **Section 8.7. Duration of Exclusive Action Period**

**8.7.1.** An Exclusive Action Period commences upon the occurrence of an Article 8 Event of Default and ends on the date the earliest of the following occur with respect to the particular Article 8 Event of Default:

8.7.1(1). the Enforcement Officer fails to call the initial meeting of the Enforcement Committee within the time required by **Section 8.9.1**;

8.7.1(2). at the initial meeting of the Enforcement Committee,

(i) less than 25% of the Article 8 pro rata interests of the Certificateholders and Specified Hedge Counterparties are in good standing and are present or

(ii) the Enforcement Committee does not authorize the Enforcement Officer to take action;

8.7.1(3). at a subsequent meeting of the Enforcement Committee, the Enforcement Committee properly directs the Enforcement Officer to discontinue taking all action;

8.7.1(4). at the time the Enforcement Officer gives notice to all Affected Parties that it properly intends to take no further action;

8.7.1(5). the Enforcement Officer has been directed to take one or more enforcement actions by the Enforcement Committee and does not commence any such action within 30 days after being so directed;

8.7.1(6). a final decision or judgment is rendered that does not require the City to pay the full amount of the Funding Trust Receivables or the Hedge Payables for which the action was commenced;

8.7.1(7). a final judgment against the City is not satisfied in full by the end of the City's fiscal year following the fiscal year in which such final judgment is rendered.

**8.7.2.** As used in this Section, a *proper direction* of the Enforcement Committee is a direction not contrary to **Section 8.10**, and a *proper action* of the Enforcement Officer is an action that is not contrary to a proper direction of the Enforcement Committee.

**8.7.3.** As used in this Section, a *final decision* or *judgment* is a judgment or decision for which the time for the appeal thereof has expired, and no appeal thereof has been taken.

## **Section 8.8. Other Actions Stayed**

**8.8.1.** Except by acting through the Enforcement Committee, no Affected Party may take any action to enforce its rights with respect to a particular Article 8 Event of Default until the Exclusive Action Period terminates with respect to such Article 8 Event of Default.

**8.8.2.** Except by acting through the Enforcement Committee, no Affected Party may take any action during the Exclusive Action Period that purports to bind the Enforcement Officer without the prior authorization of the Enforcement Committee.

**8.8.3.** The Contract Administrator shall not take any action under **Article VI** with respect to a particular Event of Default until the Exclusive Action Period terminates with respect to such Event of Default.

## **Section 8.9. Establishment of Enforcement Committee**

**8.9.1.** Within 30 days after having knowledge of an Article 8 Event of Default whether in its capacity as Enforcement Officer or indirectly as Contract Administrator, the Enforcement Officer shall notify the parties hereto and call the initial meeting of the Enforcement Committee.

**8.9.2.** If the Enforcement Officer will be requiring indemnity or any fees and anticipated expenses to be provided in advance of taking any action, the Enforcement Officer shall indicate such requirements in its notice.

**8.9.3.** Each party hereto attending the initial meeting shall establish to the satisfaction of the Enforcement Officer that it is an Affected Party and its Article 8 pro rata interests.

## **Section 8.10. Meeting Required**

No action or direction of the Enforcement Committee is effective for any purpose of **this Article** *unless* it is duly authorized at a meeting of the Enforcement Committee.

## **Section 8.11. Notice of Meeting of Enforcement Committee**

**8.11.1.** Notice shall be given not less than ten Business Days before a meeting of the Enforcement Committee.

8.11.1(1). Notice to the Holders of the affected Outstanding Certificates (including Beneficial Owners as provided in **Section 6.10**) shall be given as provided in **Section 6.7**, and all Beneficial Owners of such Outstanding Certificates shall be bound by any action properly taken at the meeting called in such notice.

8.11.1(2). Notice to the affected Specified Hedge Counterparties shall be given to them at their respective notice addresses in this Agreement.

**8.11.2.** Notice may be waived before, at or within two Business Days after a meeting. Any Person entitled to notice of a meeting shall be conclusively presumed to have had proper notice of such meeting *if* such Person attends such meeting other than for the sole purpose of objecting to the holding of such meeting.

**8.11.3.** Any defect in the giving of notice shall not invalidate such notice or any action taken at a meeting pursuant thereto if a majority of Article 8 pro rata interests of , respectively, the affected Holders of Outstanding Certificates and the affected Specified Hedge Counterparties received or waived proper notice.

**8.11.4.** Each notice shall specify the time and location of the particular meeting and provide a summary statement of the purpose of the meeting.

8.11.4(1). Each meeting shall be held at a location determined by the Enforcement Officer in the City of Detroit, Michigan, or at such other city agreed to by the Enforcement Officer and concurrent majorities of the Article 8 pro rata interest of the Holders of affected Outstanding Certificates and of the affected Specified Hedge Counterparties.

8.11.4(2). A summary statement of the purposes of such meeting is not required to state any particulars thereof or the actions to be proposed thereat.

## **Section 8.12. Meetings of Enforcement Committee**

**8.12.1.** No meeting of the Enforcement Committee shall be effective if it is not held pursuant to notice given in accordance with **Section 8.11**.

**8.12.2.** Only Affected Parties in good standing are permitted to vote at a meeting of the Enforcement Committee.

**8.12.3.** A single Affected Party in good standing present at a meeting of the Enforcement Committee constitutes a quorum for the purposes of that meeting.

**8.12.4.** The Enforcement Officer shall adjourn any meeting of the Enforcement Committee *sine die* at which a quorum is not present; *provided* that

8.12.4(1). the Enforcement Officer, at its election, may adjourn such meeting to a day certain not more than 10 days after the date of such meeting;

8.12.4(2). an adjourned meeting may only be adjourned *sine die*; and

8.12.4(3). an adjourned meeting is subject to the notice requirements of **Section 8.11**.

**8.12.5.** All actions at an Enforcement Committee meeting shall be taken by affirmative vote of a majority of the Article 8 pro rata interests of the Affected Parties present and voting at such meeting.

**8.12.6.** Meetings of the Enforcement Committee may be conducted by telephone so long as the participants in the meeting can concurrently speak to and hear each other.

**8.12.7.** Affected Parties in good standing may participate in a meeting in person or by representative or by telephone.

## **Section 8.13. Enforcement Committee Actions Binding**

All actions properly taken by the Enforcement Committee or by the Enforcement Officer are binding on every Certificateholder and Specified Hedge Counterparty.

## **Section 8.14. Duties of Enforcement Officer**

*Subject to Section 8.18*, the Enforcement Officer only has the duty to (i) call the initial meeting of the Enforcement Committee and (ii) follow proper directions of the Enforcement Committee.

## **Section 8.15. Control by Enforcement Committee**

**8.15.1.** The Enforcement Committee shall direct the time, method and place of conducting any proceeding for any remedy available to the Enforcement Officer to exercise any power exercisable by the Enforcement Officer.

**8.15.2.** Except for calling the initial meeting of the Enforcement Committee, the Enforcement Officer shall only take such actions under **this Article** that are directed by the Enforcement Committee.

### **Section 8.16. Actions for Equal and Ratable Benefit**

All actions of the Enforcement Officer shall be taken for the equal and ratable benefit of all Affected Parties in good standing.

### **Section 8.17. Application of Money Collected**

All money collected by the Enforcement Officer shall be applied in accordance with the Service Contract Priority Sections.

### **Section 8.18. Certain Rights of the Enforcement Officer**

The Enforcement Officer shall have the rights set forth in **this Section**.

**8.18.1.** The Enforcement Officer shall not be liable with respect to any action taken or omitted to be taken by it in accordance with any proper direction of the Enforcement Committee.

**8.18.2.** No provision of this Agreement shall require the Enforcement Officer to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers.

**8.18.3.** Whether or not expressly so provided, every provision of **this Article** relating to the conduct or affecting the liability of or affording protection to the Enforcement Officer is subject to the provisions of **this Section**.

**8.18.4.** The Enforcement Officer may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, instrument, opinion, report notice, request, direction, consent, order, bond, debenture or other paper or document believed by it to be genuine or to have been signed or presented by the proper party or parties.

**8.18.5.** Any direction of the Enforcement Committee shall be evidenced by a certificate of the officer of the Enforcement Committee charged with maintaining the official records of the Enforcement Committee stating in effect that the document purporting to be such direction is in fact a true and complete copy of a direction duly given by the Enforcement Committee at a meeting at which a quorum was present and acted throughout.

**8.18.6.** The Enforcement Officer (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, rely on a certificate of a representative of an Affected Party.

**8.18.7.** The Enforcement Officer may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken or suffered or omitted by the Enforcement Officer hereunder in good faith and in reliance thereon.

**8.18.8.** The Enforcement Officer shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, instrument, opinion, report notice, request, direction, consent, order, bond, debenture or other paper or document, *but* the Enforcement Officer, in its discretion, may make such further inquiry or investigation into such facts or matters as it sees fit.

**8.18.9.** The Enforcement Officer may execute any of its powers under **this Article** or perform any duties under **this Article** either directly or through agents or attorneys, and the Enforcement Officer shall not be responsible for any negligence on the part of any such agent or attorney appointed with due care by it under **this Article**.

## **Section 8.19. Compensation and Reimbursement**

**8.19.1.** The Enforcement Officer is entitled to payment or reimbursement:

8.19.1(1). from time to time for reasonable compensation for all services rendered by it hereunder; and

8.19.1(2). except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Enforcement Officer in accordance with any provision of this Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Enforcement Officer's negligence, willful misconduct or bad faith.

**8.19.2.** The Enforcement Officer is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of this Agreement or the exercise of its powers hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

**8.19.3.** The compensation, expenses and indemnification of the Enforcement Officer hereunder shall be an Additional Service Payment under the Service Contracts.

## **Section 8.20. Corporate Enforcement Officer Required; Eligibility.**

**8.20.1.** There shall at all times be an Enforcement Officer hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**8.20.2.** The Enforcement Officer shall resign immediately in the manner and with the effect specified in **this Article** if it becomes ineligible under **this Section**.

## **Section 8.21. Replacement of Enforcement Officer.**

**8.21.1. No Vacancy.**

No resignation or removal of the Enforcement Officer and no appointment of a successor Enforcement Officer shall be effective until the successor Enforcement Officer accepts its appointment as provided in **this Section**.

**8.21.2. Resignation.**

8.21.2(1). The Enforcement Officer may resign at any time but only for a permitted reason, and such resignation shall become effective only in accordance with **Section 8.21.1**, above.

8.21.2(2). The Enforcement Officer may resign only if (i) it is no longer eligible under **Section 8.20.1** or (ii) it determines such resignation is necessary to resolve a conflict with its duties as Contract Administrator or Trustee.

**8.21.3. Removal by Affected Parties.**

8.21.3(1). The Enforcement Committee may remove the Enforcement Officer by so notifying the Enforcement Officer and the parties hereto.

8.21.3(2). If the Enforcement Officer becomes ineligible under **Section 8.20.1**, any Affected Party may petition a court of competent jurisdiction for the appointment of a successor.

**8.21.4. Appointment of Successor.**

8.21.4(1). The Enforcement Committee has the power to appoint a successor Enforcement Officer, but if the Enforcement Committee fails to act within 30 days after the retiring Enforcement Committee resigns or is removed, the retiring Enforcement Officer or an Affected Party (whoever is first to act) may appoint a successor.

8.21.4(2). If a successor Enforcement Officer does not take office within 45 days after the retiring Enforcement Officer resigns or is removed, any Controlling Affected Party may petition a court of competent jurisdiction for the appointment of a successor Enforcement Officer.

8.21.4(3). Within one year after a successor Enforcement Officer appointed other than by the Enforcement Committee pursuant to **Section 8.21.4(1)** or **Section 8.21.4(2)** takes office, the Enforcement Committee may appoint a successor Enforcement Officer to replace such successor Enforcement Officer.

**8.21.5. Acceptance of Appointment.**

8.21.5(1). A successor Enforcement Officer shall deliver written acceptance of its appointment to the retiring Enforcement Officer and to each of the other parties hereto. Thereupon the resignation or removal of the retiring Enforcement Officer shall be effective, and the successor Enforcement Officer shall have all the rights, powers and duties of the Enforcement Officer under **this Article**.

8.21.5(2). The successor Enforcement Officer shall mail a notice of its succession to all of the parties hereto.

8.21.5(3). Upon the appointment of a successor Enforcement Officer becoming effective as provided in **this Section**, the retiring Enforcement Officer shall promptly transfer all property held by it as Enforcement Officer to the successor Enforcement Officer.

**Section 8.22. Merger, Consolidation and Succession to Business.**

**8.22.1.** If the Enforcement Officer consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Enforcement Officer *if* such successor corporation is eligible under **Section 8.20.1**. The successor Enforcement Officer may adopt the authentication of Certificates authenticated by the predecessor Enforcement Officer and deliver such Cer-

tificates with the same effect as if the successor Enforcement Officer had authenticated such Certificates.

### **Section 8.23. Proof of Status**

**8.23.1.** A Person (other than a Beneficial Owner) shall prove its status as an Affected Party by submitting an affidavit to the Enforcement Officer stating that such Person is a Certificateholder or a Specified Hedge Counterparty and stating such facts, sufficient in the reasonable judgment of the Enforcement Officer, as are necessary to show that it is an affected Certificateholder or Specified Hedge Counterparty.

**8.23.2.** A Beneficial Owner shall prove its status as an Affected Party by submitting an affidavit and indemnity to the Enforcement Officer meeting the requirements of **Section 6.10** (as if such requirements were in respect of the Enforcement Officer) and by including in such affidavit a statement of facts stating such facts, sufficient in the reasonable judgment of the Enforcement Officer, as are necessary to show that it is affected by the particular Article 8 Event of Default.

**8.23.3.** The principal amount of Outstanding Certificates owned by a Beneficial Owner meeting the requirements of **Section 8.23.2** shall be deemed held by such Beneficial Owner and *not* held by Certificateholders for the purposes of **this Article**.

## **Article IX — Agreements Among the Parties.**

### **Section 9.1. Sharing Excess Payments Among the Parties**

Each party hereto agrees with each other party hereto that if any such party receives payments in excess of or out of the order or priority established in the Service Contract Priority Sections, whether voluntary or involuntary, by realization upon security, through the exercise of any right of set-off or banker's lien (whether based on common law, statute, contract or otherwise) (excluding applications of funds pursuant to non-default contract rights), by counterclaim or cross action or by the enforcement of any right hereunder or under any of the Service Contracts, that any such amount shall be returned to the Contract Administrator for proper distribution in accordance with the amount, the order and priority as set forth in the Service Contract Priority Sections other than to the extent provided in **Section 4.8.2**.

### **Section 9.2. Independent Actions by the Parties**

*Except* as otherwise provided in **Article VI** or **Article VIII**, nothing contained in this Agreement shall prohibit any Hedge Counterparty, the Funding Trust or any Certificateholders from exercising any rights, remedies or options it may have hereunder or under any Service Contract or at law or in equity, including, instituting legal action against the City, the Contract Administrator, any Corporation or any other party hereto to obtain a judgment or other legal process in respect of such Contract Payment, but any funds received from the City, the Contract Administrator, any Corporation or any other party hereto in connection with any recovery therefrom shall be subject to the terms of the Service Contract Priority Sections of the respective Service Contract; *provided* that, any action to enforce remedies with respect to Collateral may be taken only by the applicable Insurer, or if such Insurer is in default under its Credit Insurance, a party that has a Creditor Lien on such Collateral.



### **Section 9.3. Relation of Parties**

**9.3.1.** This Agreement is entered into solely for the purposes set forth herein, and, except as otherwise provided herein, no party assumes any responsibility to any other party hereto to advise such other party of information known to such other party regarding the financial condition of any other party or of any other circumstances bearing upon the risk of nonpayment of any Contract Payment.

**9.3.2.** Each party specifically acknowledges and agrees that nothing contained in this Agreement is or is intended to be for the benefit of the City and nothing contained herein shall limit or in any way modify any of the obligations of the City to the parties.

### **Section 9.4. Acknowledgment of Documents**

Each party hereto (i) expressly acknowledges the existence and validity of the Service Contracts and the Trust Agreement and that it has had an opportunity to review the Service Contracts and the Trust Agreement, (ii) agrees not to contest or challenge the validity of the Service Contracts and the Trust Agreement and (iii) agrees that the judicial or other determination of the invalidity of the Service Contracts and the Trust Agreement shall not affect the provisions of this Agreement.

### **Section 9.5. Notice of Certain Events**

**9.5.1.** The Contract Administrator agrees that, within one day after obtaining actual knowledge of the City failing to pay any amounts in respect of any Hedge Payable, it shall notify each other party hereto of such occurrence.

**9.5.2.** The Contract Administrator shall give the other parties hereto a copy of any notice or other communication given by it to or received from any other party hereto or the City with respect to any Article 8 Event of Default (even though Article 8 may not be in effect at the time) or with respect to any other occurrence that would give any party hereto the right to exercise remedies under any such documents or this Agreement.

**9.5.3.** Each party shall, within one Business Day of its taking any action described in Section 9.2, give each other party hereto notice of the taking of such action.

### **Section 9.6. Remedies Not Waived.**

No failure of a party hereto to perform any obligation or honor any agreement under this Agreement shall affect the obligations of the other parties under the Service Contracts or hereunder; *provided*, however, that the other parties hereto shall each have full right and power to enforce the obligations, covenants and agreements of each other party hereto directly against such other party by suit for specific performance or claims for damages or a combination of the foregoing. In the event of any dispute between or among any of the parties hereto arising out of this Agreement, the prevailing party or parties shall be entitled to recover from the losing party or parties, all fees, costs and expenses, including, without limitation, attorneys' fees, incurred by such prevailing party or parties in connection with such dispute.

### **Section 9.7. Possession of Collateral.**

Each party hereto agrees that, if at any time such party possesses Collateral or a Creditor Lien thereon, such party holds such Collateral or Creditor Lien for the benefit of all the parties that have a Creditor Lien on such Collateral.

## **Article X Concerning Each Insurer**

### **Section 10.1. Actions by Insurer**

An Insurer may exercise any power or right given it by this Agreement only if it is not then in default under its Credit Insurance.

### **Section 10.2. Party in Interest**

Each Insurer shall be included as a party in interest and as a party entitled to (i) notify either Corporation, the Contract Administrator or any applicable receiver of the occurrence of an Event of Default and (ii) request the Contract Administrator or receiver to intervene in judicial proceedings that affect the Certificates, the Stated Hedges or the security therefor, *subject* to the terms of this Agreement. The Contract Administrator is required to accept notice of an Event of Default from such Insurer.

### **Section 10.3. Amendments; Notice to Rating Agencies**

Any amendment or supplement to this Agreement or either Service Contract shall be subject to the prior written consent of each Insurer. Each Rating Agency shall receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. Each Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

### **Section 10.4. Reporting**

**10.4.1.** The Contract Administrator shall give each Insurer a copy of each Optional Redemption Notice it receives from a Corporation promptly upon the receipt thereof and, if known to the Contract Administrator, the CUSIP numbers of the Certificates affected thereby. The same information shall be provided to both Insurers.

**10.4.2.** The Contract Administrator shall provide each Insurer with such additional information as the Insurer may reasonably request from time to time that is known to the Contract Administrator.

### **Section 10.5. Fees and Expenses**

**10.5.1.** The Corporation shall pay or reimburse each Insurer for any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with the following:

10.5.1(1). the administration, enforcement, defense or preservation of any rights or security hereunder or under any document contemplated hereby;

10.5.1(2). the pursuit of any remedies hereunder or under any document contemplated hereby or otherwise afforded by law or equity,

10.5.1(3). any amendment, waiver or other action with respect to or related to this Agreement or any document contemplated hereby whether or not executed or completed;

10.5.1(4). the violation by either Corporation of any law, rule or regulation or any judgment, order or decree applicable to it;

10.5.1(5). any advances or payments made by an Insurer to cure defaults of the Corporation hereunder or any document contemplated hereby; or

10.5.1(6). any litigation or other dispute in connection with this Agreement, any document contemplated hereby or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of an Insurer to honor its payment obligations under its respective Credit Insurance.

**10.5.2.** Each Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Agreement or any document contemplated hereby.

**10.5.3.** The obligations of each Corporation to an Insurer shall survive discharge and termination of this Agreement or any document contemplated hereby.

**10.5.4.** Payments pursuant to this provision shall constitute an Additional Service Charge under each Service Contract payable as set forth in **Section 9.09** of each **Service Contract**.

## **Article XI Miscellaneous**

### **Section 11.1. Addresses for Notices.**

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered:

11.1.1(1). if to the City, at its address set forth in a Service Contract

11.1.1(2). if to a Corporation, at its address set forth in the respective Service Contract

11.1.1(3). if to the Contract Administrator, at  
U.S. Bank National Association  
535 Griswold, Suite 550  
Detroit, Michigan 48226  
Attention: Susan T. Payne

11.1.1(4). if to any of the following to the extent that it is a Rating Agency at the time,

Standard & Poor's Ratings Services  
55 Water Street, 38<sup>th</sup> Floor  
New York, New York 10041

Moody's Investors Service  
99 Church Street  
New York, New York 10007  
Attention: Public Finance Group

Fitch Ratings  
1 State Street Plaza  
New York, New York 10004  
Attention: Municipal Structured Finance

11.1.1(5). if to Financial Guaranty Insurance Company at  
125 Park Avenue  
New York, NY 10017  
Attention: Risk Management

11.1.1(6). if to XL Capital Assurance Inc. at  
1221 Avenue of the Americas  
New York, NY 10020  
Attention: Surveillance

11.1.1(7). if to a Specified Hedge Counterparty, at its address shown opposite its signature on a signature page hereto,

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to this Section.

#### **Section 11.2. Amendment**

This Agreement may be amended only by written instrument signed by the parties hereto.

#### **Section 11.3. No Waiver; Remedies.**

No failure on the part of the Contract Administrator to exercise, and no delay in exercising, any right hereunder shall be a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other further exercise thereof or the exercise of any other right.

#### **Section 11.4. Binding Obligation.**

This Agreement is binding upon the parties hereto and their successors and assigns.

#### **Section 11.5. Assignment.**

No assignment by any party of its interests herein shall be valid.

#### **Section 11.6. Third Party Beneficiaries**

*11.6.1.* Each of the Third Party Beneficiaries not a signatory hereto may rely on the respective representations and warranties of each Corporation as if such representations and warranties were made to it.

*11.6.2.* The covenants of each Corporation made herein are also made for the benefit of each of such Third Party Beneficiaries, each of whom may enforce the same as if it were a party hereto.

**11.6.3.** Any amendment that diminishes the rights and remedies of any such Third Party Beneficiary without the prior written consent of such Third Party Beneficiary is acknowledged to have the effect in fact of hindering, delaying and defrauding such Third Party Beneficiary.

**Section 11.7. Reliance on Representations and Warranties**

Each party to this Agreement and each Third Party Beneficiary shall be conclusively presumed to have relied upon the representations and warranties contained herein, and such reliance shall survive any investigation made by such Person.

**Section 11.8. Governing Law**

The rights and obligations of the parties hereunder shall be governed by and construed in accordance with the law of the State of Michigan exclusive of its conflicts of law rules.

**Section 11.9. Headings**

Article and Section headings in the Service Contract are included herein for convenience of reference only and do not constitute a part of the Service Contract for any other purpose.

**Section 11.10. Integration**

This Agreement is intended by the parties as the final, complete and exclusive statement of the transactions evidenced by this Agreement. All prior contemporaneous promises, agreements and understandings relating to such transaction, whether oral or written, are deemed to be superseded by this Agreement, and no party is relying on any promise, agreement or understanding not set forth or referred to in this Agreement.

**Section 11.11. Counterparts**

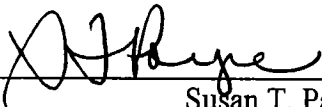
This Agreement may be executed in multiple counterparts, *but* all such counterparts taken together shall evidence by one and the same original.

**In Witness Whereof**, the parties hereto have set their respective hands on and as of the date first written above.

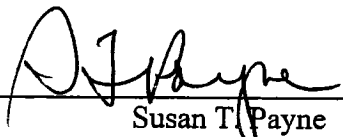
*[Signatures appear on pages S-1 et seq.]*

*[Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto]*

**Detroit Retirement Systems Funding Trust 2005  
By U.S. Bank National Association, Trustee**


By  \_\_\_\_\_  
Susan T. Payne  
Vice President

**U.S. Bank National Association,**  
separately and not as Trustee of the Detroit Retirement  
Systems Funding Trust 2005

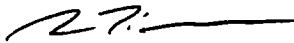
By  \_\_\_\_\_  
Susan T. Payne  
Vice President

*[Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto]*

**Detroit General Retirement System Service Corporation**

By  \_\_\_\_\_  
Sean K. Werdlow  
President


**Detroit Police and Fire Retirement System Service Corporation**

By  \_\_\_\_\_  
Sean K. Werdlow  
President

*Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto*

Contract Administration Agreement

**UBS AG**

By:   
Name: John Magovern  
Title: Director and Counsel  
Region Americas Legal  
Fixed Income Section

By: \_\_\_\_\_  
Name:  
Title:

UBS notice address is:

UBS Financial Services Inc.  
1285 Avenue of the Americas, 15th Floor  
New York, New York 10019  
Attention: Rhahime Bell  
Facsimile: (212) 713-1303

and with a copy to:

USB AG, Stamford Branch  
677 Washington Blvd.  
Stamford, CT 06912-0300  
Attention: Legal Department  
Facsimile: (203) 719-0680



*Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto*

Contract Administration Agreement

**UBS AG**

By: \_\_\_\_\_

Name:

Title:

By:  \_\_\_\_\_

Name:

Title:

**Kiyu Sakai**  
**Director and Counsel**  
**Region Americas Legal**  
**Fixed Income Section**

UBS notice address is:

UBS Financial Services Inc.  
1285 Avenue of the Americas, 15th Floor  
New York, New York 10019  
Attention: Rhahime Bell  
Facsimile: (212) 713-1303


and with a copy to:

USB AG, Stamford Branch  
677 Washington Blvd.  
Stamford, CT 06912-0300  
Attention: Legal Department  
Facsimile: (203) 719-0680

*Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto*

Contract Administration Agreement

**CITIBANK, N.A., NEW YORK**

By:   
Name: John D. Heppolette  
Title: Vice President

By \_\_\_\_\_  
Name:  
Title:


Citibank notice address is:

Citibank, N.A., New York  
390 Greenwich Street  
New York, New York 10013  
Attention: Derivatives Operations and Law  
Department  
Facsimile: (212) 615-8276

*Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto*

Contract Administration Agreement

**SBS FINANCIAL PRODUCTS COMPANY, LLC**

By:   
John Carter  
President

SBS Financial notice address is:

SBS Financial Products Company, LLC  
100 Wall Street, 22nd Floor  
New York, New York 10005  
Attention: John Carter  
Facsimile: (646) 576-9684

*Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2005, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2005, and the Other Persons Parties Hereto*

Contract Administration Agreement

**MERRILL LYNCH CAPITAL SERVICES, INC.**

By: James Nacos  
Name: James Nacos  
Title: Authorized Signatory

By: \_\_\_\_\_  
Name:  
Title:

} 2d signature  
not  
required

Merrill Lynch Capital notice address is:

Merrill Lynch Capital Services, Inc.  
Merrill Lynch World Headquarters  
4 World Financial Center, 18th Floor  
New York, New York 10080  
Attention: Swap Group  
Facsimile: (646) 805-0218

with a copy to:

GMI Counsel  
Merrill Lynch World Headquarters  
4 World Financial Center, 12th Floor  
New York, New York 10080  
Attention: Swaps Legal  
Facsimile: (212) 449-6993

**Funds and Accounts**

<u>Funds and Accounts</u>	<u>Component to be Credited<sup>1</sup></u>	<u>Property Owners</u>	<u>Entitled Person(s)</u>
<i>Interest Related Payments Fund</i>			
Deficit Service Charges Account.....	Clause Second, ..... Deficit Service Charges	Funding Trust.....	Distributed to Trustee as Deficit Interest Related Payments on the Applicable Distribution Date
Deficit Hedge Periodic Payables Account	Clause Second, ..... Deficit Hedge Periodic Payables	the Corporations pro-rata as their interests may appear	Paid to the Specified Hedge Counterparties when due as Deficit Hedge Periodic Payables
Current Service Charges Account	Clause Third, ..... Current Service Charges	Funding Trust.....	Distributed to Trustee as Interest Related Payments on the Applicable Distribution Date
Current Hedge Periodic Payables Account	Clause Third, ..... Current Hedge Periodic Payables	the Corporations pro-rata as their interests may appear	Paid to the Specified Hedge Counterparties when due as Hedge Periodic Payables
<i>Principal Related Payments Fund</i>			
Deficit Principal Related Account.....	Clause Fourth.....	Funding Trust.....	Distributed to Trustee as Deficit Principal Related Payments on the Applicable Distribution Date
Current Principal Related Account.....	Clause Fifth.....	Funding Trust.....	Distributed to Trustee as Principal Related Payments and Sinking Fund Related Payments on the Applicable Distribution Date

<sup>1</sup> References to "Clauses" are to the Clauses set forth in Section 8.03 of the Service Contracts.

<u>Funds and Accounts</u>	<u>Component to be Credited</u>	<u>Property Owner(s)</u>	<u>Entitled Person(s)</u>
<b><i>Hedge Termination Payables Fund</i></b>			
Deficit Hedge Termination Payables Account	..... Clause Sixth	.....the Corporations pro-rata as their interests may appear	.....Paid to such Specified Hedge Counterparties when due as Deficit Hedge Termination Payables
Current Hedge Termination Payables Account	..... Clause Seventh	.....the Corporations pro-rata as their interests may appear	.....Paid to Hedge Counterparties when due as Hedge Termination Payables
<b><i>Optional Prepayment Fund</i></b>			
Current Optional Prepayments Account	..... Clause Eighth	..... Funding Trust	..... Distributed to Trustee as Redemption Related Payments on the Applicable Distribution Date

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# **Contract Administration Agreement 2006**

**among**

**Detroit Retirement Systems Funding Trust 2006,**

**Detroit General Retirement System Service Corporation**

**and**

**Detroit Police and Fire Retirement System Service Corporation,  
severally and not jointly,**

**U.S. Bank National Association,**

**separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2006**

**and the**

**Other Persons Party Hereto**

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**Dated June 12, 2006**

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**Contract Administration Agreement 2006**, dated June 12, 2006 (the *Agreement*), among the **Detroit Retirement Systems Funding Trust 2006** (the *Funding Trust*), the **Detroit General Retirement System Service Corporation** (the *GRS Corporation*) and the **Detroit Police and Fire Retirement System Service Corporation** (the *PFRS Corporation*), each a Michigan nonprofit corporation acting severally and not jointly, **U.S. Bank National Association**, separately and not as trustee of the Funding Trust (the *Contract Administrator*), and the **Persons** whose signatures appear on the signature pages hereto;

In consideration of the mutual promises contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

## **Article I -- Definitions and Related Matters**

### **Section 1.1. Certain Definitions**

The following terms have the following respective meanings unless the context otherwise clearly requires:

**Collateral** means the Funding Trust Receivable Collateral, the Hedge Payables Collateral and the Hedge Receivables Collateral.

**Contract Administrator** means the bank identified in the first paragraph of this Agreement as the "Contract Administrator" *unless and until* a successor is appointed successor Contract Administrator pursuant to applicable provisions of this Agreement; *thereafter*, **Contract Administrator** means such successor.

**Contract Agreement Deficiency** means as of any date, an amount referred to in **clause Second, Fourth or Sixth of Section 8.03** of either **Service Contract**.

**Corporation** means, as the context may require, the GRS Corporation or the PFRS Corporation.

**Creditor Liens** means any and all liens and security interests granted by this Agreement in the Hedge Payables Collateral and by the Trust Agreement in the Funding Trust Receivables.

**Default** means any Event of Default or event that with the passage of time or the giving of notice, or both, would constitute an Event of Default.

**Entitled Person or Person Entitled** means the Person entitled to receive the proceeds of a specific Component.

**Funding Rate** means the rate at which Service Charges are determined for each Service Charge Class according to the applicable Funding Rate Methodology.

**Funding Trust Receivable Collateral** means the Funding Trust Receivables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

**GRS Corporation** means the Person so defined in the first paragraph of this Agreement and the successors of such Person.

**Hedge Payables Collateral** means the amounts payable by the City under the Service Contracts in respect of Hedge Payables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

**Hedge Receivables Collateral** means the amounts payable by any Specified Hedge Counterparty as Hedge Receivables and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement.

**PFRS Corporation** means the Person so defined in the first paragraph of this Agreement and the successors of such Person.

**Receipt Day** means a day on which the Contract Administrator receives an amount of money at or before the Payment Time *or if* the Contract Administrator receives an amount of money after the Payment Time on a day *then* the following day.

**Service Contract** means the GRS Service Contract or the PFRS Service Contract as the context may require.

**Service Contract Priority Sections** means Sections 8.02 and 8.03 of the each Service Contract.

**Specified Hedge Counterparties** means the Persons named in **Schedule 5** to the **Specific Terms** *subject to Section 8* of the **Specific Terms**.

**UCC** means the Uniform Commercial Code as in effect in the State of Michigan.

**Section 1.2. Other Definitions — This Agreement**

Terms defined elsewhere in this Agreement include the following:

<i>Term</i>	<i>Defined In</i>
Affected Certificate .....	Section 6.3
Deficit Interest Related Payments .....	Section 4.7
Deficit Principal Related Payments .....	Section 4.7
Distribution Date .....	Section 4.6
Interest Related Payments.....	Section 4.7
Principal Related Payments .....	Section 4.7
Redemption Related Payments .....	Section 4.7
Sinking Fund Related Payments .....	Section 4.7
Transfer Party Accession Event.....	Section 2.4

**Section 1.3. Other Definitions — Service Contracts**

Capitalized terms not defined herein and defined in either Service Contract are used herein as therein defined unless the context clearly otherwise requires. Such terms include:

<i>Term</i>	<i>Defined In</i>
Accrued Service Charges.....	Section 5.03
Closing Date .....	Section 3
Component.....	Section 1.03
Credit Insurance.....	Schedule of Credit Insurance to Specific Terms
Funding Rate Portion.....	Section 1.01
Funding Trust.....	Section 4
Hedge Counterparty.....	Section 1.01
Hedge Periodic Payable.....	Section 1.01

<i><b>Term</b></i>	<i><b>Defined In</b></i>
Hedge Payable .....	Section 1.01
Hedge Periodic Receivable.....	Section 1.01
Hedge Receivable .....	Section 1.01
Hedge Termination Payable .....	Section 1.01
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Stated Hedge.....	Section 1.01
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Transfer Party .....	Section 8
Trust Agreement.....	Section 1
Trustee .....	Section 1

Section numbers with a leading zero (e.g., 1.01) refer to sections in a Service Contract General Terms. Section numbers without a leading zero (e.g., 1) refer to sections in a Service Contract Specific Terms.

**Section 1.4. Other Definitions — Trust Agreement**

Capitalized terms not defined herein and defined in the Trust Agreement are used herein as therein defined unless the context clearly otherwise requires. Such terms include:

<i><b>Term</b></i>	<i><b>Defined In</b></i>
Principal Amount.....	Section 101
Funding Trust Receivable.....	Section 101
Corporation Request, Corporation Order or Corporation Consent.....	Section 101

**Section 1.5. Business Days**

If this Agreement requires an act to be performed on a day that is not a Business Day then such act shall be performed on the first day thereafter that is a Business Day with the same effect as if such act were performed on the day that such act was otherwise required to be performed.

**Section 1.6. Interpretation**

**1.6.1.** Words of the masculine gender include correlative words of the feminine and neuter genders.

**1.6.2.** Unless the context otherwise indicates, words importing the singular include the plural and vice versa.

**1.6.3.** Articles and Sections referred to by number or name refer to the corresponding Articles and Sections of this Agreement *unless* otherwise provided.

1.6.4. The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in this Agreement refer to this Agreement as a whole and not to any particular portion thereof.

1.6.5. The word *or* is not exclusive.

1.6.6. The enumeration of things after the word *including* is to be interpreted as illustrative and not as restrictive.

1.6.7. References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections of Public Acts enacted as substitutes therefor.

## **Article II — Appointment; Grant of Security Interest**

### **Section 2.1. Collection of Receivables**

Each of the Corporations, the Specified Hedge Counterparties and the Funding Trust hereby appoint the Contract Administrator as its respective agent and attorney-in-fact to receive Service Payments.

### **Section 2.2. Appointment by Funding Trust**

2.2.1. The Funding Trust hereby also appoints the Contract Administrator as its agent and attorney-in-fact to take such actions and exercise such rights and remedies as to Funding Trust Receivables as the Funding Trust is or may become entitled to exercise under law and in equity to enforce the payment thereof and otherwise realize Funding Trust Receivables. For the avoidance of doubt, all parties to this Agreement shall be entitled to enforce their respective rights.

### **Section 2.3. Appointment by Each Corporation**

2.3.1. Each Corporation hereby also appoints the Contract Administrator as its agent and attorney-in-fact to enforce such Corporation's rights and remedies under the Stated Hedges, including the collection of Hedge Receivables from the Specified Hedge Counterparties under the respective Stated Hedges, and to take all such actions and exercise such rights and remedies as the respective Corporation is or may become entitled to exercise under the particular Stated Hedge and otherwise at law or in equity.

2.3.2. Each Corporation also appoints the Contract Administrator as its agent and attorney to take to perform all ministerial acts in the name and stead of such Corporation that are called for to be performed by such Corporation under the Service Contract subject to the specific limitations contained in **Article VII**.

2.3.3. Each Corporation further appoints the Contract Administrator to invest amounts received by the Contract Administrator as Costs of Issuance and Prepaid Service Charges in Authorized Investments in accordance with the Service Contract.

### **Section 2.4. Grant of Security Interests**

#### **2.4.1. Hedge Periodic Payables**

2.4.1(1). Effective as of the Closing Date, to secure its payment obligations under its Stated Hedges, each Corporation hereby grants to each Specified Hedge Counterparty and the Transfer Party a security interest in and lien upon all of its right, title and interest

in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables, any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the **Hedge Periodic Payables Security Interest**).

2.4.1(2). All of the parties hereto acknowledge that the Hedge Periodic Payables Security Interest granted by each Corporation shall be deemed to give to each Specified Hedge Counterparty and the Transfer Party a first priority security interest in and an equal and parity first lien upon, all of the Corporations' right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables. Each Specified Hedge Counterparty agrees and acknowledges the parity first priority security interest and parity first lien upon such amounts granted to it, the other Specified Hedge Counterparties and the Transfer Party by each Corporation.

2.4.1(3). The Transfer Party acknowledges and agrees that the Hedge Periodic Payables Security Interest granted it is enforceable against the Hedge Periodic Payables Collateral *if but only if* it accedes to the status of Stated Hedge Counterparty under the Service Contract (the **Transfer Party Accession Event**).

2.4.1(4). Each Specified Hedge Counterparty agrees that the Transfer Party shall accede to all of the rights and remedies and be bound by all of the obligations of Siebert as a Specified Hedge Counterparty hereunder upon the occurrence of the Transfer Party Accession Event and that thereupon Siebert shall have no further rights, obligations or remedies hereunder as a Specified Hedge Counterparty.

#### **2.4.2. Hedge Termination Payables**

2.4.2(1). Effective as of the Closing Date, to secure its payment obligations under its Stated Hedge, each Corporation hereby grants to each Specified Hedge Counterparty and the Transfer Party a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables, any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the **Hedge Termination Payables Security Interest**).

2.4.2(2). All of the parties hereto acknowledge that the Hedge Termination Payables Security Interest granted by each Corporation shall be deemed to give each Specified Hedge Counterparty and the Transfer Party a first priority security interest in and an equal and parity first lien upon all of the Corporations' right, title and interest in, to and under the amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables, and each Specified Hedge Counterparty agrees and acknowledges the parity first priority security interest and parity first lien upon such amounts granted to it, the other Specified Hedge Counterparties and the Transfer Party by each Corporation.

2.4.2(3). The Transfer Party acknowledges and agrees that the Hedge Termination Payables Security Interest granted it is enforceable against the Hedge Termination Payables Collateral *only* on and after the occurrence of the Transfer Party Accession Event.

2.4.2(4). Each Specified Hedge Counterparty agrees that the Transfer Party shall accede to all of the rights and remedies and be bound by all of the obligations of Seibert as a Specified Hedge Counterparty hereunder with respect to the Hedge Termination Payables Collateral upon the occurrence of the Transfer Party Accession Event and that thereupon Seibert shall have no further rights, obligations or remedies hereunder as a Specified Hedge Counterparty.

#### 2.4.3. Hedge Periodic Receivables

2.4.3(1). Effective as of the Closing Date, to secure the City's obligations to the Funding Trust in respect of Service Charges, each Corporation hereby grants to the Funding Trust a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by any Specified Hedge Counterparty as a Hedge Periodic Receivable (a *Hedge Periodic Receivable Amount*), any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the *Hedge Periodic Receivables Security Interest*).

2.4.3(2). All of the parties hereto acknowledge that the Hedge Periodic Receivables Security Interest granted by each Corporation shall be deemed to give Funding Trust a first priority security interest in and an equal lien upon, all of the Corporations' right, title and interest in, to and under Hedge Periodic Receivable Amounts.

#### 2.4.4. Hedge Termination Receivables

2.4.4(1). Effective as of the Closing Date, to secure the City's obligations to the Funding Trust in respect of Service Charges, each Corporation hereby grants to the Funding Trust a security interest in and lien upon all of its right, title and interest in, to and under the amounts payable by any Specified Hedge Counterparty as a Hedge Termination Receivable (a *Hedge Termination Receivable Amount*), any interest earned thereon and all rights and interests with respect thereto granted by Article 9 of the UCC, including rights to proceeds and rights of enforcement (collectively, the *Hedge Termination Receivables Security Interest*).

2.4.4(2). All of the parties hereto acknowledge that the Hedge Termination Receivables Security Interest granted by each Corporation shall be deemed to give the Funding Trust a first priority security interest an equal lien upon, all of the Corporations' right, title and interest in, to and under Hedge Termination Receivable Amounts.

### Article III — Representations and Warranties

Each Corporation makes the representations and warranties contained in **this Article** for only itself and not for the other Corporation.

#### Section 3.1. Incorporation by Reference

3.1.1. Each of the Corporations makes the representations and warranties made by it in its Service Contract, on and as of the dates therein made, for the benefit of the Contract Adminis-

trator as if any reference therein to the "Service Contract" also included a reference to this Agreement for the mutual benefit of each other and for the benefit of the Underwriters, the Specified Hedge Counterparties, the Funding Trust and the holders from time to time of the Certificates.

3.1.2. Such representations and warranties, together with related definitions and ancillary provisions, are hereby incorporated herein, *mutatis mutandis*, with the same force and effect as if set forth in full herein.

### **Section 3.2. Corporation Property**

Each Corporation represents and warrants for the benefit of the Contract Administrator, the Underwriters, the Funding Trust, the Specified Hedge Counterparties, the holders from time to time of the Certificates and the other Corporation that on the date hereof and on and as of the Closing Date its respective Service Contract and Stated Hedges are its property subject to no lien, charge, encumbrance or other interest *except* the rights of Third Party Beneficiaries as set forth in the Service Contracts and (i) the rights of the Funding Trust on and after the Closing Date to Funding Trust Receivables and Hedge Receivables, and ancillary rights, (ii) the rights of the Specified Hedge Counterparties on and after the Closing Date to Hedge Payables and ancillary rights and (iii) the security interest granted on and after the Closing Date to the Transfer Party in Hedge Payables.

### **Section 3.3. General Representations and Warranties**

Each Corporation represents and warrants as follows for the benefit of the Contract Administrator, the Underwriters, the Funding Trust, the Specified Hedge Counterparties, the holders from time to time of the Certificates and the other Corporation.

3.3.1. The Corporation's name as indicated on the signature page of this Agreement is such Corporation's name as indicated on the public record of the Corporation's jurisdiction of organization which shows the Corporation to have been organized.

3.3.2. The Corporation is a "registered organization," within the meaning of Article 9 of the UCC, of the type and organized under the laws of the State of Michigan.

3.3.3. **Section 9.04** of the respective **Service Contract** accurately sets forth the Corporation's place of business or, if more than one place of business, its chief executive office as well as such Corporation's mailing address if different and such Corporation has not had any other place of business or, if more than one place of business, any other chief executive office since its formation.

### **Section 3.4. Conveyance and Security Interests to the Funding Trust**

3.4.1. Each Corporation represents and warrants as follows for the benefit of the Contract Administrator, the Funding Trust and the other Corporation on and as of the Closing Date.

3.4.1(1). The transfer and assignment of the Funding Trust Receivables that the Trust Agreement purports to transfer, assign and otherwise convey to the Funding Trust is a valid and binding absolute transfer of the Funding Trust Receivables *provided* that such Corporation shall not be in breach of this representation and warranty if, contrary to



the intent of such Corporation, such transfer is hereafter determined to be a pledge of such property to the Funding Trust.

3.4.1(2). The security interest granted to the Funding Trust in the Funding Trust Receivables is a valid security interest to the extent of the rights of such Corporation's interests therein, and such security interest is a perfected, first priority security interest.

3.4.1(3). The security interest granted to the Funding Trust in the Hedge Receivables is a valid security interest therein, and such security interest is a perfected, first priority security interest.

3.4.2. (i) Each Corporation has not granted control (for purposes of Articles 8 and 9 of the UCC) over the Funding Trust Receivables and the Hedge Receivables, or any bank account or securities account in which they are held, to any Person other than the Funding Trust and (ii) each Corporation has not entered into any agreement granting control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Receivables other than this Agreement or over the Funding Trust Receivables other than the Trust Agreement.

3.4.3. Each Corporation has never granted or permitted to exist, any lien, mortgage, pledge, charge, claim, encumbrance, easement, lease or security interest on the Hedge Receivables and Funding Trust Receivables, or any bank account or securities account in which they are held, in favor of any Person other than the Funding Trust.

### **Section 3.5. Security Interests Granted the Specified Hedge Counterparties**

3.5.1. Each Corporation represents and warrants for the benefit of the Specified Hedge Counterparties and the other Corporation on and as of the Closing Date that the security interest granted to the Specified Hedge Counterparties in the Hedge Payables Collateral is a valid security interest therein, and such security interest is a perfected, first priority security interest.

3.5.2. (i) Each Corporation has not granted control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Payables Collateral, or any bank account or securities account in which they are held, to any Person other than the Hedge Counterparties and (ii) each Corporation has not entered into any agreement granting control (for purposes of Articles 8 and 9 of the UCC) over the Hedge Payables Collateral other than this Agreement.

3.5.3. Each Corporation has never granted or permitted to exist, any lien, mortgage, pledge, charge, claim, encumbrance, easement, lease or security interest on the Hedge Payables Collateral, or any bank account or securities account in which they are held, in favor of any Person other than the Specified Hedge Counterparties.

### **Section 3.6. Corporate Identification**

Each Corporation represents only as to its own organizational identification number as follows:

3.6.1. The organizational identification number of GRS Corporation is 793781.

3.6.2. The organizational identification number of PFRS Corporation is 793782.

## Article IV — Receipt and Disposition of Receivables

### Section 4.1. Property Acknowledgments; Payment Entitlements

For the avoidance of doubt, the following are statements of the property interests of the parties hereto in the Components of Service Payments.

4.1.1(1). Contract Administrator Payments are property of the Contract Administrator, and the Contract Administrator is the Person Entitled thereto.

4.1.1(2). Funding Trust Receivables are property of the Funding Trust, and the Funding Trust is the Person Entitled thereto.

4.1.1(3). Amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables are property of the Corporations, and pursuant to **Section 4.3.2** the Specified Hedge Counterparties are the Persons Entitled thereto.

4.1.1(4). Amounts payable by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables are property of the Corporations, and pursuant to **Section 4.3.3** the Specified Hedge Counterparties are the Persons Entitled thereto.

4.1.1(5). Hedge Periodic Receivables are the property of the Corporations, and pursuant to **Section 4.4.1**, the Funding Trust is the Person Entitled thereto, to the extent provided in such Section, and thereafter, pursuant to **Section 4.4.2**, each Corporation is the Person Entitled to any remaining portion of its respective Hedge Periodic Receivables.

4.1.1(6). Hedge Termination Receivables are the property of the Corporations, and pursuant to **Section 4.4.1**, the Funding Trust is the Person Entitled thereto, to the extent provided in such Section, and, thereafter, each Corporation is the Person Entitled to any remaining portion of its respective Hedge Termination Receivables.

### Section 4.2. Receipt of Service Payments; Determination of Property Interests

4.2.1. Service Payments (including Prepaid Service Charges) shall be applied in accordance with the priorities set forth in the Service Contract Priority Sections.

4.2.2. On each Receipt Day that the Contract Administrator receives a Service Payment, the Contract Administrator shall properly determine the Components and pro-rata application thereof satisfied under the Service Contract Priority Sections by such Service Payment, and the Persons Entitled thereto, in accordance with the Service Contract and shall distribute such payments in accordance with **Section 4.7**.

4.2.3. At least one day prior to each Distribution Date for any Service Charges or Scheduled Payments, the Contract Administrator shall determine whether the amount available under this Agreement for such payment is sufficient to make the distribution as if no Contract Agreement Deficiency existed. If the Contract Administrator determines that the amount available under this Agreement for such payment is insufficient to make such distribution on such Distribution Date, the Contract Administrator shall deliver a notice (a **Shortfall Notice**) to each Insurer and the Trustee that states the amount of the shortfall and the respective amounts thereof attributable to Service Charges and Scheduled Payments.

4.2.4. At least one day prior to each Distribution Date for a Hedge Periodic Payable, the Contract Administrator shall determine whether the amount available under this Agreement for such payment is sufficient to pay such Hedge Periodic Payable. If the Contract Administrator determines that the amount available under this Agreement for such payment is insufficient to make such payment on such Distribution Date, the Contract Administrator shall deliver a notice to the Insurer and the applicable Specified Hedge Counterparty or Counterparties that states the amount of the shortfall.

### **Section 4.3. Prepaid Service Charges; Hedge Payables**

4.3.1. Prepaid Service Charges received by the Contract Administrator shall be used to pay the first occurring Service Charges and Hedge Periodic Payables of each Corporation.

4.3.2. Receipts by the Contract Administrator of amounts paid by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Periodic Payables shall be used to pay current and past due Hedge Periodic Payables, and once credited to the account referred to in **Section 4.5.1** shall not be subject to direction to any other use by the Corporation.

4.3.3. Receipts by the Contract Administrator of amounts paid by the City under **Section 7.02** of either **Service Contract** in respect of Hedge Termination Payables shall be used to pay current and past due Hedge Termination Payables and once credited to the account referred to in **Section 4.5.1** shall not be subject to direction to any other use by the Corporation.

### **Section 4.4. Receipt and Disposition of Hedge Receivables and Investment Gain**

4.4.1. Hedge Receivables received by the Contract Administrator shall be used to satisfy the City's obligations in respect of then current or past due Service Charges not otherwise paid.

4.4.2. To the extent that a balance of a paid Hedge Receivable remains after application in accordance with **Section 4.4.1**, such balance shall be the property of the respective Corporation.

4.4.3. Gain from Authorized Investments received by the Contract Administrator from the investment of Costs of Issuance and Prepaid Service Charges shall be paid to the City.

### **Section 4.5. Books and Records; Funds and Accounts; Trust Funds and Accounts**

4.5.1. The Contract Administrator shall maintain books and records properly showing satisfied Components. To facilitate maintaining proper records of ownership, the Contract Administrator shall establish the funds and accounts named in **Exhibit 4.5** and shall credit the respective Components pending distribution and shall distribute the amounts credited thereto on the respective Distribution Dates to the respective Entitled Persons.

4.5.2. In addition to bearing the name of the particular fund or account, each fund or account shall be captioned *Detroit Retirement Systems Funding Trust 2005* and shall identify the property owner(s) as set forth in **Exhibit 4.5**.

4.5.3. In addition to the funds and accounts required by **Exhibit 4.5**, the Contract Administrator may establish such other funds and accounts as it determines necessary or appropriate.

4.5.4. The funds and accounts required by **Exhibit 4.5**, and such other funds and accounts that the Contract Administrator establishes hereunder shall be held and administered as trust funds and accounts.

**Section 4.6. Distribution Dates**

Each of the following dates is a *Distribution Date*.

<u>Date</u>	<u>Component</u>
As and When Due .....	Contract Administrator Payments Amounts in respect of Hedge Periodic Payables Amounts in respect of Hedge Termination Payables
First day of a calendar month.....	Any Contract Agreement Deficiency
Service Charge Payment Dates .....	Service Charges
Scheduled Payments Dates .....	Regular Scheduled Payments
Sinking Fund Installment Dates.....	Sinking Fund Installments
Optional Prepayment Dates .....	Optional Prepayment Amounts Accrued Service Charges

**Section 4.7. Distributions of Service Payments**

On each Distribution Date, the Contract Administrator shall distribute the amount of the Components satisfied since the last such Distribution Date to the respective Entitled Persons.

4.7.1(1). If the Entitled Person is the Contract Administrator, the amounts of satisfied Components shall be paid to the Contract Administrator.

4.7.1(2). If the Entitled Person is the Funding Trust, the amounts of satisfied Components shall be distributed to the Funding Trust to be applied in accordance with the Trust Agreement.

(i) Amounts distributed to the Trustee representing satisfied Components constituting Service Charges and Accrued Service Charges described in **clause Second** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as *Deficit Interest Related Payments*;

(ii) Amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments described in **clause Fourth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as *Deficit Principal Related Payments*;

(iii) Amounts distributed to the Trustee representing satisfied Components constituting Sinking Fund Installments described in **clause Fourth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as *Deficit Principal Related Payments*;

(iv) Amounts distributed to the Trustee representing satisfied Components constituting Service Charges described in **clause Third** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as *Interest Related Payments*;

(v) Amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments and Sinking Fund Installments described in **clause Fifth** of **Section 8.03** of each **Service Contract** shall constitute and be identified to the Trustee as, respectively, *Principal Related Payments* and *Sinking Fund Related Payments*; and

(vi) Amounts distributed to the Trustee representing satisfied Components constituting Optional Prepayment Amounts and Accrued Service Charges described in **clause Eighth** of **Section 8.03** of each **Service Contract** shall be identified to the Trustee as *Redemption Related Payments*.

4.7.1(3). If the Entitled Persons are the Specified Hedge Counterparties, the amounts of satisfied Components constituting amounts in respect of Hedge Payables shall be paid to the Specified Hedge Counterparties to whom such amounts are owing in proportion to the amounts owed to each under the respective Stated Hedges.

4.7.1(4). If distributions are to be made on the same Distribution Date for two or more different priorities of Components pursuant to the Service Contract Priority Sections, no distribution shall be made in respect of a lower priority to the extent that each of the higher priorities is not satisfied in full.

#### **Section 4.8. Satisfaction and Priority of Payments**

**4.8.1.** Each party acknowledges that the Service Contract Priority Sections establish the order and priority of the payment of Components and the Persons Entitled to Components are entitled to receive those Components in the order and priority set forth in the Service Contract Priority Sections. Each party acknowledges it is undertaking and entering into the transaction which is the subject of this Agreement based on the understanding, and with the intent and effect of the Service Contract Priority Sections. Each party hereto agrees to be bound by the order and priority of the payments of Components set forth in Service Contract Priority Sections and the terms and provisions of the Service Contract Priority Sections are hereby incorporated into this Agreement by this reference as if the same were recited in its entirety.

**4.8.2.** Notwithstanding any other provision hereof, upon the occurrence of a payment default under the Service Contracts or this Agreement, to the extent that a party enforces its rights with respect to Collateral on which it has a Creditor Lien, such Collateral or the proceeds thereof may only be applied to satisfy payments of Components due and owing to the parties that have a Creditor Lien that secures payments of such Components.

#### **Article V — Corporation Covenants**

Each Corporation covenants with the Contract Administrator, the Funding Trust, the Specified Hedge Counterparties and with the other Corporation as provided in this Article.

#### **Section 5.1. Concerning the Security Interests**

**5.1.1.** The Corporation will not change its name, its place of business or, if more than one place of business, its chief executive office, or its mailing address or organizational identification number, if it has one, without providing prior written notice to the parties hereto at least ten Business Days prior to the effective date of any such change.

5.1.2. The Corporation will not, except as expressly permitted by this Agreement, change its type of organization, its jurisdiction of organization, its legal structure or its "location" as determined in Article 9 of the UCC, without the prior written consent of each of the other parties hereto (other than a Corporation).

#### **Section 5.2. No Conveyance or Assignment**

5.2.1. The Corporation shall not convey, transfer or assign Funding Trust Receivables under its Service Contract or any interest therein to any Person *other than* the Funding Trust as provided in the Trust Agreement.

5.2.2. The Corporation shall not convey, transfer or assign Hedge Payables under its Service Contract or any interest therein to any Person *other than* the Specified Hedge Counterparties as provided herein.

5.2.3. The Corporation shall not convey, transfer or assign any Stated Hedge or any interest therein to any Person *other than* as provided in the Service Contract.

#### **Section 5.3. Negative Pledge**

5.3.1. The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the amounts payable by the City under **Section 7.02** of its **Service Contract** in respect of Hedge Periodic Payables, any "securities account" and/or any "deposit account" (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

5.3.2. The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the amounts payable by the City under **Section 7.02** of its **Service Contract** in respect of the Hedge Termination Payables, any "securities account" and/or any "deposit account" (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

5.3.3. The Corporation hereby covenants never to grant, or permit to exist, any other pledge of, security interest in or lien upon the Funding Trust Receivables, any "securities account" and/or any "deposit account" (as such terms are defined in Sections 8-501(1) and 9-102(cc) of the UCC).

#### **Section 5.4. Defense of Interests; Further Assurance**

The Corporation agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and will take all actions or cause all such actions to be taken as may be required by law or as shall reasonably be requested by any Hedge Counterparty or the Trustee for respectively, the attachment, perfection and/or continuance of any security interests granted by this Agreement or the Trust Agreement for the preservation and protection of all rights of, respectively, the Specified Hedge Counterparties under this Agreement or the Funding Trust under the Trust Agreement.

## Article VI — Events of Default; Remedies

### Section 6.1. Right of Enforcement

For the avoidance of doubt, all parties to this Agreement shall be entitled to enforce their respective rights except as otherwise provided in **Section 6.9** and **Article VIII**.

### Section 6.2. Events of Default

Each of the following constitutes an “Event of Default”:

6.2.1(1). the City fails to pay any Funding Trust Receivables as and when the same shall become due under either Service Contract; or

6.2.1(2). an event occurs described in clause (i), (ii) or (iii) of Section 9.01 of either Service Contract (each, a *Service Contract Acceleration Clause*).

### Section 6.3. Remedies

Upon the occurrence of an Event of Default and during the continuance thereof, the Contract Administrator may and shall, at the request of Certificateholders representing either:

(i) at least 25 percent in principal amount of Outstanding Certificates, the payments on which have not been made as a result of such Event of Default (*Affected Certificates*), or

(ii) at least 50 percent in principal amount of all Outstanding Certificates,

enforce the Service Contract under which the Event of Default occurred by such remedies as are available to the Contract Administrator.

### Section 6.4. Contract Administrator May File Proofs of Claim

6.4.1. If an event occurs described in any Service Contract Acceleration Clause and a judicial proceeding is commenced in connection therewith, the Contract Administrator is entitled and empowered, by intervention in such proceeding:

6.4.1(1). to file and prove a claim for the whole amount of the Funding Trust Receivables then due and payable and to file such papers and documents as may be necessary or desirable in order to have the claims of the Contract Administrator (including any claim for reasonable compensation, expenses, disbursements and advances of the Contract Administrator, its agents or counsel) and of the Certificateholders allowed in such judicial proceeding; and

6.4.1(2). to collect and receive any amounts payable or deliverable on any such claims and to distribute the same;

and any trustee (or similar official) in any such judicial proceeding is hereby authorized by the Funding Trust to make such payments to the Contract Administrator, and in the event the Contract Administrator shall consent to making of such payments directly to the Trustee, to pay to the Contract Administrator any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Contract Administrator, its agents or counsel.

6.4.2. Nothing herein contained shall authorize the Contract Administrator to authorize or consent to or accept or adopt on behalf of any Certificateholder any plan of adjustment or

composition affecting the Certificateholders or the rights of any Holder, or to authorize the Contract Administrator to vote in respect of the claim of any Certificateholder in any such proceeding.

**Section 6.5. Application of Money Collected.**

Any money collected or received by the Contract Administrator pursuant to this Article shall be applied in the order of the Service Contract Priority Sections *except* as otherwise provided in **Section 4.8.2.**

**Section 6.6. No Duty of Inquiry**

**6.6.1.** The Contract Administrator is under no duty to inquire into the performance by the City of its obligations under the Service Contracts; however, *if* the Contract Administrator receives notice (a **Default Notice**) from Holders of either

(i) at least 25 percent in principal amount of the Outstanding Affected Certificates or

(ii) at least 50 percent in principal amount of all Outstanding Certificates

specifying the failure of the City to pay Funding Trust Receivables *then* the Contract Administrator shall give notice of such failure to the City and demand that such failure be remedied.

**6.6.2.** Upon receipt of any Default Notice, the Contract Administrator shall give notice to all Certificateholders and the Specified Hedge Counterparties that did not join in such Default Notice.

**Section 6.7. Notice of Defaults.**

**6.7.1.** Promptly upon obtaining actual knowledge of the occurrence of any Event of Default, the Contract Administrator shall give written notice of such Event of Default by mail to all Certificateholders, Specified Hedge Counterparties and Rating Agencies *unless* such Event of Default has been cured or waived.

**6.7.2.** Any Insurer who is not then in default under its Credit Insurance shall be entitled to receive all notices in respect of Certificates insured by it, and no notices under **Section 6.7.1** shall be sent to the Holders of such Certificates.

**Section 6.8. Limitation on Suits by Certificateholders.**

No Certificateholder shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Service Contract *unless*

6.8.1(1). such Holder has previously given written notice to the Contract Administrator of an Event of Default that is then continuing;

6.8.1(2). the Holders of either

(i) at least 25 percent in principal amount of the Outstanding Affected Certificates or

(ii) at least 50 percent in principal amount of all Outstanding Certificates

have made written request to the Contract Administrator to institute proceedings in respect of such Event of Default in its own name as Contract Administrator;



6.8.1(3). such Holder or Holders have offered to the Contract Administrator satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

6.8.1(4). the Contract Administrator for 30 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

6.8.1(5). in the case of a written request made pursuant to **Section 6.8.1(2)** from the Holders of at least 25 percent in principal amount of the Outstanding Affected Certificates, no direction inconsistent with such written request has been given to the Contract Administrator during such 30-day period by the Holders of a greater percentage of the Holders of Outstanding Affected Certificates (for the avoidance of doubt, this paragraph does not apply when a written request has been made pursuant to **Section 6.8.1(2)** from Holders of at least 50 percent in principal amount of all Outstanding Certificates);

it being understood and intended that no one or more Holders of Certificates shall have any right in any manner to affect, disturb or prejudice the interest of the parties hereto or the rights of any other Holders of Certificates, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under any Service Contract, *except* in the manner herein provided and for the equal and ratable benefit of all Entitled Persons.

#### **Section 6.9. Control by Majority**

6.9.1. The Holders of a majority in principal amount of all Outstanding Certificates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator to exercise any power exercisable by the Contract Administrator (including any proceeding instituted following the delivery of notice pursuant to **Section 6.8.1(2)**); *provided* that such direction is not in conflict with any rule of law or this Agreement.

6.9.2. Notwithstanding any other provision hereof, any Insurer not then in default under its Credit Insurance shall:

6.9.2(1). be treated as the Holder of Outstanding Certificates equal to the principal amount of Certificates insured by it for the purposes of actions permitted to be taken by Certificateholders under **this Article** and for the purpose of giving all other consents, directions and waivers that Certificateholders may give; and

6.9.2(2). control all actions that may be taken by any Specified Hedge Counterparty that is the beneficiary of such Credit Insurance, including for purposes of actions permitted to be taken by such Specified Hedge Counterparty under this Agreement and for the purposes of giving all other directions, consents and waivers that such Specified Hedge Counterparty may give.

#### **Section 6.10. Actions by Beneficial Owners**

6.10.1. For the purpose of providing any consent, waiver or instruction to the Contract Administrator, **Holder** and **Certificateholder** includes a Person who provides the Contract Administrator an affidavit of beneficial ownership of a Certificate together with satisfactory indemnity against any loss, liability or expense to the Contract Administrator to the extent that it acts on the affidavit of beneficial ownership (including any consent, waiver or instruction given by a Person providing such affidavit and indemnity).

6.10.2. The principal amount of Outstanding Certificates owned by a Beneficial Owner meeting the requirements of **Section 6.10.1** shall be deemed held by such Beneficial Owner and *not* held by Certificateholders for the purposes of providing any consent, waiver or instruction to the Contract Administrator.

## Article VII — Concerning the Contract Administrator

### Section 7.1. Certain Duties and Responsibilities.

7.1.1. *Except* during the continuance of an Event of Default:

7.1.1(1). the Contract Administrator undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Contract Administrator and no permissive power or authority availability to the Contract Administrator shall be considered a duty; and

7.1.1(2). in the absence of bad faith on its part, the Contract Administrator may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Contract Administrator and conforming to the requirements of this Agreement or the Service Contract; *but* in the case of any such certificates, documents, other instruments or opinions which by any provision hereof or thereof are specifically required to be furnished to the Contract Administrator, the Contract Administrator is under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

7.1.2. *If* an Event of Default occurs and is continuing, *then* the Contract Administrator shall exercise such of the rights and powers in respect of Funding Trust Receivables and use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances.

7.1.3. No provision of this Agreement shall be construed to relieve the Contract Administrator from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, *except* that

7.1.3(1). **this subsection** shall not be construed to limit the effect of **Section 7.1.1**.

7.1.3(2). the Contract Administrator shall not be liable for any error of judgment made in good faith by an authorized officer of the Contract Administrator, *unless* it is proved that the Contract Administrator was negligent in ascertaining the pertinent facts;

7.1.3(3). the Contract Administrator shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of all Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator, or exercising any trust or power conferred upon the Contract Administrator, by or under this Agreement; and

7.1.3(4). no provision of this Agreement shall require the Contract Administrator to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or pow-

ers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

7.1.4. Whether or not therein expressly so provided, every provision of this Agreement relating to the conduct or affecting the liability of or affording protection to the Contract Administrator is subject to the provisions of this Article.

**Section 7.2. Certain Rights of Contract Administrator.**

*Except* as otherwise provided in **Section 7.1.1:**

7.2.1(1). The Contract Administrator may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

7.2.1(2). Any request, direction or consent of a Corporation mentioned in this Agreement shall be sufficiently evidenced respectively by a Corporation Request, Corporation Order or Corporation Consent.

7.2.1(3). Whenever in the administration of this Agreement, any Service Contract or any Stated Hedge the Contract Administrator shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Contract Administrator (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of a representative of the particular Corporation.

7.2.1(4). The Contract Administrator may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Contract Administrator hereunder in good faith and in reliance thereon.

7.2.1(5). The Contract Administrator is under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Certificateholders pursuant to this Agreement, *unless* such Certificateholders shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

7.2.1(6). The Contract Administrator shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, *but* the Contract Administrator, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

7.2.1(7). The Contract Administrator may execute any of its powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Contract Administrator shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

7.2.1(8). *Except* as provided in **Section 7.3**, the Contract Administrator shall have no duty to see to the recording, filing or registration of any instrument or document (in-

cluding financing or continuation statements or filing under tax or security laws) or any rerecording, refiling or re-registration.

7.2.1(9). The Contract Administrator shall have the right at any time to seek instructions concerning the administration of the Service Contracts from any court of competent jurisdiction.

7.2.1(10). The Contract Administrator shall not have any responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Certificateholder or any other Person in the nature of an official statement or offering circular, preliminary or final.

### **Section 7.3. Specific Duties of the Contract Administrator**

*Except* during an Event of Default or as required by applicable law, the duties of the Contract Administrator are limited to the following:

7.3.1(1). deliver notice to the City to pay Hedge Payables pursuant to Section 7.02 of the respective Service Contract;

7.3.1(2). continue the financing statements filed with respect to the Funding Trust Receivables and Hedge Payables;

7.3.1(3). take such actions in the name and stead of either Corporation as may be required by **Section 5.4**;

7.3.1(4). the specific duties set forth in **Article II** to receive Service Payments;

7.3.1(5). the specific duties set forth in **Articles IV** and **VI**;

7.3.1(6). notify the City of any realized loss resulting from the investment of Investable Funds, demand immediate payment of such loss and receive payment of such loss;

7.3.1(7). pay to the City any realized gain from the investment of Investable Funds or otherwise apply such gain in accordance with **Section 7.04** of each **Service Contract**;

7.3.1(8). perform such duties, if any, as may be required to be performed by the Contract Administrator in the Specific Terms of a Service Contract;

7.3.1(9). the specific duties set forth in **Article X**;

7.3.1(10). receive, recognize and give effect to a Notice of Transfer Event; and

7.3.1(11). the specific duties set forth in **Article XII**.

### **Section 7.4. May Hold Certificates.**

The Contract Administrator, in its individual or any other capacity, may become the owner or pledgee of Certificates with the same rights it would have if it were not Contract Administrator.

**Section 7.5. Money Held in Trust.**

Money held by the Contract Administrator in trust hereunder need not be segregated from other funds except to the extent required by law or by other provision of this Agreement. The Contract Administrator shall be under no liability for interest on any money received by it hereunder.

**Section 7.6. Compensation and Reimbursement**

7.6.1. The Contract Administrator is entitled to payment or reimbursement:

7.6.1(1). from time to time for reasonable compensation for all services rendered by it hereunder; and

7.6.1(2). except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Contract Administrator in accordance with any provision of this Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Contract Administrator's negligence, willful misconduct or bad faith.

7.6.2. The Contract Administrator is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of this Agreement or the exercise of its powers hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

7.6.3. The compensation, expenses and indemnification of the Contract Administrator hereunder shall constitute Contract Administrator Payments, a Component of Service Payments as provided in the Service Contracts.

**Section 7.7. Lien of Contract Administrator**

The Contract Administrator shall not have any lien on any funds held by it under this Agreement.

**Section 7.8. Corporate Contract Administrator Required; Eligibility.**

7.8.1. There shall at all times be a Contract Administrator hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

7.8.2. The Contract Administrator shall resign immediately in the manner and with the effect specified in this Article if it becomes ineligible under **this Section**.

**Section 7.9. Replacement of Contract Administrator.**

7.9.1. No Vacancy.

No resignation or removal of the Contract Administrator and no appointment of a successor Contract Administrator pursuant to this Article shall be effective until the successor Contract Administrator accepts its appointment as provided in **this Section**.

**7.9.2. Resignation.**

The Contract Administrator may resign at any time, but such resignation shall become effective only in accordance with **Section 7.9.1**, above. A resigning Contract Administrator shall give notice of its resignation to each Insurer.

**7.9.3. Removal by Certificateholders.**

7.9.3(1). The Holders of a majority in principal amount of Outstanding Certificates may remove the Contract Administrator by so notifying the Contract Administrator.

7.9.3(2). If the Contract Administrator becomes ineligible under **Section 7.8**, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor.

**7.9.4. Appointment of Successor.**

7.9.4(1). The retiring Contract Administrator or the Corporations may appoint a successor at any time prior to the date on which a successor Contract Administrator takes office.

7.9.4(2). If a successor Contract Administrator does not take office within 45 days after the retiring Contract Administrator resigns or is removed, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor Contract Administrator.

7.9.4(3). Within one year after a successor Contract Administrator appointed by the Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Contract Administrator to replace such successor Contract Administrator.

**7.9.5. Acceptance of Appointment.**

7.9.5(1). A successor Contract Administrator shall deliver written acceptance of its appointment to the retiring Contract Administrator, each of the other parties hereto and to each Insurer. Thereupon the resignation or removal of the retiring Contract Administrator shall be effective, and the successor Contract Administrator shall have all the rights, powers and duties of the Contract Administrator under the Trust Agreement.

7.9.5(2). The successor Contract Administrator shall mail a notice of its succession to the Certificateholders.

7.9.5(3). Upon the appointment of a successor Contract Administrator becoming effective as provided in **this Section**, the retiring Contract Administrator shall promptly transfer all property held by it as Contract Administrator to the successor Contract Administrator.

**Section 7.10. Merger, Consolidation and Succession to Business.**

**7.10.1.** If the Contract Administrator consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corpora-

tion without any further act shall be the successor Contract Administrator *if* such successor corporation is eligible under **Section 7.8**.

**7.10.2.** The successor Contract Administrator may adopt the authentication of Certificates authenticated by the predecessor Contract Administrator and deliver such Certificates with the same effect as if the successor Contract Administrator had authenticated such Certificates.

## **Article VIII — Enforcement of Rights**

### **Section 8.1. Effectiveness of Article**

At any time of determination, **this Article** shall be in force and effective *if, but only if*, all Insurers are then in default under their respective Credit Insurance.

### **Section 8.2. Article Controlling**

Whether or not herein expressly so provided, every provision of this Agreement relating to the enforcement of rights and remedies by any of the parties hereto, and their successors and assigns, is subject to the provisions of **this Article** notwithstanding anything in this Agreement to the contrary.

### **Section 8.3. Certain Definitions**

*Affected Parties* means the Holders of Outstanding Certificates and Specified Hedge Counterparties affected by a particular Article 8 Event of Default; *affected Outstanding Certificates* and *affected Stated Hedges* have correlative meanings.

*Article 8 Event of Default* means any Event of Default described in Article VI or the City fails to pay any Hedge Payable as and when the same shall become due.

*Controlling Affected Parties* means on any particular date the Affected Parties in good standing having a majority of the Article 8 pro rata interests.

*Enforcement Committee* means the committee established pursuant to this Article.

*Enforcement Officer* means the same Person as the Person who is acting as Contract Administrator but in its separate capacity and not as Contract Administrator unless and until a successor Enforcement Officer is selected and thereafter *Enforcement Officer* means such successor.

### **Section 8.4. Determination of Article 8 Pro Rata**

**8.4.1.** The *Combined Denominator* for determining Article 8 pro rata interests is the sum of (i) the total principal amount of all then affected Outstanding Certificates *and* (ii) the total of the maximum termination payments of the affected Specified Hedge Counterparties insured under the Credit Insurance.

**8.4.2.** When used with respect to affected Outstanding Certificates, *Article 8 pro rata* means a fraction, the numerator of which is the principal amount of the particular affected Outstanding Certificate and the denominator of which is the Combined Denominator.

**8.4.3.** When used with respect to affected Stated Hedges, *Article 8 pro rata* means a fraction, the numerator of which is the maximum termination payments of the particular affected

Specified Hedge Counterparty insured under the Credit Insurance and the denominator of which is the Combined Denominator.

8.4.4. Article 8 pro rata interests determined for the purposes of **Section 8.7.1(2)(i)**, shall be determined for all Certificateholders and all Specified Hedge Counterparties without consideration of whether or not they are affected by the particular Article 8 Event of Default.

#### **Section 8.5. Determination of *Good Standing***

An Affected Party is in *good standing* as of any particular date when it, or it and all others acting with it on a collective basis, have met all requirements by the Enforcement Officer for contributions to payments of its fees, expenses and indemnification.

#### **Section 8.6. Insurers**

Any Insurer not in default under its Credit Insurance that is insuring Article 8 pro rata interests of an Affected Party shall be the only Affected Party with respect to those interests for all purposes of **this Article**.

#### **Section 8.7. Duration of *Exclusive Action Period***

8.7.1. An Exclusive Action Period commences upon the occurrence of an Article 8 Event of Default and ends on the date the earliest of the following occur with respect to the particular Article 8 Event of Default:

8.7.1(1). the Enforcement Officer fails to call the initial meeting of the Enforcement Committee within the time required by **Section 8.9.1**;

8.7.1(2). at the initial meeting of the Enforcement Committee,

(i) less than 25% of the Article 8 pro rata interests of the Certificateholders and Specified Hedge Counterparties are in good standing and are present or

(ii) the Enforcement Committee does not authorize the Enforcement Officer to take action;

8.7.1(3). at a subsequent meeting of the Enforcement Committee, the Enforcement Committee properly directs the Enforcement Officer to discontinue taking all action;

8.7.1(4). at the time the Enforcement Officer gives notice to all Affected Parties that it properly intends to take no further action;

8.7.1(5). the Enforcement Officer has been directed to take one or more enforcement actions by the Enforcement Committee and does not commence any such action within 30 days after being so directed;

8.7.1(6). a final decision or judgment is rendered that does not require the City to pay the full amount of the Funding Trust Receivables or the Hedge Payables for which the action was commenced;

8.7.1(7). a final judgment against the City is not satisfied in full by the end of the City's fiscal year following the fiscal year in which such final judgment is rendered.



8.7.2. As used in this Section, *a proper direction* of the Enforcement Committee is a direction not contrary to **Section 8.10**, and *a proper action* of the Enforcement Officer is an action that is not contrary to a proper direction of the Enforcement Committee.

8.7.3. As used in this Section, a *final decision* or *judgment* is a judgment or decision for which the time for the appeal thereof has expired, and no appeal thereof has been taken.

#### **Section 8.8. Other Actions Stayed**

8.8.1. Except by acting through the Enforcement Committee, no Affected Party may take any action to enforce its rights with respect to a particular Article 8 Event of Default until the Exclusive Action Period terminates with respect to such Article 8 Event of Default.

8.8.2. Except by acting through the Enforcement Committee, no Affected Party may take any action during the Exclusive Action Period that purports to bind the Enforcement Officer without the prior authorization of the Enforcement Committee.

8.8.3. The Contract Administrator shall not take any action under **Article VI** with respect to a particular Event of Default until the Exclusive Action Period terminates with respect to such Event of Default.

#### **Section 8.9. Establishment of Enforcement Committee**

8.9.1. Within 30 days after having knowledge of an Article 8 Event of Default whether in its capacity as Enforcement Officer or indirectly as Contract Administrator, the Enforcement Officer shall notify the parties hereto and call the initial meeting of the Enforcement Committee.

8.9.2. If the Enforcement Officer will be requiring indemnity or any fees and anticipated expenses to be provided in advance of taking any action, the Enforcement Officer shall indicate such requirements in its notice.

8.9.3. Each party hereto attending the initial meeting shall establish to the satisfaction of the Enforcement Officer that it is an Affected Party and its Article 8 pro rata interests.

#### **Section 8.10. Meeting Required**

No action or direction of the Enforcement Committee is effective for any purpose of **this Article** *unless* it is duly authorized at a meeting of the Enforcement Committee.

#### **Section 8.11. Notice of Meeting of Enforcement Committee**

8.11.1. Notice shall be given not less than ten Business Days before a meeting of the Enforcement Committee.

8.11.1(1). Notice to the Holders of the affected Outstanding Certificates (including Beneficial Owners as provided in **Section 6.10**) shall be given as provided in **Section 6.7**, and all Beneficial Owners of such Outstanding Certificates shall be bound by any action properly taken at the meeting called in such notice.

8.11.1(2). Notice to the affected Specified Hedge Counterparties shall be given to them at their respective notice addresses in this Agreement.

8.11.2. Notice may be waived before, at or within two Business Days after a meeting. Any Person entitled to notice of a meeting shall be conclusively presumed to have had proper

notice of such meeting *if* such Person attends such meeting other than for the sole purpose of objecting to the holding of such meeting.

8.11.3. Any defect in the giving of notice shall not invalidate such notice or any action taken at a meeting pursuant thereto if a majority of Article 8 pro rata interests of , respectively, the affected Holders of Outstanding Certificates and the affected Specified Hedge Counterparties received or waived proper notice.

8.11.4. Each notice shall specify the time and location of the particular meeting and provide a summary statement of the purpose of the meeting.

8.11.4(1). Each meeting shall be held at a location determined by the Enforcement Officer in the City of Detroit, Michigan, or at such other city agreed to by the Enforcement Officer and concurrent majorities of the Article 8 pro rata interest of the Holders of affected Outstanding Certificates and of the affected Specified Hedge Counterparties.

8.11.4(2). A summary statement of the purposes of such meeting is not required to state any particulars thereof or the actions to be proposed thereat.

#### **Section 8.12. Meetings of Enforcement Committee**

8.12.1. No meeting of the Enforcement Committee shall be effective if it is not held pursuant to notice given in accordance with **Section 8.11**.

8.12.2. Only Affected Parties in good standing are permitted to vote at a meeting of the Enforcement Committee.

8.12.3. A single Affected Party in good standing present at a meeting of the Enforcement Committee constitutes a quorum for the purposes of that meeting.

8.12.4. The Enforcement Officer shall adjourn any meeting of the Enforcement Committee *sine die* at which a quorum is not present; *provided* that

8.12.4(1). the Enforcement Officer, at its election, may adjourn such meeting to a day certain not more than 10 days after the date of such meeting;

8.12.4(2). an adjourned meeting may only be adjourned *sine die*; and

8.12.4(3). an adjourned meeting is subject to the notice requirements of **Section 8.11**.

8.12.5. All actions at an Enforcement Committee meeting shall be taken by affirmative vote of a majority of the Article 8 pro rata interests of the Affected Parties present and voting at such meeting.

8.12.6. Meetings of the Enforcement Committee may be conducted by telephone so long as the participants in the meeting can concurrently speak to and hear each other.

8.12.7. Affected Parties in good standing may participate in a meeting in person or by representative or by telephone.

#### **Section 8.13. Enforcement Committee Actions Binding**

All actions properly taken by the Enforcement Committee or by the Enforcement Officer are binding on every Certificateholder and Specified Hedge Counterparty.

#### **Section 8.14. Duties of Enforcement Officer**

*Subject to Section 8.18*, the Enforcement Officer only has the duty to (i) call the initial meeting of the Enforcement Committee and (ii) follow proper directions of the Enforcement Committee.

#### **Section 8.15. Control by Enforcement Committee**

*8.15.1.* The Enforcement Committee shall direct the time, method and place of conducting any proceeding for any remedy available to the Enforcement Officer to exercise any power exercisable by the Enforcement Officer.

*8.15.2.* Except for calling the initial meeting of the Enforcement Committee, the Enforcement Officer shall only take such actions under **this Article** that are directed by the Enforcement Committee.

#### **Section 8.16. Actions for Equal and Ratable Benefit**

All actions of the Enforcement Officer shall be taken for the equal and ratable benefit of all Affected Parties in good standing.

#### **Section 8.17. Application of Money Collected**

All money collected by the Enforcement Officer shall be applied in accordance with the Service Contract Priority Sections.

#### **Section 8.18. Certain Rights of the Enforcement Officer**

The Enforcement Officer shall have the rights set forth in **this Section**.

*8.18.1.* The Enforcement Officer shall not be liable with respect to any action taken or omitted to be taken by it in accordance with any proper direction of the Enforcement Committee.

*8.18.2.* No provision of this Agreement shall require the Enforcement Officer to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers.

*8.18.3.* Whether or not expressly so provided, every provision of **this Article** relating to the conduct or affecting the liability of or affording protection to the Enforcement Officer is subject to the provisions of **this Section**.

*8.18.4.* The Enforcement Officer may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, instrument, opinion, report notice, request, direction, consent, order, bond, debenture or other paper or document believed by it to be genuine or to have been signed or presented by the proper party or parties.

*8.18.5.* Any direction of the Enforcement Committee shall be evidenced by a certificate of the officer of the Enforcement Committee charged with maintaining the official records of the Enforcement Committee stating in effect that the document purporting to be such direction is in fact a true and complete copy of a direction duly given by the Enforcement Committee at a meeting at which a quorum was present and acted throughout.

8.18.6. The Enforcement Officer (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, rely on a certificate of a representative of an Affected Party.

8.18.7. The Enforcement Officer may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken or suffered or omitted by the Enforcement Officer hereunder in good faith and in reliance thereon.

8.18.8. The Enforcement Officer shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, instrument, opinion, report notice, request, direction, consent, order, bond, debenture or other paper or document, *but* the Enforcement Officer, in its discretion, may make such further inquiry or investigation into such facts or matters as it sees fit.

8.18.9. The Enforcement Officer may execute any of its powers under **this Article** or perform any duties under **this Article** either directly or through agents or attorneys, and the Enforcement Officer shall not be responsible for any negligence on the part of any such agent or attorney appointed with due care by it under **this Article**.

#### **Section 8.19. Compensation and Reimbursement**

8.19.1. The Enforcement Officer is entitled to payment or reimbursement:

8.19.1(1). from time to time for reasonable compensation for all services rendered by it hereunder; and

8.19.1(2). except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Enforcement Officer in accordance with any provision of this Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Enforcement Officer's negligence, willful misconduct or bad faith.

8.19.2. The Enforcement Officer is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of this Agreement or the exercise of its powers hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

8.19.3. The compensation, expenses and indemnification of the Enforcement Officer hereunder shall be an Additional Service Payment under the Service Contracts.

#### **Section 8.20. Corporate Enforcement Officer Required; Eligibility.**

8.20.1. There shall at all times be an Enforcement Officer hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

8.20.2. The Enforcement Officer shall resign immediately in the manner and with the effect specified in **this Article** if it becomes ineligible under **this Section**.

**Section 8.21. Replacement of Enforcement Officer.**

8.21.1. No Vacancy.

No resignation or removal of the Enforcement Officer and no appointment of a successor Enforcement Officer shall be effective until the successor Enforcement Officer accepts its appointment as provided in **this Section**.

8.21.2. Resignation.

8.21.2(1). The Enforcement Officer may resign at any time but only for a permitted reason, and such resignation shall become effective only in accordance with **Section 8.21.1**, above.

8.21.2(2). The Enforcement Officer may resign only if (i) it is no longer eligible under **Section 8.20.1** or (ii) it determines such resignation is necessary to resolve a conflict with its duties as Contract Administrator or Trustee.

8.21.3. Removal by Affected Parties.

8.21.3(1). The Enforcement Committee may remove the Enforcement Officer by so notifying the Enforcement Officer and the parties hereto.

8.21.3(2). If the Enforcement Officer becomes ineligible under **Section 8.20.1**, any Affected Party may petition a court of competent jurisdiction for the appointment of a successor.

8.21.4. Appointment of Successor.

8.21.4(1). The Enforcement Committee has the power to appoint a successor Enforcement Officer, but if the Enforcement Committee fails to act within 30 days after the retiring Enforcement Committee resigns or is removed, the retiring Enforcement Officer or an Affected Party (whoever is first to act) may appoint a successor.

8.21.4(2). If a successor Enforcement Officer does not take office within 45 days after the retiring Enforcement Officer resigns or is removed, any Controlling Affected Party may petition a court of competent jurisdiction for the appointment of a successor Enforcement Officer.

8.21.4(3). Within one year after a successor Enforcement Officer appointed other than by the Enforcement Committee pursuant to **Section 8.21.4(1)** or **Section 8.21.4(2)** takes office, the Enforcement Committee may appoint a successor Enforcement Officer to replace such successor Enforcement Officer.

8.21.5. Acceptance of Appointment.

8.21.5(1). A successor Enforcement Officer shall deliver written acceptance of its appointment to the retiring Enforcement Officer and to each of the other parties hereto. Thereupon the resignation or removal of the retiring Enforcement Officer shall be effective, and the successor Enforcement Officer shall have all the rights, powers and duties of the Enforcement Officer under **this Article**.

8.21.5(2). The successor Enforcement Officer shall mail a notice of its succession to all of the parties hereto.

8.21.5(3). Upon the appointment of a successor Enforcement Officer becoming effective as provided in **this Section**, the retiring Enforcement Officer shall promptly transfer all property held by it as Enforcement Officer to the successor Enforcement Officer.

### **Section 8.22. Merger, Consolidation and Succession to Business.**

**8.22.1.** If the Enforcement Officer consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Enforcement Officer *if* such successor corporation is eligible under **Section 8.20.1**. The successor Enforcement Officer may adopt the authentication of Certificates authenticated by the predecessor Enforcement Officer and deliver such Certificates with the same effect as if the successor Enforcement Officer had authenticated such Certificates.

### **Section 8.23. Proof of Status**

**8.23.1.** A Person (other than a Beneficial Owner) shall prove its status as an Affected Party by submitting an affidavit to the Enforcement Officer stating that such Person is a Certificateholder or a Specified Hedge Counterparty and stating such facts, sufficient in the reasonable judgment of the Enforcement Officer, as are necessary to show that it is an affected Certificateholder or Specified Hedge Counterparty.

**8.23.2.** A Beneficial Owner shall prove its status as an Affected Party by submitting an affidavit and indemnity to the Enforcement Officer meeting the requirements of **Section 6.10** (as if such requirements were in respect of the Enforcement Officer) and by including in such affidavit a statement of facts stating such facts, sufficient in the reasonable judgment of the Enforcement Officer, as are necessary to show that it is affected by the particular Article 8 Event of Default.

**8.23.3.** The principal amount of Outstanding Certificates owned by a Beneficial Owner meeting the requirements of **Section 8.23.2** shall be deemed held by such Beneficial Owner and *not* held by Certificateholders for the purposes of **this Article**.

## **Article IX — Agreements Among the Parties.**

### **Section 9.1. Sharing Excess Payments Among the Parties**

Each party hereto agrees with each other party hereto that if any such party receives payments in excess of or out of the order or priority established in the Service Contract Priority Sections, whether voluntary or involuntary, by realization upon security, through the exercise of any right of set-off or banker's lien (whether based on common law, statute, contract or otherwise) (excluding applications of funds pursuant to non-default contract rights), by counterclaim or cross action or by the enforcement of any right hereunder or under any of the Service Contracts, that any such amount shall be returned to the Contract Administrator for proper distribution in accordance with the amount, the order and priority as set forth in the Service Contract Priority Sections other than to the extent provided in **Section 4.8.2**.

## **Section 9.2. Independent Actions by the Parties**

*Except* as otherwise provided in **Article VI** or **Article VIII**, nothing contained in this Agreement shall prohibit any Hedge Counterparty, the Funding Trust or any Certificateholders from exercising any rights, remedies or options it may have hereunder or under any Service Contract or at law or in equity, including, instituting legal action against the City, the Contract Administrator, any Corporation or any other party hereto to obtain a judgment or other legal process in respect of such Contract Payment, but any funds received from the City, the Contract Administrator, any Corporation or any other party hereto in connection with any recovery therefrom shall be subject to the terms of the Service Contract Priority Sections of the respective Service Contract; *provided* that, any action to enforce remedies with respect to Collateral may be taken only by the applicable Insurer, or if such Insurer is in default under its Credit Insurance, a party that has a Creditor Lien on such Collateral.

## **Section 9.3. Relation of Parties**

**9.3.1.** This Agreement is entered into solely for the purposes set forth herein, and, except as otherwise provided herein, no party assumes any responsibility to any other party hereto to advise such other party of information known to such other party regarding the financial condition of any other party or of any other circumstances bearing upon the risk of nonpayment of any Contract Payment.

**9.3.2.** Each party specifically acknowledges and agrees that nothing contained in this Agreement is or is intended to be for the benefit of the City and nothing contained herein shall limit or in any way modify any of the obligations of the City to the parties.

## **Section 9.4. Acknowledgment of Documents**

Each party hereto (i) expressly acknowledges the existence and validity of the Service Contracts and the Trust Agreement and that it has had an opportunity to review the Service Contracts and the Trust Agreement, (ii) agrees not to contest or challenge the validity of the Service Contracts and the Trust Agreement and (iii) agrees that the judicial or other determination of the invalidity of the Service Contracts and the Trust Agreement shall not affect the provisions of this Agreement.

## **Section 9.5. Notice of Certain Events**

**9.5.1.** The Contract Administrator agrees that, within one day after obtaining actual knowledge of the City failing to pay any amounts in respect of any Hedge Payable, it shall notify each other party hereto of such occurrence.

**9.5.2.** The Contract Administrator shall give the other parties hereto a copy of any notice or other communication given by it to or received from any other party hereto or the City with respect to any Article 8 Event of Default (even though Article 8 may not be in effect at the time) or with respect to any other occurrence that would give any party hereto the right to exercise remedies under any such documents or this Agreement.

**9.5.3.** Each party shall, within one Business Day of its taking any action described in **Section 9.2**, give each other party hereto notice of the taking of such action.

### **Section 9.6. Remedies Not Waived.**

No failure of a party hereto to perform any obligation or honor any agreement under this Agreement shall affect the obligations of the other parties under the Service Contracts or hereunder; *provided*, however, that the other parties hereto shall each have full right and power to enforce the obligations, covenants and agreements of each other party hereto directly against such other party by suit for specific performance or claims for damages or a combination of the foregoing. In the event of any dispute between or among any of the parties hereto arising out of this Agreement, the prevailing party or parties shall be entitled to recover from the losing party or parties, all fees, costs and expenses, including, without limitation, attorneys' fees, incurred by such prevailing party or parties in connection with such dispute.

### **Section 9.7. Possession of Collateral.**

Each party hereto agrees that, if at any time such party possesses Collateral or a Creditor Lien thereon, such party holds such Collateral or Creditor Lien for the benefit of all the parties that have a Creditor Lien on such Collateral.

## **Article X Concerning Each Insurer**

### **Section 10.1. Actions by Insurer**

An Insurer may exercise any power or right given it by this Agreement only if it is not then in default under its Credit Insurance.

### **Section 10.2. Party in Interest**

Each Insurer shall be included as a party in interest and as a party entitled to (i) notify either Corporation, the Contract Administrator or any applicable receiver of the occurrence of an Event of Default and (ii) request the Contract Administrator or receiver to intervene in judicial proceedings that affect the Certificates, the Stated Hedges or the security therefor, *subject* to the terms of this Agreement. The Contract Administrator is required to accept notice of an Event of Default from such Insurer.

### **Section 10.3. Amendments; Notice to Rating Agencies**

Any amendment or supplement to this Agreement or either Service Contract shall be subject to the prior written consent of each Insurer. Each Rating Agency shall receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. Each Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

### **Section 10.4. Reporting**

**10.4.1.** The Contract Administrator shall give each Insurer a copy of each Optional Redemption Notice it receives from a Corporation promptly upon the receipt thereof and, if known to the Contract Administrator, the CUSIP numbers of the Certificates affected thereby. The same information shall be provided to both Insurers.

**10.4.2.** The Contract Administrator shall provide each Insurer with such additional information as the Insurer may reasonably request from time to time that is known to the Contract Administrator.



**Section 10.5. Fees and Expenses**

*10.5.1.* The Corporation shall pay or reimburse each Insurer for any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with the following:

10.5.1(1). the administration, enforcement, defense or preservation of any rights or security hereunder or under any document contemplated hereby;

10.5.1(2). the pursuit of any remedies hereunder or under any document contemplated hereby or otherwise afforded by law or equity,

10.5.1(3). any amendment, waiver or other action with respect to or related to this Agreement or any document contemplated hereby whether or not executed or completed;

10.5.1(4). the violation by either Corporation of any law, rule or regulation or any judgment, order or decree applicable to it;

10.5.1(5). any advances or payments made by an Insurer to cure defaults of the Corporation hereunder or any document contemplated hereby; or

10.5.1(6). any litigation or other dispute in connection with this Agreement, any document contemplated hereby or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of an Insurer to honor its payment obligations under its respective Credit Insurance.

*10.5.2.* Each Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Agreement or any document contemplated hereby.

*10.5.3.* The obligations of each Corporation to an Insurer shall survive discharge and termination of this Agreement or any document contemplated hereby.

*10.5.4.* Payments pursuant to this provision shall constitute an Additional Service Charge under each Service Contract payable as set forth in **Section 9.09** of each **Service Contract**.

**Article XI Miscellaneous**

**Section 11.1. Addresses for Notices.**

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered:

11.1.1(1). if to the City, at its address set forth in a Service Contract

11.1.1(2). if to a Corporation, at its address set forth in the respective Service Contract

11.1.1(3). if to the Contract Administrator, at  
U.S. Bank National Association  
535 Griswold, Suite 550  
Detroit, Michigan 48226  
Attention: Susan T. Payne

11.1.1(4). if to any of the following to the extent that it is a Rating Agency at the time,

Standard & Poor's Ratings Services  
55 Water Street, 38<sup>th</sup> Floor  
New York, New York 10041

Moody's Investors Service  
99 Church Street  
New York, New York 10007  
Attention: Public Finance Group

Fitch Ratings  
1 State Street Plaza  
New York, New York 10004  
Attention: Municipal Structured Finance

11.1.1(5). if to Financial Guaranty Insurance Company at  
125 Park Avenue  
New York, NY 10017  
Attention: Risk Management

11.1.1(6). if to XL Capital Assurance Inc. at  
1221 Avenue of the Americas  
New York, NY 10020  
Attention: Surveillance

11.1.1(7). if to a Specified Hedge Counterparty, at its address shown opposite its signature on a signature page hereto,

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to this Section.

## **Section 11.2. Amendment**

This Agreement may be amended only by written instrument signed by the parties hereto.

## **Section 11.3. No Waiver; Remedies.**

No failure on the part of the Contract Administrator to exercise, and no delay in exercising, any right hereunder shall be a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other further exercise thereof or the exercise of any other right.

## **Section 11.4. Binding Obligation.**

This Agreement is binding upon the parties hereto and their successors and assigns.

## **Section 11.5. Assignment.**

No assignment by any party of its interests herein shall be valid.

### **Section 11.6. Third Party Beneficiaries**

*11.6.1.* Each of the Third Party Beneficiaries not a signatory hereto may rely on the respective representations and warranties of each Corporation as if such representations and warranties were made to it.

*11.6.2.* The covenants of each Corporation made herein are also made for the benefit of each of such Third Party Beneficiaries, each of whom may enforce the same as if it were a party hereto.

*11.6.3.* Any amendment that diminishes the rights and remedies of any such Third Party Beneficiary without the prior written consent of such Third Party Beneficiary is acknowledged to have the effect in fact of hindering, delaying and defrauding such Third Party Beneficiary.

### **Section 11.7. Reliance on Representations and Warranties**

Each party to this Agreement and each Third Party Beneficiary shall be conclusively presumed to have relied upon the representations and warranties contained herein, and such reliance shall survive any investigation made by such Person.

### **Section 11.8. Governing Law**

The rights and obligations of the parties hereunder shall be governed by and construed in accordance with the law of the State of Michigan exclusive of its conflicts of law rules.

### **Section 11.9. Headings**

Article and Section headings in the Service Contract are included herein for convenience of reference only and do not constitute a part of the Service Contract for any other purpose.

### **Section 11.10. Integration**

This Agreement is intended by the parties as the final, complete and exclusive statement of the transactions evidenced by this Agreement. All prior contemporaneous promises, agreements and understandings relating to such transaction, whether oral or written, are deemed to be superseded by this Agreement, and no party is relying on any promise, agreement or understanding not set forth or referred to in this Agreement.

### **Section 11.11. Counterparts**

This Agreement may be executed in multiple counterparts, *but* all such counterparts taken together shall evidence by one and the same original.

## **Article XII**

### **Section 12.1. Supplements**

*12.1.1.* Non-Tender Amount Supplement Agreement and the Tender Amount Supplement Agreement (each of which, a Supplement and together, the Supplements) appended hereto are made as part of the Agreement for all purposes, including **Article VII**.

### **Section 12.2. Duties of Contract Administrator**

The Contract Administrator shall perform the duties set forth in each Supplement.

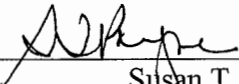
[Contract Administration Agreement]

**In Witness Whereof**, the parties hereto have set their respective hands on and as of the date first written above.

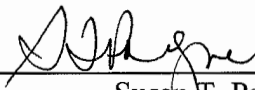
*[Signatures appear on pages S-1 et seq.]*

[Signature Page to **Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2006, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation**, severally and not jointly, **U.S. Bank National Association**, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2006, and the **Other Persons Parties Hereto**]

**Detroit Retirement Systems Funding Trust 2006**  
**By U.S. Bank National Association, Trustee**

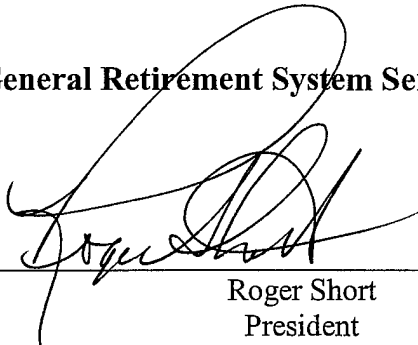
By  \_\_\_\_\_  
Susan T. Payne  
Vice President

**U.S. Bank National Association,**  
separately and not as Trustee of the Detroit Retirement  
Systems Funding Trust 2006

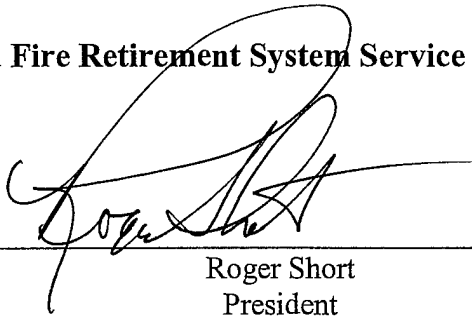
By  \_\_\_\_\_  
Susan T. Payne  
Vice President

*[Signature Page to Contract Administration Agreement between the Detroit Retirement Systems Funding Trust 2006, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, and U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2006, and the Other Persons Parties Hereto]*

**Detroit General Retirement System Service Corporation**


By  \_\_\_\_\_  
Roger Short  
President


**Detroit Police and Fire Retirement System Service Corporation**

By  \_\_\_\_\_  
Roger Short  
President

[Signature Page to **Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2006, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation**, severally and not jointly, **U.S. Bank National Association**, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2006, and the **Other Persons Parties Hereto**]

**UBS AG**

By  \_\_\_\_\_  
**John J. Magovern**  
**Director & Counsel**  
**Region Americas Legal**  
**Fixed Income Section**

By  \_\_\_\_\_  
**Stephen A. Thatcher**  
**Director and Counsel**  
**Region Americas Legal**  
**Fixed Income Section**

UBS notice address is:

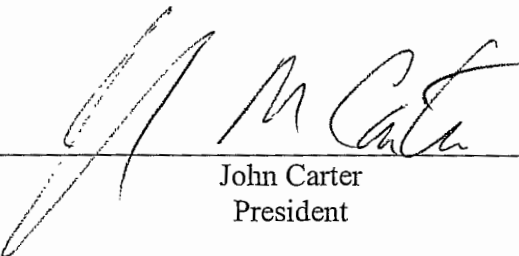
UBS Securities LLC  
1285 Avenue of the Americas, 15<sup>th</sup> Floor  
New York, New York 10019  
Attention: Rhahime Bell  
Facsimile: (212) 713-1303

and with a copy to:

UB AG, Stamford Branch  
677 Washington Blvd.  
Stamford, Connecticut 06912-0300  
Attention: Legal Department  
Facsimile: (203) 719-0680

[Signature Page to **Contract Administration Agreement** among the **Detroit Retirement Systems Funding Trust 2006**, the **Detroit General Retirement System Service Corporation** and the **Detroit Police and Fire Retirement System Service Corporation**, severally and not jointly, **U.S. Bank National Association**, separately and not as Trustee of the **Detroit Retirement Systems Funding Trust 2006**, and the **Other Persons Parties Hereto**]

**SBS Financial Products Company, LLC**

By  \_\_\_\_\_  
John Carter  
President

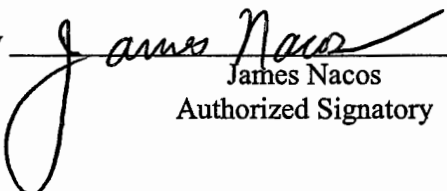
SBS Financial notice address is:

SBS Financial Products Company, LLC  
100 Wall Street, 22<sup>ND</sup> Floor  
New York, New York 10005  
Attention: John Carter  
Facsimile: (646) 576-9684



*[Signature Page to Contract Administration Agreement among the Detroit Retirement Systems Funding Trust 2006, the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation, severally and not jointly, U.S. Bank National Association, separately and not as Trustee of the Detroit Retirement Systems Funding Trust 2006, and the Other Persons Parties Hereto]*

**Merrill Lynch Capital Services, Inc.**

By  \_\_\_\_\_  
James Nacos  
Authorized Signatory

Merrill Lynch Capital notice address is:

Merrill Lynch Capital Services, Inc.  
Merrill Lynch World Headquarters  
4 World Financial Center, 18<sup>TH</sup> Floor  
New York, New York 10080  
Attention: Swap Group  
Facsimile: (646) 805-0218

with a copy to:

GMI Counsel  
Merrill Lynch World Headquarters  
4 World Financial Center, 12<sup>TH</sup> Floor  
New York, New York 10080  
Attention: Swaps Legal  
Facsimile: (212) 449-6993

**Funds and Accounts**

12.2.1(1). Funds and Accounts	Component to be Credited <sup>1</sup>	Property Owners	Entitled Person(s)
12.2.1(2). Interest Related Payments Fund			
Deficit Service Charges Account.....	Clause Second, .....	Funding Trust .....	Distributed to Trustee as Deficit Interest Related Payments on the Applicable Distribution Date
	Deficit Service Charges		
Deficit Hedge Periodic Payables .....	Clause Second, .....	the Corporations pro-rata .....	Paid to the Specified Hedge Counterparties when due as Deficit Hedge Periodic Payables
Account	Deficit Hedge Periodic Payables	as their interests may appear	
Current Service Charges Account.....	Clause Third,.....	Funding Trust .....	Distributed to Trustee as Interest Related Payments on the Applicable Distribution Date
	Current Service Charges		
Current Hedge Periodic Payables .....	Clause Third,.....	the Corporations pro-rata .....	Paid to the Specified Hedge Counterparties when due as Hedge Periodic Payables
Account	Current Hedge Periodic Payables	as their interests may appear	
12.2.1(3). Principal Related Payments Fund			
12.2.1(4). Deficit Principal Related Account	Clause Fourth	Funding Trust	Distributed to Trustee as Deficit Principal Related Payments on the Applicable Distribution Date
12.2.1(5). Current Principal Related Account	Clause Fifth	Funding Trust	Distributed to Trustee as Principal Related Payments and Sinking Fund Related Payments on the Applicable Distribution Date

<sup>1</sup> References to "Clauses" are to the Clauses set forth in Section 8.03 of the Service Contracts.

12.2.1(6). Funds and Accounts Component to be Credited Property Owner(s) Entitled Person(s)

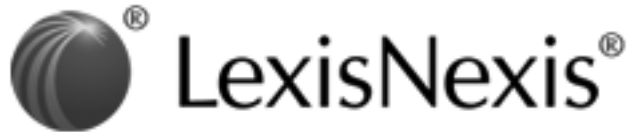
**Hedge Termination Payables Fund**

Deficit Hedge Termination Payables ..... Clause Sixth ..... the Corporations pro-rata ..... Paid to such Specified Hedge  
Account as their interests Counterparties when due as Deficit  
may appear Hedge Termination Payables

Current Hedge Termination Payables ..... Clause Seventh ..... the Corporations pro-rata ..... Paid to Hedge Counterparties  
Account as their interests when due as Hedge  
may appear Termination Payables

**Optional Prepayment Fund**

Current Optional Prepayments ..... Clause Eighth ..... Funding Trust ..... Distributed to Trustee as  
Account Redemption Related Payments on the  
Applicable Distribution Date



1 of 83 DOCUMENTS

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The Bond Buyer

December 29, 2005 Thursday

**SECTION:** SUPPLEMENT: DEAL OF THE YEAR AWARDS; Pg. 28A Vol. 354 No. 32288

**LENGTH:** 1532 words

**HEADLINE:** Detroit Uses COPs to Shift Pension Burden and Set a Few Records

**BYLINE:** Elizabeth Carvlin

**BODY:**

Detroit won The Bond Buyers's Midwest regional Deal of the Year award this month for its \$1.44 billion sale of certificates of participation that allowed the city to lower its obligation on unfunded accrued pension liabilities and bring in budget savings.

The Detroit Retirement System Funding Trust in May and June issued \$640 million of taxable fixed-rate Series A COPs and \$800 million of taxable floating-rate Series B COPs in a sale that marked several firsts for the state and the city.

The issue was the first pension financing for any municipality in the state, and the largest municipal financing ever offered in Michigan. It also marked the largest local-level pension financing in the nation, according to the team that came together to find a way for the city to fund its unfunded pension obligations and attract investor interest.

Officials had been looking for a way to lower expenses related to the unfunded pension liability as costs climbed higher in recent years and the city's budget began to reflect a struggling economy. When he introduced his fiscal 2006 budget earlier this year, Mayor Kwame Kilpatrick warned of further problems and said he would reorganize city government and lay off about 750 people.

From that time on, Kilpatrick, the financial team, and the bond professionals worked on a plan to shift the burden of unfunded pension costs from the city to service corporations through the use of certificates of participation.

In order to meet the legal requirements for the city's debt limits and ensure the strength of the credit, the attorneys working on the deal relied on a unique combination of legal precedents for the municipal market.

Without the necessary enabling legislation that would allow the city to issue the notes without their counting against its state-imposed debt limit, officials looked to laws dating back to the 19th century. The laws that created a service contract for municipalities proved to be essential.

The service contract allowed municipalities to contract with a third party for services. Detroit's payments to the service corporation under the service contract are not subject to appropriation, but rather are unconditional contractual obligations of the city. Those payments back the debt. In addition, the city is constitutionally and statutorily responsible for its pension liability under Michigan law.

The service contract that allows the city to contract over a period of years for future benefits apparently has been used in at least one previous municipal bond issue, according to an attorney who worked on the deal. The Detroit transaction, however, would take the concept further.

The team of professionals started working on the transaction in earnest in the summer of 2004. While the city had considered methods to shift its unfunded pension obligations, the need became more apparent as the budget became squeezed by lower state aid payments and tax revenue, and higher health care costs.

Detroit needed to find a way to free up as much of its ongoing revenue as possible to avoid adding pressure to its budget.

The city sought to shift its assumed rate of payment on pension obligations for the two funds - the General Retirement System and the Police and Fire Retirement System - to a lower rate. The certificates of participation would lower that rate to between 5.6% and 5.8% from the assumed rate of 7.9% and 7.8%, respectively, officials working on the deal projected. The city also would shift the mechanism for paying the unfunded pension liability from the city to the service company.

Though the concept seemed simple, officials said it took the combination of fortunate market timing, knowledge of the "skeleton" of any bond structure, legal expertise, problems and questions raised and answered, and the expertise of a host of bond professionals to bring the deal together.

The actuarial firm Gabriel, Roeder, Smith & Co. was only one among many in the veritable army of professionals that worked to complete the sale - and those who invested in the product.

The city employed Lewis & Munday as bond counsel, relying on their expertise and history in the state to help create and ensure the legal framework would work. For those special questions that the transaction raised, including the tax status of the bonds, Mayer Brown Rowe & Maw worked as special tax counsel.

UBS Financial Services Inc. served as the book-running senior manager. Robert W. Baird & Co. and Scott Balice Strategies worked as co-financial advisers on the deal.

Underwriter's counsel was Honigman Miller Schwartz & Cohn. The trustee and contract administrator on the deal was US Bank and trustee's counsel was Bodman.

Financial Guaranty Insurance Co. and XL Capital Assurance insured the COPs.

Then there was the team that brought the certificates to a mostly international market. The co-senior managers on the Series A fixed-rate portion included Citigroup Global Markets Inc., Merrill Lynch & Co., Siebert, Brandford, Shank & Co., Loop Capital Markets, and Morgan Stanley. Twelve co-managers worked to market the Series A certificates. Loop, Merrill, and Morgan Stanley worked as the co-senior managers for the Series B floating-rate certificates, including a Libor-indexed swap.

Though rating agency analysts cited an additional obligation for payment of the COPs, the savings that the city would realize and the structure of the deal meant the ratings on the certificates were consistent with the city's other debt.

In May, ahead of the sale, Moody's Investors Service rated the COPs Baa1 with a negative outlook, which was consistent with the city's unlimited-tax general obligation bond rating, and rated the limited-tax GOs Baa2. Moody's

also assigned what would be only its sixth corporate-equivalent rating for a municipal transaction, an Aa1 with a stable outlook. The enabled mostly foreign investors understand the unique nature of the debt in relation to the more familiar corporate credits.

Fitch Ratings assigned a BBB-plus rating to the COPs with a stable outlook, which was comparable to the city's GO rating. Standard & Poor's rated the city's unlimited-tax GO debt at BBB-plus and the limited-tax at GOs at a stable BBB.

The ratings reflected both that the COPs were not a general obligation of Detroit, and that the city had a constitutional requirement to pay its pension obligations. That requirement was the key to ensuring investors that, no matter what, the city has to pay its obligations on the COPs.

To ensure the payment of the certificates and to meet its criteria for keeping additional debt off the books, the city used the legal structure that matched the constitutional obligation with its ability to enter into a service contract with a third party.

The city created the service contract with two nonprofit entities created solely for the purpose of the transaction. The Detroit General Retirement System Service Corp. and the Detroit Police and Fire Retirement System Service Corp. acted as the third party the city needed. The city makes service contract payments to the corporation, which pays the obligations through a trustee and contract administrator. The administrator forwards payments to the pension system.

The deal also brought in present-value savings to help Detroit reduce a shortfall of about \$90 million, savings that were built into the fiscal 2006 budget. Though the City Council approved the budget, members weren't immediately convinced of the team's approach to reducing the pension liability. After months of negotiations and presentations, the council eventually approved the ordinances that allowed the COPs to be issued.

The city brought the deal to the market in May and closed it in June. The sale brought in \$112 million of savings for the fiscal 2006 budget. Officials expect to save \$508 million over the life of the COPs.

The final sale also reached the city's requirement for breaking even and actually was lower than anticipated, allowing Detroit to shift its pension obligation to a lower interest rate. The final cost was 5.30%, including issuance costs. The estimate had been about 5.80% to 5.85%.

Since then, the city has gone through an election that caused delays in implementing changes that Kilpatrick used in his budget earlier this year. Analysts reviewed their ratings, taking into account the need for the city to balance the budget in the remaining six months of fiscal 2006. Recently, all three agencies downgraded Detroit, citing the need for the city to shore up its budget and finances.

Moody's last month lowered the city's unlimited-tax GOs to Baa2 from Baa1, a rating change that also applied to the pension obligation COPs. The agency also downgraded the limited-tax GOs to Baa3 from Baa2. The ratings carry a stable outlook. Moody's lowered Detroit's corporate-equivalent rating to Aa2 from Aa1.

Standard & Poor's in November also downgraded the unlimited-tax GOs to BBB from BBB-plus and the limited-tax debt to BBB-minus from BBB debt. The outlook is negative. Finally, Fitch earlier this month downgraded Detroit to BBB from BBB-plus and placed the credit on negative watch, a rating that also applies to the COPs.

<http://www.bondbuyer.com> <http://www.sourcemediacom>

**GRAPHIC:** photo, Kwame Kilpatrick; Amy Resnick

**LOAD-DATE:** October 31, 2006

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# **GRS Service Contract 2006**

**between the**

**Detroit General Retirement System Service Corporation**

**and the**

**City of Detroit**

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**Dated June 7, 2006**

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**GRS Service Contract 2006**, dated June 7, 2006, between the **Detroit General Retirement System Service Corporation**, a Michigan nonprofit corporation (the *Corporation*), and the **City of Detroit**, Michigan (the *City*),

**W I T N E S S E T H:**

**Whereas**, this Service Contract is a “2006 Service Contract”, under the Resolution adopted by the City Council on April 26, 2006 (the *Act of Council*), entered into for the purpose of implementing the Act of Council by enabling the Corporation to meet obligations in respect of the Additional Funding the Corporation agreed, if requested by the City and approved by the City Council, to provide in Section 4.01 of its 2005 Service Contract (as defined in the Act of Council, the *2005 Service Contract*);

**Whereas**, the maximum amount of the Additional Funding that the City has requested that the Corporation provide pursuant to its agreement under the 2005 Service Contract is equal to \$779,530,000, the amount of the Scheduled Payments that the City is obligated to pay under the 2005 Service Contract (as defined in the Act of Council, the *2005 Scheduled Payments*);

**Whereas**, the Act of Council provides for the Additional Funding to be accomplished in one or more Additional Funding Transactions;

**Whereas**, this Service Contract provides for an Additional Funding Transaction with respect to 2005 Scheduled Payments in the amount of \$331,475,000 (the *Subject 2005 Scheduled Payments* as more specifically identified herein); and

**Whereas**, in anticipation of the Additional Funding Transaction to be undertaken pursuant to this Service Contract, the Corporation entered into the agreement dated June 7, 2006, with UBS Securities LLC (the *Dealer Manager Agreement*) to act as the Corporation’s dealer manager for purposes of conducting the tender (the *Dealer Manager*) for the purchase of the herein defined Tender Certificates;

**Now, Therefore**, in consideration of the premises and the mutual promises contained here, the parties hereto agree as follows:

**Section 1. Definitions; Identification of Schedules**

(a) Undefined capitalized terms used herein and defined in the first paragraph hereof or the preamble hereto are used herein as therein defined, such terms include:

Act of Council	Dealer Manager Agreement
City	2005 Scheduled Payments
Corporation	2005 Service Contract
Dealer Manager	Subject 2005 Scheduled Payments

(b) The following are the subsections of **this Section** where terms are defined or where the locations are given where terms defined in other sections of these Specific Terms:

Subsection (c) .....	Terms used generally
Subsection (d) .....	Terms defined elsewhere in these Specific Terms

- Subsection (e) ..... Terms used primarily with respect to the Prepayment Scheduled Payments
- Subsection (f) ..... Terms used primarily with respect to the Tender Scheduled Payments
- Subsection (h) ..... Names given to numbered or alpha/numerically designated Schedules

(c) The following terms have the following respective meanings for the purpose of this Service Contract *unless* the context otherwise clearly requires:

***Business Day*** means a day on which both the City and the Trustee are open for the transaction of business.

***Trust Agreement*** means the trust agreement, to be dated the Closing Date, between the Corporation and the Trustee establishing the Funding Trust and providing for the issuance of the Certificates.

***2005 Contract Administrator*** means the Person serving as “Contract Administrator” under the 2005 Contract Administration Agreement.

***2005 Contract Administration Agreement*** means the Contract Administration Agreement, dated May 25, 2005, under which the 2005 Service Contract is administered.

***2005 Hedge*** means any Authorized Hedge entered into by the Corporation pursuant to the 2005 Service Contract.

***2005 Hedge Counterparties*** means the Hedge Counterparties listed in the **Schedule of 2005 Hedges to be Terminated**.

***2005 Hedge Termination Receivables*** means the amounts to become due to the Corporation from the 2005 Hedge Counterparties by reason of the termination, in whole or in part, of the 2005 Hedges to be Terminated in connection with the payment or prepayment of Subject 2005 Scheduled Payments. The amounts of the 2005 Hedge Termination Receivables are set forth in the **Schedule of 2005 Hedges to be Terminated** as the “Hedge Termination Receivables”.

***2005 Hedge to be Terminated*** means any 2005 Hedge identified in the **Schedule of 2005 Hedges to be Terminated**.

***2005 Scheduled Payment Dates*** means Scheduled Payment Dates provided for in the 2005 Service Contract.

***2005 Service Charge Payment Date*** means a date on which 2005 Service Charges become due pursuant to the 2005 Service Contract.

***2005 Service Charges*** means Service Charges to become due pursuant to the 2005 Service Contract on 2005 Scheduled Payments.

***2005 Service Contract*** means the Service Contract, dated May 25, 2005, between the Corporation and the City.

***Subject 2005 Scheduled Payments*** means the 2005 Scheduled Payments identified in the Tender Schedule and in the Non-Tender Schedule.

**Trustee** means U.S. Bank National Association and its successors as trustee under the Trust Agreement.

**Underwriting Agreement** means the Underwriting Agreement, dated the date hereof, among the Corporation, the City and the Representative on behalf of the Underwriters.

(d) Certain of the terms generally used in these Specific Terms are defined elsewhere and include the following:

<u>Term</u>	<u>Location</u>
Certificates .....	Section 5
General Terms .....	Section 1
Non-Tender Escrow.....	Section 11
Prepayment Date.....	Section 6
Prepayment Premium.....	Section 6
Stated Funding Amount .....	Stated Amounts Funding Schedule
Specific Terms.....	Section 1
Tender Account .....	Section 12
Transaction Amount .....	Section 3

(e) Certain of the terms used primarily with respect to the Prepayment Scheduled Payments are defined in **Section 11** and include the following:

Non-Tender Amount	2005 Prepayment Dates
Non-Tender Escrow Supplement	2005 Prepayment Premiums
Prepayment Scheduled Payments	

(f) Certain of the terms used primarily with respect to Tender Scheduled Payments are defined in **Section 12** and include the following:

Accrued Tender Service Charges	Tender Payment
Beneficial Owner	Tender Payment Date
Relevant 2005 Owners	Tender Period
Tender Amount	Tender Premium
Tender Account	Tender Scheduled Payments
Tender Account Supplement	2005 Trust Agreement
Tender Certificates	2005 Trustee

(g) Certain other terms used herein are defined in the General Terms.

(h) The following schedules to these Specific Terms are herein identified by the following respective names:

<u>Schedule</u>	<u>Name</u>
Schedule 1 .....	Stated Amounts Funding Schedule
Schedule 1A .....	Schedule of 2005 Hedges to be Terminated
Schedule 1B-NTS .....	Non-Tender Schedule
Schedule 1B-TS .....	Tender Schedule
Schedule 2 .....	Scheduled Payments Attachment
Schedule 3 .....	Sinking Fund Installments Attachment
Schedule 4 .....	Schedule of Credit Insurance
Schedule 5 .....	Schedule of Stated Hedges

## Section 2. Constituent Parts of the Service Contract and Incorporation by Reference

The GRS Service Contract 2006 consists of this instrument (the *Specific Terms*) and the **Restated General Terms and Conditions of GRS Service Contract 2006**, dated as of June 1, 2006 (the *General Terms*), which is incorporated by reference and made a part hereof as if set forth in full in this instrument.

## Section 3. Purpose of Initial Funding; How Accomplished

(a) The purpose of the Initial Funding is to provide an Additional Funding Transaction by funding the Subject 2005 Scheduled Payments pursuant to this Service Contract.

(b) The Corporation shall accomplish the Additional Funding Transaction as provided in **this subsection**. The amount necessary to accomplish the Additional Funding Transaction (the *Transaction Amount*), to be applied to the below purposes, is set forth in the Stated Amounts Funding Schedule.

(1) 2005 Hedge Termination Receivables shall be applied as provided in **Section 10**.

(2) The Corporation shall establish the Non-Tender Escrow and deposit therein its proceeds from the sale of the Certificates equal to the Non-Tender Amount to be applied in accordance with the Non-Tender Escrow Supplement (as to which, see **Section 11**).

(3) The Corporation shall establish the Tender Account and deposit therein its proceeds from the sale of the Certificates equal to the Tender Amount to be applied in accordance with the Tender Account Supplement in conjunction with the Dealer Manager Agreement (as to each of which, see **Section 12**).

## Section 4. Certain Particulars of the Initial Funding

### (a) Stated Funding Amount

The *Stated Funding Amount* consists of the Transaction Amount and the Ancillary Amounts, all as set forth in the **Stated Amounts Funding Schedule**.

(b) Funding Rate Portions

The *Funding Rate Portions* of the Transaction Amount and their respective amounts are as follows:

<u>Funding Rate Portion</u>	<u>Amount</u>
Fixed Rate.....	\$68,950,000 <sup>1</sup>
Variable Rate .....	\$283,746,000 <sup>2</sup>

(c) Scheduled Payment Dates and Amounts, Service Charge Classes

The Scheduled Payment Dates, the amounts of Scheduled Payments of the Funding Rate Portions due on their respective Scheduled Payment Dates and the respective Service Charge Classes are set forth in the **Scheduled Payments Attachment**.

(d) Sinking Fund Installments

The Scheduled Payments subject to Sinking Fund Installments, the amount of the respective Sinking Fund Installments and Scheduled Payment Dates on which the Sinking Fund Installments are due are set forth in the **Sinking Fund Installments Attachment**.

(e) Fixed Rate Funding Portion

(1) The Fixed Rate Service Charges applicable to the Fixed Rate Funding Portion are set forth in the **Scheduled Payments Attachment** opposite the Scheduled Payments comprising the Fixed Rate Funding Portion.

(2) The *Fixed Rate Service Charge Payment Dates* are the fifteenth day of each June and December, commencing December 15, 2006.

(f) Variable Rate Funding Portion

(1) Index Rate Service Charges are the only Type of Variable Rate Service Charges.

(2) The Index Rate Service Charges and the defined terms relative to determining the Index Rate Service Charges are set forth in the **Index Rate Funding Supplement**.

(g) Credit Insurance

The Corporation shall enter into the Credit Insurance described in the **Schedule of Credit Insurance** for, respectively, all Service Charge Classes and the Stated Hedges.

(h) Stated Hedges

The Corporation shall enter in the Hedges described in the **Schedule of Stated Hedges** with respect to the Index Rate Service Charge Class. The Stated Hedges are acceptable to the Finance Director.

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<sup>1</sup> The total of the Scheduled Payments for the Fixed Rate Service Charge Class set forth in the **Scheduled Payments Attachment**.

<sup>2</sup> The total of the Scheduled Payments for the Variable Rate Service Charge Class set forth in the **Scheduled Payments Attachment**.

(i) Representative

The **Representative** is UBS Securities LLC.

(j) Closing Date

The **Closing Date** is provided for in the Underwriting Agreement.

(k) Contract Administration Agreement

The **Contract Administration Agreement** is the Contract Administration Agreement 2006, dated the Closing Date among the Corporation and the other Persons named therein, for the administration, *inter alia*, of this Service Contract.

**Section 5. Provision of Initial Funding**

The Corporation shall enter into the Trust Agreement on the Closing Date in order to establish Detroit Retirement Systems Funding Trust 2006 (the **Funding Trust**) for the purpose of issuing Certificates of Participation captioned as provided therein (the **Certificates**) to provide the Initial Funding.

**Section 6. Optional Prepayment – Fixed Rate Portion**

(a) The City may prepay the Scheduled Payments (each, a **Selected Scheduled Payment**) of the Fixed Rate Portion in whole or in part on any date by paying the Corporation an amount equal to the greater of:

(i) 100 percent of the outstanding balance of the particular Selected Scheduled Payment being prepaid; *or*

(ii) the sum of the present values of the remaining Sinking Fund Installments of such Selected Scheduled Payment and related Service Charges that would have accrued after the date fixed for prepayment (the **Prepayment Date**) discounted to the Prepayment Date on a semiannual basis (assuming a 360-day year consisting of 12, 30-day months) at the Treasury Rate (defined below) *plus* 12.5 basis points (0.125%),

*plus*, in either case, Service Charges accrued from the last Service Charge Payment Date to which Service Charges were paid in full on the particular Selected Scheduled Payment to the Prepayment Date. The **Prepayment Premium** is the amount by which **clause (ii)**, above, exceeds **clause (i)** above.

(b) The following definitions are used to determine the Treasury Rate:

**Treasury Rate** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the Prepayment Date for a price equal to the Comparable Treasury Price, as calculated by the Designated Treasury Dealer.

**Comparable Treasury Issue** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, the United States Treasury security or securities selected by the Designated Treasury Dealer which has an actual or interpolated maturity comparable to the remaining average life of such Selected Scheduled Payment, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Selected Scheduled Payment.

**Comparable Treasury Price** means, with respect to the Prepayment Date for any particular Selected Scheduled Payment, (i) *if* the Designated Treasury Dealer receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such Prepayment Date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) *if* the Designated Treasury Dealer receives fewer than four such Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations received by it.

**Designated Treasury Dealer** means one of the Reference Treasury Dealers appointed by the Contract Administrator.

**Reference Treasury Dealer** means UBS Securities LLC or its successors, and four other firms, selected by the Contract Administrator from time to time, that are primary U.S. Government securities dealers in the City of New York (each, a **Primary Treasury Dealer**); *if* any Reference Treasury Dealer ceases to be a Primary Treasury Dealer, *then* the City will select a replacement Reference Treasury Dealer that is a Primary Treasury Dealer.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any Prepayment Date for a particular Selected Scheduled Payment, the average, as determined by the Designated Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Treasury Dealer by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such Prepayment Date.

## **Section 7. Optional Prepayment – Variable Rate Portion**

The City may prepay any Scheduled Payment payable on and after June 15, 2011, in the Variable Rate Portion in whole or in part on any Variable Rate Service Charge Payment Date at the amount thereof *plus* Service Charges accrued from the last Service Charge Payment Date to which Service Charges were paid in full on the particular Scheduled Payment to the Prepayment Date.

## **Section 8. Stated Hedges**

(a) The City acknowledges that it derives a direct benefit from the Stated Hedges by reducing the Funding Cost volatility of the Index Rate Service Charges.

(b) Stated Hedges may provide that the rights and obligations of the parties thereunder shall be governed by the laws of a State of the United States other than Michigan.

Such governing law provision may exclude the conflicts of law rules of the particular jurisdiction.

(c) The City understands that the Corporation intends to follow customary practice to mitigate possible interest rate risk and enter into the Stated Hedges prior to the Closing Date. As a consequence, the City will be obligated to make Service Payments in respect of Hedge Payables thereunder even though the Stated Funding Amount is not funded from the proceeds of the anticipated COPs. The City understands and accepts the risk that the Stated Funding Amount will not be so funded and that it will be nonetheless obligated to make such Service Payments.

**Section 9. Special Provisions Concerning the Transfer Party**

(a) The following terms have the following respective meanings:

*Siebert* means SBS Financial Products Company, LLC and its permitted successors and assigns under the Transfer Agreement.

*Siebert Swap* means, as applicable: (i) the ISDA Master Agreement (FGIC), dated May 25, 2005, between the Corporation and Siebert, together with the Schedule thereto and the Confirmation of the Swap Transaction thereunder dated June 7, 2006; or (ii) the ISDA Master Agreement (XL) dated June 7, 2006, between the Corporation and Siebert, together with the Schedule thereto and the Confirmation of the Swap Transaction thereunder dated June 7, 2006.

*Transfer Agreement* means, as applicable: (i) the Transaction Transfer Agreement (FGIC) dated May 25, 2005, among Siebert, the Corporation and the Transfer Party; and (ii) the Transaction Transfer Agreement (XL) dated June 7, 2006, among Siebert, the Corporation and the Transfer Party, as each of the same may be amended from time to time with the consent of each Insurer not then in default under its respective Credit Insurance.

*Transfer Event* means the occurrence of (i) an Early Termination Date (as defined in a Siebert Swap) with respect to the respective Siebert Swap and all Transactions thereunder and the entering into of Transfer Transactions (as defined in the Transfer Agreement) in accordance with Paragraph 2(a) of the Transfer Agreement or (ii) an assignment to the Transfer Party pursuant Section 6(c) of the Schedule that forms a part of the Siebert Swap.

*Transfer Hedge* means the Transfer Swap Agreement identified in the respective Transfer Agreement.

*Transfer Party* means Merrill Lynch Capital Services, Inc. and its permitted successors and assigns under the respective Transfer Agreement.

(b) As between Siebert and the Transfer Party, the exercise by Siebert or the Transfer Party of any right or remedy under this Service Contract shall be governed by the Transfer Agreement.



- (c) Upon the occurrence of a Transfer Event:
- (i) the Transfer Hedge shall constitute a Stated Hedge; and
  - (ii) the Transfer Party shall be a "Specified Hedge Counterparty" for purposes of the Contract Administration Agreement and shall accede to all the rights and remedies, and be bound by the obligations, of Siebert as a Specified Hedge Counterparty thereunder and shall also accede to all the rights and remedies of Siebert under this Service Contract.
- (d) Siebert and the Transfer Party shall give prompt written notice to the Contract Administrator of the occurrence of a Transfer Event (and the Insurer may give such a written notice to the Contract Administrator); provided, however, the failure to give such notice shall not affect the operation of **subsection (c) above**. Until the Contract Administrator receives such a notice and in the absence of actual knowledge to the contrary, it shall be entitled to assume that no Transfer Event has occurred and Siebert is the Specified Hedge Counterparty under the Contract Administration Agreement.

#### **Section 10. Termination of 2005 Hedges**

- (a) On or after the date hereof, the Corporation shall timely take such action as is necessary to terminate the 2005 Hedges to be Terminated on the Closing Date in the respective Amounts to be Terminated set forth in the **Schedule of 2005 Hedges to be Terminated**.
- (b) The Corporation shall apply the 2005 Hedge Termination Receivables in the amounts, if any, set forth in the **Schedule of 2005 Hedges to be Terminated** as provided in the **Stated Amounts Funding Schedule** with the remaining balance of the 2005 Hedge Termination Receivables, if any, to be paid to the City.

#### **Section 11. Non-Tender Escrow**

- (a) The following terms have the following respective meanings with respect to the Non-Tender Escrow Supplement *unless* the context clearly otherwise requires:

***Non-Tender Amount*** is the amount sufficient to pay the Prepayment Scheduled Payments and applicable, estimated, 2005 Prepayment Premiums, together with the 2005 Service Charges accrued from the immediately preceding 2005 Service Charge Payment Date to the 2005 Prepayment Date.

***Non-Tender Escrow*** means the escrow established pursuant to the Non-Tender Escrow Supplement.

***Non-Tender Escrow Supplement*** means supplemental provisions in or to the Contract Administration Agreement with respect to the holding and application of the Non-Tender Amount.

***Prepayment Scheduled Payments*** means the Subject 2005 Scheduled Payments set forth in the **Non-Tender Schedule**. The 2005 Scheduled Payment Dates set forth opposite the Prepayment Scheduled Payments are only for purposes of distinguishing the particular Prepayment Scheduled Payment from other 2005 Scheduled Payments.

**2005 Prepayment Date** means the date set forth in the **Non-Tender Schedule** as the "2005 Prepayment Date".

**2005 Prepayment Premiums** means the 2005 Prepayment Premiums identified in the **Non-Tender Schedule**.

**2005 Scheduled Payment Dates** means Scheduled Payment Dates provided for in the 2005 Service Contract.

(b) For the avoidance of doubt, it is expressly agreed that the Non-Tender Amount is the property of the Corporation. The Corporation agrees to apply the Non-Tender Amount in accordance with the Non-Tender Escrow Supplement.

(c) The Non-Tender Escrow Supplement shall contain payment provisions set forth in **this subsection**.

(1) The Non-Tender Escrow Supplement shall provide that amounts for the payment of the Prepayment Scheduled Payments and applicable 2005 Prepayment Premiums, together with accrued 2005 Service Charges, shall be paid to the 2005 Contract Administrator no later than the Payment Time on the Prepayment Receipt Day for the 2005 Prepayment Date set forth in the **Non-Tender Schedule**.

(2) The Non-Tender Escrow Supplement shall also contain a provision to the effect that any amount remaining in the Non-Tender Escrow after making the payment provided for in **paragraph (1), above** shall be paid to the City. Thereupon, any such amount shall be the property of the City.

(d) The Non-Tender Escrow Supplement shall provide that the Non-Tender Amount may only be invested in securities that are within the meaning of "government securities" as defined by the Investment Company Act of 1940, as amended.

## **Section 12. Tender Account**

(a) The following terms have the following respective meanings with respect to the Tender Account and extinguishment of Tender Scheduled Payments *unless* the context clearly otherwise requires:

**Accrued Tender Service Charges** means 2005 Service Charges accruing on Tender Scheduled Payments from the last 2005 Service Charge Payment Date before the Tender Payment Date to (but not including) the Tender Payment Date *if* such Tender Payment Date is not also a 2005 Service Charge Payment Date.

**Beneficial Owner** means a Person who is an "entitlement holder" of a Tender Certificate under Article 8 of the applicable Uniform Commercial Code or a Person with comparable status under comparable foreign law.

**Relevant 2005 Owners** means the Beneficial Owners of 2005 Tender Certificates.

**Tender Account** means an account established with the Contract Administrator for the purpose of paying Tender Payments.

***Tender Account Supplement*** means supplemental provisions in or to the Contract Administration Agreement with respect to the holding and application of the Tender Amount.

***Tender Amount*** means the amount sufficient to pay (i) all Relevant 2005 Owners the amount of Tender Scheduled Payments together with the Tender Premiums and Accrued Tender Service Charges and (ii) the fees and expenses payable pursuant to the Dealer Manager Agreement or otherwise in connection with the tender of the Tender Certificates.

***Tender Certificate*** means a 2005 Certificate, or portion thereof, representing an interest in any Tender Scheduled Payment.

***Tender Payment*** means, as to any tendering Relevant 2005 Owner, the amount of the Tender Scheduled Payment, Tender Premium and Accrued Tender Service Charges owing to such Relevant 2005 Owner on the Tender Payment Date.

***Tender Payment Date*** means the date identified in the Tender Account Supplement as the "Tender Date".

***Tender Premium*** means the amount of the premium (expressed as a percentage of the principal amount of a Tender Certificate) to be paid to a Relevant 2005 Beneficial Owner in connection with the purchase of its Tender Certificate in accordance with the Dealer Manager Agreement.

***Tender Scheduled Payments*** means the Subject 2005 Scheduled Payments set forth in the **Tender Schedule**. The 2005 Scheduled Payment Dates set forth opposite the Tender Scheduled Payments are only for purposes of distinguishing the particular Tender Scheduled Payment from other 2005 Scheduled Payments.

***2005 Certificates*** means the certificates of participation evidencing interests in 2005 Scheduled Payments.

***2005 Trust Agreement*** means the Trust Agreement, dated June 2, 2005, to which the Corporation is a party.

***2005 Trustee*** means the Person serving as trustee under the 2005 Trust Agreement.

(b) For the avoidance of doubt, it is expressly agreed that the Tender Amount is the property of the Corporation. The Corporation agrees to apply the Tender Amount in accordance with the Tender Account Supplement.

(1) The Tender Account Supplement shall contain provisions to the effect that the Contract Administrator shall pay the Tender Payments at the direction of the Dealer Manager in such amounts and at such times as is necessary to timely make the Tender Payments to the Relevant 2005 Owners entitled to the same.

(2) The Tender Account Supplement shall also contain provisions to the effect that the Contract Administrator will pay each Tender Payment at the direction of the Dealer Manager on a delivery vs. payment basis with respect to the related Tender Certificate.

(3) The Tender Account Supplement shall further contain provisions to the effect that:

(i) all Tender Certificates received by the Contract Administrator shall be delivered to the 2005 Trustee for cancellation;

(ii) unless all Tender Certificates have been tendered on the date hereof;

(A) as to any Tender Certificate received by the Contract Administrator as being tendered in part, the Contract Administrator shall direct the 2005 Trustee to authenticate a new 2005 Certificate in the principal amount of the untendered portion of such Tender Certificate; and

(B) upon receipt, the Contract Administrator shall transfer each such new 2005 Certificate to the Dealer Manager for re-transfer to the Relevant 2005 Owner entitled thereto.

(4) Provision shall be made in the Tender Account Supplement for the payment of all fees and expenses in connection with the tender.

(5) The Corporation shall provide in the Tender Account Supplement that any amount remaining in the Tender Account after making all Tender Payments and payment of all fees and expenses due in connection with the tender shall be paid to the City. Thereupon, any such amount shall be the property of the City.

### **Section 13. Notice of Prepayment**

(a) The City hereby states its intention to prepay the Subject 2005 Scheduled Payments on the 2005 Prepayment Date. Set forth in the Non-Tender Schedule are the particulars required by Section 5.03(c) of the 2005 Service Contract (*2005 Section 5.03(c)*) and Section 5.03(d) of the 2005 Service Contract, *2005 Section 5.03(d)*.

(b) The Corporation accepts **Section 13(a)** and the information contained in **Non-Tender Schedule** as being in full compliance with the Prepayment Notice provisions of 2005 Section 5.03(c) and waives the 45 day notice period provided for therein.

(c) Because, as set forth in the Non-Tender Schedule, the Hedge Amount is \$0, the City is not required to give any evidence pursuant to 2005 Section 5.03(d) regarding the availability of the Hedge Amount.

(d) The City represents and warrants to the Corporation that the prepayment of the Subject 2005 Scheduled Payments will not cause it to default under any agreement to which it is a party in connection with the Funding represented by the Subject 2005 Scheduled Payments.

The Corporation states that such representation and warranty is satisfactory for the purposes of 2005 Section 5.03(d).

(e) The prepayment of the 2005 Scheduled Payments shall be accomplished by the Corporation acting in accordance with **Section 3(b)(2)**.

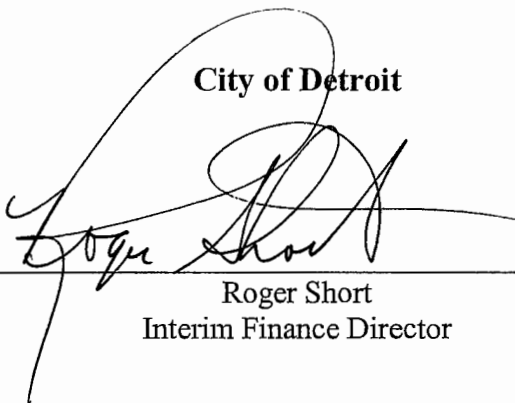
**In Witness Whereof**, the parties hereto have set their respective hands on the date first set forth above.

*[Signatures appear on pages S-1 et seq.]*

[Signature Page **Detroit General Retirement System Service Contract 2006** between the **Detroit General Retirement System Service Corporation** and the **City of Detroit**]

**City of Detroit**

By



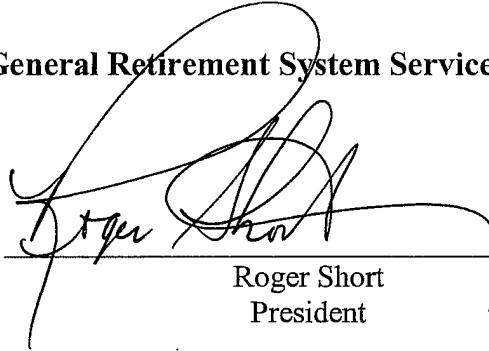
A handwritten signature in black ink, appearing to read "Roger Short", is written over a horizontal line. The signature is stylized and cursive.

Roger Short  
Interim Finance Director

[Signature Page Detroit General Retirement System Service Contract 2006 between the Detroit General Retirement System Service Corporation and the City of Detroit]

**Detroit General Retirement System Service Corporation**

By



A handwritten signature in black ink, appearing to read "Roger Short", is written over a horizontal line. The signature is fluid and cursive, with a large loop at the top.

Roger Short  
President

# **General Terms and Conditions**

of the

## **GRS Service Contract 2006**

between the

**Detroit General Retirement System Service Corporation**

and the

**City of Detroit**

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**Dated as of June 1, 2006**

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**GENERAL TERMS AND CONDITIONS  
OF THE  
GRS SERVICE CONTRACT 2006  
OF THE  
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION  
Dated as of June 1, 2006  
(the *General Terms*)**

The General Terms govern the 2006 GRS Service Contract between the Detroit General Retirement System Service Corporation (the *Corporation*) and the City of Detroit (the *City*).

**Article I — Definitions and Related Matters**

**Section 1.01. Certain Definitions**

In addition to terms elsewhere defined in this Service Contract, the following terms shall have the following respective meanings *unless* the context otherwise clearly indicates:

***Accreted Value Funding Portion*** means the portion, if any, of the amount to be funded pursuant to the particular Specific Terms equal to the total of the Accreted Value Scheduled Payments, in any, set forth in the Specific Terms.

***Accreted Value Scheduled Payments*** means those Scheduled Payments identified as such in the Specific Terms.

***Act of Council*** means the ordinance or resolution of the City Council identified in the Specific Terms as the “Act of Council”.

***Additional Service Payment*** means an amount payable as General Corporate Expenses or pursuant to **Section 9.09** *other* than Contract Administrator Payments.

***Ancillary Amounts*** means the Costs of Issuance, Prepaid Service Charges and Underwriter’s Discount.

***Authorized Investments*** means

- (i) direct obligations of, or obligations unconditionally guaranteed by, the United States of America (***US Governments***) and
- (ii) repurchase agreements whereby the counterparty agrees to repurchase obligations described in **clause (i)** *so long as* the obligations to be repurchased are under the exclusive “control” (as defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) of the Corporation.

STRIPS issued by the United States Treasury are Authorized Investments for the purposes of **clause (i)**, *but* private proprietary stripped US Governments, whether interest or principal strips, are not Authorized Investments.

***Business Day*** means any day on which both City and the Trustee are open for the transaction of business and in respect of any Service Charge Class has the meaning given in accordance with the Funding Rate Methodology for such Service Charge Class for actions taken in respect of such Funding Rate Methodology.

**Certificates** or **Certificates of Participation** mean the Certificates of Participation issued by the Funding Trust representing beneficial interests in the Service Payments *other* than Hedge Payables, Contract Administrator Payments and Additional Service Payments.

**Closing** means the delivery of particular Certificates to the Underwriters upon receipt of payment therefor and the other actions contemplated by the Underwriting Agreement to occur in connection therewith.

**Closing Date** means, with respect to particular Certificates, the date provided for in the particular Specific Terms on which the Closing occurs pursuant to the Underwriting Agreement.

**Contract Payments** means Service Payments and Additional Service Payments.

**Contract Administration Agreement** means the agreement identified in the Specific Terms as the "Contract Administration Agreement".

**Contract Administrator** means the Person serving as the "Contract Administrator" under the Contract Administration Agreement.

**Contract Administrator Payments** means amounts equal to amounts payable as fees, expenses and indemnification of the Contract Administrator pursuant to **Section 9.09**.

**Costs of Issuance** means the amount set forth in the particular Specific Terms as the "Costs of Issuance".

**Credit Insurance** means any insurance intended to protect owners of Certificates from loss arising from a failure of the City to timely pay Service Charges or Scheduled Payments. **Credit Insurance** also means any financial arrangement intended to protect a Hedge Counterparty from a failure of the Corporation to timely pay any Hedge Payable.

**Disclosure Document** means any preliminary or final offering document or other disclosure document prepared for use by the Underwriters in connection with the initial public offering of Certificates.

**Finance Director** has the meaning given that term in the Act of Council.

**Fixed Rate Funding Portion** means that the portion, if any, of the amount to be funded pursuant to the particular Specific Terms equal to the total of the Scheduled Payments set forth for Fixed Rate Service Charges.

**Funding Cost Supplement** means the document or particular provisions, if any, identified in the particular Specific Terms as a "Funding Cost Supplement".

**Funding** means the Initial Funding or an Additional Funding.

**Funding Rate Methodology** means the Fixed Rate Funding Methodology, any Variable Rate Funding Methodology or the Accreted Value Funding Methodology, as the context may require.

**Funding Rate Portion** means the Fixed Rate Funding Portion, the Variable Rate Funding Portion or the Accreted Value Funding Rate Portion as the context may require.

**Funding Trust** means the trust established by the Trust Agreement.

**General Corporate Expenses** means such periodic amounts as may be necessary to provide for the general administrative expenses of the Corporation as authorized or permitted by Ordinance No. 05-05, as in effect on the date hereof.

**Hedge** means an interest rate swap or other derivative instrument authorized or permitted by the Act of Council.

**Hedge Counterparty** means, as to any Stated Hedge, the Person identified in the particular Specific Terms as the "Hedge Counterparty".

**Hedge Payable** means, after giving effect to any netting under the particular Stated Hedge, any Hedge Periodic Payable or any Hedge Termination Payable as the context may require.

**Hedge Periodic Payable** means, after giving effect to any netting under the particular Stated Hedge, a periodic amount owing by the Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Periodic Receivables** means, after giving effect to any netting under the particular Stated Hedge, periodic payments owing by the Hedge Counterparty under a Stated Hedge.

**Hedge Receivable** means any Hedge Periodic Receivable or Hedge Termination Receivable as the context may require.

**Hedge Termination Payable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Termination Receivable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Hedge Counterparty under a Stated Hedge.

**Insurer** means the Person obligated under Credit Insurance to make payments with respect to Certificates or a Stated Hedge.

**Investable Funds** means amounts representing Costs of Issuance and Prepaid Service Charges.

**Payment Time** means noon (12:00), Detroit time.

**Person** means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

**Prepaid Service Charges** means the amount set forth in the particular Specific Terms as the "Prepaid Service Charges".

**Regular Scheduled Payment** means the amount of a Scheduled Payment due on its Scheduled Payment Date.

**Representative** means the Person identified in the particular Specific Terms as the "Representative".

**Scheduled Payment Dates** means the dates set forth in the particular Specific Terms as the "Scheduled Payment Dates".

**Scheduled Payments** means the amounts set forth in the particular Specific Terms as the “Scheduled Payments”.

**Service Charge Payment Date** means a Fixed Rate Service Charge Payment Date or a Variable Rate Service Charge Payment Date for a particular Variable Rate Funding Type, as the context may require.

**Service Charge Class** means all Scheduled Payments that have the same Funding Rate Methodology.

**Service Contract** means the 2006 Service Contract between the City and the Corporation consisting of these General Terms and the 2006 Specific Terms.

**Service Contract Deficiency** means any unsatisfied amount under a Service Contract Deficiency Clause.

**Service Contract Deficiency Clause** means the following **clauses** set forth in **Section 8.03: First** (to the extent any fees, expenses and indemnity is at the time due and unpaid to the Contract Administrator), **Second, Fourth and Sixth**.

**Service Payment** means any Contract Administrator Payment, Service Charge (regardless of Funding Rate Methodology), Regular Scheduled Payment or Sinking Fund Installment, amounts in respect of any Hedge Payable, Optional Prepayment or Accrued Service Charge as the context may require.

**Specific Terms** means that part of the Service Contract that provides the particulars of the a Funding.

**Stated Funding Amount** means the amount identified in the particular Specific Terms as the “Stated Funding Amount”.

**Stated Hedge** means a Hedge identified in the particular Specific Terms as a “Stated Hedge”.

**Third Party Beneficiary** means any Person so identified in **Section 9.12**.

**Transaction Amount** means the amount set forth in the Specific Terms as the “Transaction Amount”.

**Trust Agreement** means the Trust Agreement identified in the particular Specific Terms.

**Trust Estate** means the property identified as the “Trust Estate” in the Trust Agreement.

**Trustee** means the Person acting as trustee under the Trust Agreement.

**Type** as in **Variable Rate Funding Type** (and correlative usages) means a method by which Variable Funding Rates are determined, such as by Dutch auction, by reference to an identified index (such as the London Interbank Offered Rate or “LIBOR”) or by remarketing or any other means customarily used to determine variable rates in municipal or corporate finance. “Type” when used with respect to a Service Charge Class has the correlative meaning.

**Underwriters** means the Representative and the other Persons identified in the Underwriting Agreement as the “Underwriters”.

**Underwriters’ Discount** means the amount set forth in the particular Specific Terms as the “Underwriters’ Discount”.

**Underwriting Agreement** means the agreement among the Corporation, the City and the Underwriters providing for the public offering of Certificates to fund a Funding.

**Variable Rate Funding Portion** means all or that portion, if any, of the Stated Funding Amount equal to the total of the Scheduled Payments set forth for all types of Variable Rate Service Charge Classes.

**Section 1.02. Other Definitions**

Terms defined elsewhere in these General Terms include the following:

<i>Term</i>	<i>Defined In</i>
Accreted Value .....	Section 6.05
Accreted Value Day Count Convention .....	Section 6.05
Accreted Value Funding Rate Methodology .....	Section 6.05
Accreted Value Service Charge Rates .....	Section 6.05
Accreted Value Service Charges .....	Section 6.01
Accrued Service Charges .....	Section 5.03
Additional Funding .....	Section 4.01
Component.....	Section 1.03
Corporation.....	General Terms, First Paragraph
Day Count Convention .....	Section 6.04
Delivery Notice.....	Section 5.04
Eligible Certificates .....	Section 5.04
Fixed Rate Funding Methodology.....	Section 6.03
Fixed Rate Scheduled Payments.....	Section 6.03
Fixed Rate Service Charge Payment Date.....	Section 6.03
Fixed Rate Service Charges.....	Section 6.01
Funding Costs .....	Section 6.01
Hedge Amount.....	Section 5.03
Initial Funding .....	Section 4.01
Initial Funding Contract Payments .....	Section 3.02
Invest.....	Section 7.04
Investment.....	Section 7.04
Labor Law or Regulations .....	Section 3.03
Maturity Value.....	Section 6.05
Optional Prepayment Amount .....	Section 5.03
Optional Prepayment Dates .....	Section 5.03
Optional Prepayment Notice.....	Section 5.03
Optional Prepayments.....	Section 5.03
Prepayment Notice.....	Section 5.03
Prepayment Receipt Day .....	Section 5.03
Rating Agency .....	Section 9.02
Related Service Payment .....	Section 7.03
Service Charges .....	Section 6.01
Service Charge Determination Dates.....	Section 6.04
Service Payment .....	Section 1.01
Service Payment Component.....	Section 1.03

<i>Term</i>	<i>Defined In</i>
Sinking Fund Installment Dates.....	Section 2.01
Sinking Fund Installments.....	Section 2.01
Total Prepayment Amount.....	Section 5.03
Valuation Dates .....	Section 6.05
Variable Rate Funding Methodology .....	Section 6.04
Variable Rate Scheduled Payments.....	Section 6.04
Variable Rate Service Charge Payment Dates.....	Section 6.04
Variable Rate Service Charges .....	Section 6.01

### Section 1.03. Service Payment Components

Service Payments consist of the following components (each, a *Component* or *Service Payment Component*):

- Contract Administrator Payments
- Service Charges (regardless of Funding Rate Methodology)
- Regular Scheduled Payments
- Sinking Fund Installments
- amounts in respect of Hedge Periodic Payables
- amounts in respect of Hedge Termination Payables
- Optional Prepayments
- Accrued Service Charges

### Section 1.04. Business Days

If the Service Contract requires an act to be performed on a day that is not a Business Day then such act shall be performed on the first day thereafter that is a Business Day with the same effect as if such act were performed on the day that such act was otherwise required to be performed.

### Section 1.05. Certificates Held in Book-Entry Form

(a) Actions under the Service Contract to be taken with regard to a Certificate in physical form include analogous actions under Article 8 of the applicable Uniform Commercial Code with respect the indirect holding system (commonly referred to as “book-entry system”).

(b) Any such analogous action shall be full satisfaction of its physical analogue.

(c) The Corporation and the City may conclusively presume that any such action analogous to a physical action has been taken in due time and manner as required by law, and neither of them has any duty to enquire with respect thereto.

### Section 1.06. Interpretation

(a) Words of the masculine gender include correlative words of the feminine and neuter genders.

(b) Unless the context otherwise indicates, words importing the singular include the plural and vice versa.



(c) Articles, Sections, Schedules and Attachments referred to by number or name refer to the corresponding Articles, Sections, Schedules and Attachments of the Service Contract unless otherwise provided.

(d) The terms *hereby*, *hereof*, *hereto*, *herein*, *hereunder* and any similar terms used in the Service Contract refer to the Service Contract as a whole and not to any particular portion thereof.

(e) The word *or* is not exclusive.

(f) The enumeration of things after the word *including* is to be interpreted as illustrative and not as restrictive.

(g) References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections or Public Acts enacted as substitutes therefor.

## Article II — Terms of Service Contract

### Section 2.01. Particulars of Specific Terms

(a) The Specific Terms for the Initial Funding shall:

- (1) Incorporate by reference these General Terms;
- (2) State the Stated Funding Amount and the Transaction Amount and Ancillary Amount components thereof;
- (3) Set forth the Scheduled Payments to be made pursuant to the Service Contract and classify the Scheduled Payments by Service Charge Class;
- (4) Set forth any Scheduled Payments subject to mandatory prepayment (*Sinking Fund Installments*), the amount of the Sinking Fund Installments and the Scheduled Payment Dates on which such Sinking Fund Installments are due (*Sinking Fund Installment Dates*);
- (5) Provide for the terms required by **Section 6.03** if the particular Specific Terms provides for Fixed Funding Rate Portion;
- (6) Identify the Funding Cost Supplement (which shall include the terms required by **Section 6.04**) for each Type of Variable Funding Rate Service Charge Class if the particular Specific Terms provides for a Variable Rate Funding Portion;
- (7) Identify the Funding Trust for Certificates and the Trust Agreement establishing such Funding Trust;
- (8) Identify any Hedge and any Credit Insurance to be entered into by the Corporation with respect to one or more Service Charge Classes and state that any such Hedge or Credit Insurance is acceptable to the Finance Director;
- (9) Identify the Representative;
- (10) Provide for the Closing Date and the disposition of the proceeds of the particular funding;

- (11) Identify the Contract Administration Agreement, if any; and
- (12) Contain such other particulars as agreed to by the Corporation and the City.

(b) The Specific Terms for an Additional Funding shall contain particulars to the same effect as the Initial Funding so far as necessary or appropriate and such other particulars as shall relate to the particular Additional Funding.

(c) Specific Terms for an Additional Funding do not constitute an amendment of the Service Contract to provide new services but rather an implementation of services agreed to be provided on the date of the Service Contract. The Service Contract may be restated to include the Specific Terms for an Additional Funding for convenience of reference.

### **Section 2.02. Variation of General Terms; Conflict with General Terms**

(a) Specific Terms may not change **this Section** of these General Terms.

(b) *Except* as provided above, Specific Terms may delete, modify or otherwise vary these General Terms *but only* as related to a particular Funding *and then only* so long as such does not adversely affect any of the rights of successors to any interest of the Corporation or the rights of any Third Party Beneficiary arising in any prior Funding.

(c) Any conflict between these General Terms and the terms set forth in any Specific Terms of the Service Contract shall be resolved in favor of the particular Specific Terms so far as not in conflict with **this Section**.

### **Article III — Representations and Warranties**

Each of the Corporation and the City represent and warrant as set forth in this Article for the mutual benefit of each other and for the benefit of the Funding Trust and the holders from time to time of the Certificates.

#### **Section 3.01. Representations of the Corporation**

The Corporation makes the following representations and warranties on the date hereof and shall make the same on and as of the Closing Date:

(a) Corporate Existence and Power. The Corporation is a nonprofit corporation duly incorporated, validly existing and in good standing under the laws of the State of Michigan.

(b) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Corporation of the Service Contract are within the Corporation's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or bylaws of the Corporation or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Corporation.

(c) Binding Effect. The Service Contract constitutes a valid and binding agreement of the Corporation enforceable in accordance with its terms *except* as may be limited by bankruptcy, insolvency or similar laws affecting the rights of creditors generally.

(d) Litigation. There is no action, suit or proceeding pending against, or to the knowledge of the Corporation threatened against or affecting the Corporation before any court or

arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely the ability of the Corporation to perform its obligations under the Service Contract or which in any manner questions the validity of the Service Contract.

(e) No Taxation. The Corporation is not subject to federal income tax or taxation by the State of Michigan.

(f) Not an Investment Corporation. The Corporation is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

### **Section 3.02. Representations of the City**

The City makes the following representations and warranties on the date hereof and shall make the same on and as of the Closing Date:

(a) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the City of the Service Contract are within the City's powers, have been duly authorized by all necessary action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the City Charter or of any agreement, judgment, injunction, order, decree or other instrument binding upon the City.

(b) Conditions Precedent. All acts, conditions and things required by the Constitution and laws of the State of Michigan or the Act of Council to exist, to have happened and to have been performed precedent to and in the execution and delivery of the Service Contract by the City and the authorization of the Contract Payments in connection with the Initial Funding (*Initial Funding Contract Payments*) exist, have happened and been performed in due time, form and manner required by the Constitution or law in order to make the Service Contract a valid and binding obligation of the City, including the obligation to make the Initial Funding Contract Payments.

(c) No Indebtedness. The obligation of the City to make Contract Payments does not constitute or create any indebtedness of the City within the meaning of the limitation of The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.

(d) Valid and Binding Agreement. The Service Contract constitutes a valid and binding agreement of the City enforceable in accordance with its terms *except* as may be limited by bankruptcy, insolvency or similar laws affecting the rights of creditors generally.

(e) Transaction Amount. The amount of the Transaction Amount does not exceed the amount for which City is authorized by the Act of Council to engage the services of the Corporation by entering into the Service Contract.

(f) Ancillary Amounts. The Costs of Issuance, Prepaid Service Charges and Underwriters' Discount represent the costs, fees and expenses that the City is authorized to pay by the Act of Council for the respective purposes and do not exceed the amounts permitted by the Act of Council.

### Section 3.03. Labor Related Representations of City and Corporation

Each of the City and the Corporation respectively represents and warrants as to itself, severally and not jointly, that none of the

- (1) execution, delivery and performance of the Service Contract by the City or the Corporation;
- (2) the execution, delivery and performance of the Trust Agreement by the Corporation;
- (3) the conveyance of the Corporation's interests in the Service Charges and Scheduled Payments to the Funding Trust (or the granting of a security interest therein to the Funding Trust) and the issuance and sale of the Certificates; or
- (4) the performance by the Trustee of its duties under the Trust Agreement in respect of the Certificates

requires any action by or in respect of, or filing with any labor union or any governmental body, agency or official responsible for enforcing federal or State of Michigan labor laws or regulations (collectively, **Labor Laws or Regulations**), or contravenes or constitutes a default under, any provision of applicable Labor Laws or Regulations or any collective bargaining agreement (as the same may have been modified by custom or practice) or other labor agreement, or any judgment, injunction, order or decree or other instrument in respect of any Labor Laws or Regulations.

## Article IV — Service and Funding Arrangements

### Section 4.01. Provision of Services

(a) The services of the Corporation are described in the preamble to the Act of Council. The Corporation shall provide its services through taking the actions set forth below.

- (1) The Corporation shall fund the Stated Funding Amount on the Closing Date in the manner set forth in the Specific Terms (the **Initial Funding**).
- (2) The Corporation shall fund any Hedge Termination Payable in whole or in part as requested of the City and approved by the City Council.
- (3) The Corporation shall fund payment of some or all Service Payments as are requested by the City and approved by City Council to provide future financial benefits to the City (funding pursuant to **this paragraph** or **paragraph (2), above, an Additional Funding**). An Additional Funding shall be accomplished under one or more other service contracts and not under this Service Contract.
- (4) An Additional Funding may include such things in the nature of Costs of Issuance, Prepaid Service Charges and Underwriters' Discount as authorized or permitted by the approval of the City Council of the Additional Funding.

(b) "Funding", as used above, means the provision of money through the issuance of Certificates and does not mean or imply any further authorization of the City to make any Contract Payment *other than* Contract Payments in connection with any Additional Funding.

#### **Section 4.02. Payment Obligation**

(a) The City agrees to make Contract Payments to the Corporation in return for the present and future services of the Corporation under **Section 4.01** as and when Contract Payments become due and payable.

(b) The obligations of the City hereunder, including its obligation to make Contract Payments, are contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City, and are *not* general obligations of the City to which the City has pledged its full faith and credit.

#### **Section 4.03. Funding Obligation**

(a) The obligation of the Corporation to provide the Initial Funding or any Additional Funding is subject to the receipt by the Corporation of proceeds sufficient for the Funding from the sale of Certificates.

(b) The Corporation shall use its best efforts to cause the consummation of the offering and sale by the Underwriters of Certificates to provide sufficient proceeds for the particular Funding.

(c) The City agrees to provide such information about the City of Detroit as may be reasonably required by the Underwriters for inclusion in the Disclosure Document and to otherwise reasonably cooperate in the offering and sale of Certificates by the Underwriters.

(1) The City agrees to become a party to the Underwriting Agreement if the Underwriting Agreement is satisfactory in form and substance to the Finance Director.

(2) The City agrees to enter into a continuing disclosure agreement and take such other actions as shall be necessary or appropriate to assist the Underwriters in meeting their obligations under Rule 15c2-12 of the Securities and Exchange Commission.

#### **Section 4.04. Disposition of Certificate Proceeds**

The Corporation shall apply the proceeds of the sale of Certificates as provided in the Specific Terms for the particular Funding.

### **Article V — Scheduled Payments**

#### **Section 5.01. Scheduled Payments**

The City agrees to pay the Scheduled Payments of each Funding Rate Portion to the Corporation on the respective Scheduled Payment Dates for such Funding Rate Portion. For the avoidance of doubt, Scheduled Payments do not include Hedge Payables.

#### **Section 5.02. Mandatory Prepayment by Sinking Fund Installments**

The City agrees to prepay such Scheduled Payments as Sinking Fund Installments of each Funding Rate Portion on such Sinking Fund Installment Dates as shall be set forth in the Specific Terms.

### Section 5.03. Optional Prepayment of Scheduled Payments

(a) The City shall not voluntarily prepay any Scheduled Payments of a Funding Rate Portion (an **Optional Prepayment**) in whole or in part *unless* (i) such voluntary prepayment is expressly permitted in the Service Contract, (ii) it concurrently pays the Hedge Amount to the Corporation and (iii) it has met the condition precedent contained in **subsection (d)**, below.

(b) The following terms have the following respective meanings:

**Accrued Service Charges** means, *if* an Optional Prepayment Date is *not* a Service Charge Payment Date, the amount of Service Charges accrued on the amount of the Scheduled Payment to be prepaid from the last Service Charge Payment Date before the Optional Prepayment Date to the Optional Prepayment Date.

**Hedge Amount** means the amount, if any, of any Hedge Termination Payable that will be owed by the Corporation pursuant to any Stated Hedge relating to the Scheduled Payments being prepaid as a result of any required reduction in the notional amount of such Stated Hedge due to such prepayment and the Hedge Periodic Payable, if any, accrued to the date of termination.

**Optional Prepayment Amount** means the sum of (i) the amount of the prepayment premium, if any, required by the Service Contract in connection with the prepayment of any selected Scheduled Payments *and* (ii) the amount of Scheduled Payments selected to be prepaid.

**Optional Prepayment Notice** means a notice of the City to the Corporation stating its intention to prepay the Scheduled Payments specified therein by the Payment Time on the Prepayment Receipt Date for the Optional Prepayment Date specified in such notice.

**Prepayment Receipt Day** means the day before the Optional Prepayment Date.

**Total Prepayment Amount** means, as to any Optional Prepayment, the amount of the Optional Prepayment Amount, Accrued Service Charges, if any, and the Hedge Amount, if any.

(c) If the City elects to make an Optional Prepayment that is permitted by **subsection (a)**, above to be made, the City shall deliver an Optional Prepayment Notice *at least* 45 days (or such fewer days as is acceptable to the Corporation) before the Prepayment Receipt Date on which the City shall pay the Total Prepayment Amount to the Corporation in connection with such Optional Prepayment. Such Optional Prepayment Notice shall state:

(1) The Scheduled Payments of the particular Funding Rate Portion to be prepaid in whole or in part by such Optional Prepayment and the date on which such Scheduled Payments are to be prepaid (**Optional Prepayment Date**) *subject* to the following:

(i) a Scheduled Payment may be selected by the City *only if* it is permitted by the Service Contract to be prepaid on the particular Optional Prepayment Date and

(ii) a Scheduled Payment may be selected by the City for partial prepayment only in an amount of at least \$100,000 *unless* otherwise provided in the Service Contract;

(2) the Optional Prepayment Amount;

- (3) the Accrued Service Charges, if any;
- (4) the Hedge Amount, if any;
- (5) such information in tabular or other form so as to readily permit the Corporation to identify:
  - (i) the Scheduled Payments of the particular Funding Rate Portion selected for prepayment,
  - (ii) the provisions of the Service Contract authorizing or permitting such prepayment,
  - (iii) the prepayment premium, if any, required to be paid in connection with the prepayment of each such Scheduled Payment;
  - (iv) Accrued Service Charges, if any, due in respect of the prepayment of the particular Scheduled Payments; and
  - (v) the Hedge Amount, if any, due in respect of the prepayment of the particular Scheduled Payments.

(d) It is a condition precedent to the City giving an Optional Prepayment Notice to the Corporation with respect to any Optional Prepayment that would obligate the Corporation to pay a Hedge Amount that the City provide reasonable evidence satisfactory to the Corporation that such Hedge Amount will be paid when due and such prepayment will not cause the Corporation to be in default under any agreement to which it is party in connection with the particular Funding.

(e) The "reasonable evidence satisfactory to the Corporation" in **subsection (d)**, above, shall be such evidence as the Corporation is informed by the Hedge Counterparty or Counterparties and the Insurer (if the Insurer is not in default under its Credit Insurance at the time) is reasonably satisfactory to them.

(f) The delivery by the City of an Optional Prepayment Notice to the Corporation is a statement of the intention of the City to pay the Total Prepayment Amount to the Corporation by the Payment Time on the Prepayment Receipt Day for the Optional Prepayment Date stated therein but does not obligate the City to so pay the Total Prepayment Amount to the Corporation, and no default shall occur by the City not so paying the Total Prepayment Amount or by the Optional Prepayment not otherwise being effected on the Prepayment Receipt Day.

(g) The City may not make any Optional Prepayment that it is otherwise entitled to make under **this Section** unless it pays the Total Payment Amount in respect of such Optional Prepayment to the Corporation by the Payment Time (or such later time as may be acceptable to the Corporation) on the Prepayment Receipt Date.

(h) Any Total Prepayment Amount received by the Corporation shall be used by the Payment Time (or as soon thereafter as is practicable) on the Prepayment Receipt Date to the satisfaction of each of the priorities set forth in **Section 8.03** higher than **clause Eighth**.

(1) *If* none of the Total Prepayment Amount is used as provided above, *then* the Optional Prepayment shall be effectuated by using such Total Prepayment Amount to satisfy the Optional Prepayment Amount, the Accrued Service Charges, if any, and the Hedge Amount, if any.

(2) *If* any part of the Total Prepayment Amount is used as provided above, *then* the Optional Prepayment shall *not* be effectuated, and the balance, if any of the Total Prepayment Amount shall be returned to the City on the Prepayment Receipt Date.

(3) Use of the Total Prepayment Amount is subject to **Section 8.02**.

(i) The City shall *not* pay the Total Prepayment Amount to the Corporation on any day prior to the particular Prepayment Receipt Day.

#### **Section 5.04. Satisfaction of Scheduled Payments by Delivery of Certificates**

(a) The City may deliver or cause to be delivered Certificates to the Corporation in satisfaction (whether in whole or in part) of Scheduled Payments at any time and in any denomination upon 45 day's prior notice to the Corporation (or such fewer days as is acceptable to the Corporation) (a ***Delivery Notice***) subject to the following limitations.

(1) A Scheduled Payment may be satisfied by delivery of Certificates entitled to payment from such Scheduled Payment (***Eligible Certificates***).

(2) The amount of a Scheduled Payment deemed paid shall be equal to the denominations of the particular Eligible Certificates.

(3) No Certificate shall be delivered in payment in whole or in part of the respective Scheduled Payment (whether as payment of a Sinking Fund Installment or as other prepayment) more than 45 days before the respective due date *if* at the time of such delivery the City has not paid all Service Payments then and theretofore due.

(4) No Scheduled Payment shall be satisfied by the delivery of Certificates until such Certificates have been delivered to the Trustee.

(b) If Sinking Fund Installments are to be satisfied (whether in whole or in part) by the delivery of Eligible Certificates, the City shall indicate in the respective Delivery Notice the particular Sinking Fund Installments and amounts thereof to be so satisfied.

(c) All Certificates received by the Corporation in payment of Scheduled Payments pursuant to **this Section** shall be immediately delivered to the Trustee for cancellation.

### **Article VI — Service Charges**

#### **Section 6.01. Agreement to Pay Service Charges; Funding Costs**

(a) The City agrees to pay amounts (***Service Charges***) to the Corporation on Service Charge Payment Dates sufficient to pay the costs of capital (***Funding Costs***) for the particular Funding. For the avoidance of doubt, it is acknowledged that Service Charges do not include Hedge Payables.

(b) Funding Costs shall be determined by the particular Funding Rate Methodology.

(1) Funding Costs for any Fixed Rate Funding Portion shall be determined and paid in accordance with the Fixed Rate Funding Methodology described in **Section 6.03**, and the corresponding Service Charges shall be ***Fixed Rate Service Charges***.

(2) Funding Costs for a Variable Rate Funding Portion shall be periodically determined and paid in accordance with the Variable Rate Funding Methodology described in **Section 6.04**, and the corresponding periodic Service Charges shall be ***Variable Rate***



*Service Charges* and may be referred to by the particular Type of Variable Rate Service Charges; e.g., Index Rate Service Charges.

(3) Funding Costs for an Accreted Value Funding Portion shall be determined and paid in accordance with **Section 6.05** and the corresponding Service Charges shall be *Accreted Value Service Charges* (as to which, see also **Section 6.05**).

### **Section 6.02. Prepaid Service Charges; Hedge Receivables**

(a) Prepaid Service Charges shall be used to meet the City's obligation to pay the first occurring Service Charges and Hedge Periodic Payables of the Corporation *except* as otherwise may be provided in the Specific Terms.

(b) Hedge Receivables received by the Corporation shall be used to satisfy the City's obligation in respect of then existing Service Contract Deficiencies in accordance with **Section 7.05** or then current Service Charges not otherwise paid.

### **Section 6.03. Fixed Rate Funding Methodology**

(a) The provisions of **this Section** constitute the *Fixed Rate Funding Methodology*.

(b) The particular Specific Terms shall state the rates (*Fixed Service Charge Rates*) at which the Fixed Rate Service Charges are computed for the respective Scheduled Payments comprising the Fixed Rate Funding Portion (*Fixed Rate Scheduled Payments*). Fixed Service Charge Rates may be different for different Fixed Rate Scheduled Payments.

(c) The particular Specific Terms shall also state the dates (*Fixed Rate Service Charge Payment Dates*) on which the Fixed Rate Service Charges are payable.

(d) Fixed Rate Service Charges shall be computed as if the Fixed Rate Scheduled Payments bore interest at the respective Fixed Rates and computed on the basis of a 360-day year consisting of 12, 30-day months.

(e) On each Fixed Rate Service Charge Payment Date the City shall pay a Fixed Rate Service Charge equal to the Fixed Rate Service Charge accrued on the respective unpaid Fixed Rate Scheduled Payments from the later of the Closing Date or the last Fixed Rate Service Charge Payment Date on which Fixed Rate Service Charges were paid in full by the City.

### **Section 6.04. Variable Rate Funding Methodology**

(a) The provisions of **this Section** constitute the *Variable Rate Funding Methodology*.

(b) The periodic Variable Rate Service Charge for each Scheduled Payment set forth under a particular type of Service Charge Class in the Variable Rate Funding Portion (*Variable Rate Scheduled Payments*) shall be determined in accordance with the particular Type of Variable Rate Funding.

(c) Each Funding Cost Supplement for a Type of Variable Rate shall provide for a procedure by which the Variable Rate Service Charges are determined for the particular Variable Rate Funding Type and shall further provide:

(1) The *Variable Rate Service Charge Payment Dates*: the dates on which the Variable Rate Service Charges are payable for such Type;

(2) The *Service Charge Determination Dates*: the dates on which the Variable Rate Service Charges of such Type are determined;

(3) The *Service Charge Adjustment Dates*: the dates on which the Variable Rate Service Charges of such Type are adjusted; and

(4) The *Day Count Convention*: the number of days in a month and in a year used to determine the amount of the Variable Rate Funding Service Charges of such Type.

(d) Variable Rate Service Charges for each Variable Rate Funding Type in the Variable Rate Funding Portion shall be computed as if the Variable Rate Scheduled Payments of the particular Variable Rate Type bore interest at a rate (the *Variable Service Charge Rate*) (i) determined as of each Service Charge Determination Date for such Type and effective as of the respective Service Charge Adjustment Date for such Type and (ii) computed using the applicable Day Count Convention for such Type.

(e) Variable Rate Funding Costs for any Variable Rate Funding Type may be tranced such that not all Variable Rate Funding Scheduled Payments of the particular Type are computed in the same manner; e.g., some may be determined on a weekly basis and others may be determined on a monthly basis.

(f) On each Variable Rate Service Charge Payment Date for a particular Type the City shall pay a Variable Rate Service Charge equal to the applicable Variable Rate Funding Costs accrued on the unpaid Variable Rate Funding Scheduled Payments of that Type from the later of the Closing Date or the last applicable Variable Rate Funding Service Charge Payment Date on which the Variable Rate Funding Service Charges of that Type were paid in full by the City.

#### **Section 6.05. Accreted Value Funding Methodology**

(a) The provisions of **this Section** constitute the *Accreted Value Funding Methodology*. The *Accreted Value Day Count Convention* for purposes of the Accreted Value Funding Rate Methodology is 12, 30-day months in a year of 360 days *unless* otherwise stated in the particular Specific Terms.

(b) The particular Specific Terms shall state:

(1) the Accreted Value Scheduled Payments,

(2) the rates at which the Accreted Values will be computed (the *Accreted Value Service Charge Rates*),

(3) Accreted Value Day Count Convention *if* the convention to be applied is different than the Accreted Value Day Count Convention defined in **subsection (a) above**.

(4) the dates on which the Accreted Values (the *Valuation Dates*) are to be computed and

(5) the Accreted Value for each \$5,000 (*unless* a different amount is set forth in the particular Specific Terms) of Maturity Value of each Accreted Value Scheduled Payment on each Valuation Date.

(c) The Accreted Value Funding Methodology consists of computing the future value (*Maturity Value*) of the Accreted Value Scheduled Payments from the particular Closing Date to their respective Scheduled Payment Dates using their respective Accreted Value Service Charge Rates and computed on the basis of compounding on each of the Valuation Dates and the Accreted Value Day Count Convention.

(1) The result obtained by application of the Accreted Value Funding Methodology to any Accreted Value Scheduled Payment is its *Accreted Value*.

(2) The Accreted Value of any Accreted Value Service Payment between any two, consecutive Valuation Dates shall be determined by interpolation between such Valuation Dates using the Accreted Value Day Count Convention.

(3) The Accreted Values set forth in the particular Specific Terms shall be conclusive in the absence of manifest error for all purposes of the Service Contract.

(d) *Accreted Value Service Charges* on any date of determination with respect to any Accreted Value Service Payment are equal to the Accreted Value of such Accreted Value Service Payment *less* such Accreted Value Scheduled Payment.

(1) Accreted Value Service Charges are due and payable on the Scheduled Payment Dates for the respective Accreted Value Scheduled Payments.

(2) Accreted Value Service Charges are not payable prior to their respective due dates *except* as in accordance with **Section 9.01**.

## **Article VII — General Provisions Governing Service Payments and Contract Administrator Payments**

### **Section 7.01. Time of Service Payments**

The City shall make all Service Payments other than Contract Administrator Payments by the Payment Time on the day immediately before the date when due. The City shall make all Contract Administrator Payments on the date when due.

### **Section 7.02. Hedge Payables**

The City agrees to pay the amount of any Hedge Payable to the Corporation promptly upon receipt of notice thereof from the Corporation; *provided* that the City is not required to pay such amount before the Payment Time on the day before the due date of the particular Hedge Payable.

### **Section 7.03. Subrogation**

(a) No payment of any amount to a holder of Certificates or a Hedge Counterparty made from an amount paid by an Insurer under its Credit Insurance (a *Credit Insurance Payment*) shall discharge the City's obligation to pay any Service Payment in respect of which such Credit Insurance Payment was paid (a *Related Service Payment*).

(b) An Insurer making a Credit Insurance Payment shall be subrogated to the rights of Certificateholders or a Hedge Counterparty, as the case may be, to receive the Related Service Payment and shall be entitled to exercise all rights and remedies that the Person to which it is the subrogee would have otherwise been entitled to exercise.

#### Section 7.04. Investment

(a) The Corporation shall not invest any amounts received by it under the Service Contract *except* as provided in **this Section**. *Invest* means the transfer, disposition or other use of such amounts in expectation of gain, and *Investment* means any investment of Investable Funds.

(b) Investable Funds shall be invested by the Corporation as directed by the City in Authorized Investments that mature in the amounts and at the times the related Investable Funds are needed to make the payments for which such Investable Funds were received by the Corporation.

(c) Investments shall be made by Funding Rate Portion but may be commingled for investment purposes *so long as* records are kept showing each particular Funding Rate Portion and the gain and loss attributable to it.

(d) No Investment shall be sold prior to the maturity thereof.

(e) All Investments shall be made directly by the Corporation having exclusive control over the related securities entitlement (as "control" and "security entitlement" are defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) *except* that Investments may also be made through one or more investment companies registered under the Investment Companies Act of 1940, as amended, *if* (i) such investment company has a rating by Standard & Poor's Corporation or any national statistical ratings organization (as defined by the Securities and Exchange Act of 1934, as amended, or any successor to it) at least equal to the rating of the Authorized Investment *and* (ii) such registered investment company invests only in debt instruments.

(f) Gain and loss from Investments shall be attributed to the type of Investable Funds giving rise to it.

(1) Gain shall be paid to the City when realized to the extent it is not needed to satisfy any then existing Service Contract Deficiency in accordance with **Section 7.05** or satisfy any then current Service Payment.

(2) The City is responsible for all such loss and shall reimburse the Corporation for such loss upon demand by the Corporation.

#### Section 7.05. Satisfying Service Contract Deficiencies

(a) **This Section** governs the use of certain amounts to satisfy Service Contract Deficiencies. *If* the City has not provided funds sufficient to satisfy the requirements of **Section 8.03**, *then* the amounts subject to this Section, in an amount not exceeding any Service Contract Deficiency, shall be applied in accordance with **Section 8.03**.

(b) The amounts subject to this Section and the order of use are (i) Hedge Receivables and (ii) gain from Investments

(c) Such amounts are subject to **Section 8.02**.

### Section 7.06. No Set-Off

The obligation of the City to make payments hereunder shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Corporation, the Trustee, any holder or beneficial owner of any Certificate or any other person whether in connection herewith or with any unrelated transaction and the obligation of the City to make such payments shall not be conditioned on its receipt of future services of the Corporation under **Sections 4.01(a)(2)** through **(4)**. The City will not suspend or discontinue its obligation to make any such payment for any cause whatsoever, and, to the extent permitted by law, the City waives all rights now or hereafter conferred by statute or otherwise to quit, terminate, cancel or surrender any such obligation of the City under the Service Contract or to any abatement, suspension, deferment, diminution or reduction in such payments.

## Article VIII — Satisfaction of Service Payments and Contract Administrator Payments

### Section 8.01. Certain Defined Terms

An amount is *about to become due* for the purposes of **Section 8.03** on the Business Day before its due date *except* when the amount is payable daily, in which case the term “about to become due” is inapplicable.

*all Service Contracts* means the Service Contract and the Other Service Contract.

*each Service Contract* means the Service Contract or the Other Service Contract as the context may require.

*each Service Corporation* means the Service Corporation or the Other Service Corporation as the context may require.

*Other Service Contract* means a service contract between the City and the Other Service Corporation, certain payments under which Other Service Contract are part of the Trust Estate.

*Other Service Corporation* means the nonprofit corporation party to the Other Service Contract.

*pro-rata* for the purposes of **this Article** means for any priority class under **Section 8.03** and as of any computation date, a fraction, the numerator of which is the amount owing to any particular Person who is entitled to a payment in such priority class and the denominator of which is the total of all such payments owing to all such Persons in such priority class.

### Section 8.02. Preservation of Parity among Service Contracts

All Service Payments payable under this Service Contract shall be made and the Corporation shall be entitled to receive such payments on a pro-rata basis with the Service Payments under the Other Service Contract so that each Service Payment Component having a specified priority under **Section 8.03** is made on a pro-rata basis with the Service Payment Components having the same defined term under Section 8.03 of the Other Service Contract, and no Service Payment Component shall be satisfied *until* all Service Payment Components under all Service Contracts having the same defined term but having a greater priority under **Section 8.03** of each Service Contract are first satisfied in full.

### Section 8.03. Satisfaction of Service Payments

Service Payments under all Service Contracts shall be satisfied in the following order and priority:

- First:** Contract Administrator Payments; *then*
- Second:** all theretofore due and unpaid Service Charges (regardless of the Funding Rate Methodology, including any Accreted Value Funding Methodology) and amounts in respect of Hedge Periodic Payables; *then*
- Third:** all then due or about to become due Service Charges (regardless of the Funding Rate Methodology, including any Accreted Value Funding Methodology) and amounts in respect of Hedge Periodic Payables; *then*
- Fourth:** all theretofore due and unpaid Regular Scheduled Payments and Sinking Fund Installments; *then*
- Fifth:** all then due or about to become due Regular Scheduled Payments and Sinking Fund Installments; *then*
- Sixth:** all theretofore due and unpaid amounts in respect of Hedge Termination Payables; *then*
- Seventh:** all then due or about to become due amounts in respect of Hedge Termination Payables; *then*
- Eighth:** all then due or about to become due Optional Prepayment Amounts and Accrued Service Charges.

## Article IX — Miscellaneous

### Section 9.01. Acceleration on Bankruptcy

If the City shall (i) commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, (ii) consent to the institution of any such proceeding or the filing of any such petition or (iii) make a general assignment for the benefit of creditors, *then* all payments due hereunder shall become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived notwithstanding anything to the contrary herein.

### Section 9.02. Termination or Assignment of Stated Hedges

(a) At the request of the City and with the prior written consent of the Insurer that has Credit Insurance in respect of the particular Stated Hedge, the Corporation shall terminate any Stated Hedge or assign its interest in any Stated Hedge to a Person that agrees to perform and observe all of the duties and obligations of the Counterparty to such Stated Hedge.

(b) Any such substitute Hedge Counterparty shall have the rating required by Public Act 34 of the Public Acts of 2001, as amended, *as if* the City were a party to the particular Stated Hedge.

(c) No such termination or substitution of a Hedge Counterparty shall take effect unless each Rating Agency confirms its rating of the particular Certificates.

(d) **Rating Agency** means each national statistical rating organization (as defined in the Securities and Exchange Act of 1934, as amended) that at the time has a rating of the Certificates in effect.

### Section 9.03. Required Ratings of Hedge Counterparties

(a) The Corporation shall only enter into Hedges with Persons who have, on the date the Hedge is entered into, or, alternatively, whose Hedge obligations are guaranteed by a Person who has on the date the Hedge is entered into, a rating of its long-term, senior secured debt at least A- by Standard & Poor's Corporation and at least A3 by Moody's Investment Service.

(b) It is not a breach of **subsection (a)**, above if the Hedge is subject to an Insurer approved transaction transfer agreement with a Person who qualifies, or whose Hedge obligations are guaranteed by a Person who qualifies, under **subsection (a)**, above.

### Section 9.04. Addresses for Notices.

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered

if to the City, at

City of Detroit, Michigan – Finance Department  
1200 Coleman A. Young Municipal Center  
2 Woodward Avenue  
Detroit, Michigan 48226  
Attention: Finance Director

if to the Corporation, at

c/o Lewis & Munday, P.C.  
Suite 2490  
660 Woodward Avenue  
Detroit, Michigan  
Attention: President

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to **this Section**.

### Section 9.05. Amendment

The Service Contract may be amended only by written instrument signed by the parties hereto *except* that no amendment shall be valid:

(i) *if* such amendment diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary;

(ii) *unless* the Trustee of any Funding Trust that is a transferee of or successor to any rights or entitlements hereunder and that received an opinion of counsel in connection with the organization of the Funding Trust to the effect that such Funding Trust will qualify as a grantor trust under Subpart E, Part I of Sub-

chapter J of the Internal Revenue Code of 1986, as amended, shall have received an opinion reasonably acceptable in form and substance to such Trustee of counsel reasonably acceptable to such Trustee to the effect that such amendment shall not result in such Funding Trust being treated as other than such a grantor trust;

(iii) *unless* the Trustee has received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such amendment will not result in the Service Charges and Scheduled Payments failing to constitute payments in respect of indebtedness for U.S. federal income tax purposes; and

(iv) *unless* every Insurer who is not in default under its Credit Insurance at the time has consented to the amendment, including such prior written consent as may be set forth in the Contract Administration Agreement or any other agreement to which the Corporation is a party.

**Section 9.06. No Waiver; Remedies.**

No failure on the part of the Corporation or any permitted successor or assign or any Third Party Beneficiary to exercise, and no delay in exercising, any right hereunder shall be a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other further exercise thereof or the exercise of any other right.

**Section 9.07. Binding Obligation.**

The Service Contract is a continuing obligation of the City and shall until the date on which all amounts due and owing hereunder are paid in full (i) be binding upon the City and its successors and (ii) inure to the benefit of and be enforceable by the Corporation, its successors and permitted assigns, and by Third Party Beneficiaries.

**Section 9.08. General Corporate Expenses**

The City shall pay the General Corporate Expenses of the Corporation as and when they become due.

**Section 9.09. Fees and Expenses.**

(a) The Corporation shall pay compensation, expenses and indemnification due the Trustee in accordance with the Trust Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent thereunder or any amendment thereof, or in connection with the enforcement thereof.

(b) The Corporation shall pay compensation, expenses and indemnification due the Contract Administrator and the Enforcement Officer (defined in the Contract Administration Agreement), if any, in accordance with the Contract Administration Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent hereunder or any amendment hereof or thereof, or in connection with the enforcement hereof.

(c) The Corporation shall pay the fees of remarketing agents, auction agents and broker-dealers, or any of them, as provided for any particular Variable Rate Funding Type.



(d) The Corporation shall pay the expenses and other amounts due each Insurer in accordance with **Section 10.5** of the **Contract Administration Agreement**;

(e) The Corporation shall pay all amounts due the Enforcement Officer under **Section 8.19** of the **Contract Administration Agreement** and not otherwise paid by an Affected Party (as such terms defined in the Contract Administration Agreement), *but* the Corporation shall have no obligation to pay any indemnity required by the Enforcement Officer;

(f) The Corporation shall pay all other payments required to be paid by the Corporation under Contract Administration Agreement and not otherwise paid.

**Section 9.10. Permitted Assignment.**

(a) The Service Contract shall be binding upon the parties hereto and their respective successors and permitted assigns. No assignment by either party of its interests herein shall be valid *except* as provided in this Section.

(b) The Corporation may transfer (as defined below in **this subsection**) the Scheduled Payments and Service Charges to the Funding Trust, *provided* that the Corporation shall not do so without:

- (1) delivering prior written notice thereof to the City,
- (2) listing the Funding Trust as the owner of the Scheduled Payments and Service Charges on the registration book (described below), and
- (3) obtaining the agreement of the Funding Trust not to effect any subsequent transfer of any Scheduled Payments and/or the Service Charges without
  - (i) delivering to the City prior written notice of any such transfer(s) of the Scheduled Payments and/or the Service Charges and
  - (ii) obtaining the agreement of the transferee (*x*) not to effect any further transfer without prior delivery to the Corporation of notice thereof in the manner of the notice described in **clause (i)** above, and (*y*) to obtain the same agreement of any further transferee (i.e., to give such notice and obtain such agreement of further transferees).

For the avoidance of doubt, the prior written notice referred to in **this subsection** only applies to the holder of legal title to the Scheduled Payments and the Service Charges and not to owners of Certificates.

A provision in the Trust Agreement to the effect, "For the avoidance of doubt, the Trustee acknowledges that it has no power to transfer, assign or otherwise convey legal title to the Funding Trust Receivables and that beneficial interests in the Funding Trust Receivables may be transferred as transfers of Certificates." shall satisfy the agreement referred to in **clause (ii)**, above.

The City shall record each such transfer of the Scheduled Payments and/or the Service Charges for which it receives any such notice in its official records (which shall constitute the "registration book" referred to in **this subsection**), and such recording shall identify the subsequent transferee.

The term *transfer* in **this subsection** means a sale, assignment, transfer or conveyance.

(c) No assignment of the Service Contract or any amounts receivable thereunder shall include the right to receive Additional Service Payments, Contract Administrator Payments or Hedge Payables except that the Corporation may assign or grant a security interest in amounts received by it as payment of Hedge Payables to the Hedge Counterparties.

#### **Section 9.11. Direct Payment of Service Payments; "Successor" Defined**

(a) Additional Service Payments shall be payable by the City to the Persons originally entitled to receive them or their successors on the dates when due.

(b) The term *successor* in **this Article** means either a successor to a particular Person by law (e.g., the surviving corporation in a merger) or a successor to the particular office for which Additional Service Payments or Contract Administrator Payments are payable (e.g., a new Person, not by operation of law, becomes successor Trustee). *Successor* does *not* include any other Person without the written consent of the City.

#### **Section 9.12. Third Party Beneficiaries**

##### **(a) Persons that are Third Party Beneficiaries**

(1) The Persons, including the Trustee and the Contract Administrator, originally entitled to Additional Service Payments or Contract Administrator Payments and their respective successors are third party beneficiaries of the Service Contract as to the City's promises to pay Additional Service Payments or Contract Administrator Payments to the Service Corporation.

(2) Hedge Counterparties, and their respective successors and subrogees, are third party beneficiaries of the Service Contract as to the City's promises to pay amounts in respect of Hedge Payables to the Corporation.

(3) Insurers are third party beneficiaries of the Service Contract.

(4) The Funding Trust is a third party beneficiary of the Corporation's promises in respect of Service Charges and Scheduled Payments.

(5) The Contract Administrator and the Enforcement Officer (as defined in the Contract Administrator Agreement) are third party beneficiaries as to the Corporation's promises in **Section 9.09**.

##### **(b) Rights of Third Party Beneficiaries**

Third Party Beneficiaries have the right to enforce the respective promises made in the Service Contract as if such promises were made directly to them. As between the Insurers, any Insurer that has the right, pursuant to **Section 6.9** of the **Contract Administration Agreement**, to control enforcement proceedings instituted pursuant to the Contract Administration Agree-

ment shall also have the right to control enforcement proceedings instituted by an Insurer pursuant to the Service Contract.

(c) Effect of Amendments on Third Party Beneficiaries

Any amendment that diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary is acknowledged to have the effect in fact of hindering, delaying and defrauding such Third Party Beneficiary in the collection of an obligation owed to it.

**Section 9.13. Reliance on Representations and Warranties**

(a) Each permitted assignee and any subrogee of any rights hereunder and Third Party Beneficiary shall have the benefit of the representations and warranties of the City and the Corporation made herein as if such representations and warranties had been made directly to it.

(b) Each permitted assignee and any subrogee of any rights hereunder and Third Party Beneficiary shall be conclusively presumed to have relied upon such representations and warranties, and such reliance shall survive any investigation made by such permitted assignee or Third Party Beneficiary.

**Section 9.14. Contract Administration**

(a) Nothing in the Service Contract shall prohibit the Corporation from employing one or more agents and attorneys-in-fact to collect Service Payments or to otherwise administer the Contract.

(b) The City agrees to make Service Payments due the Corporation to any such agent or attorney-in-fact upon receipt of notice of its appointment.

**Section 9.15. Governing Law**

The rights and obligations of the parties hereunder shall be governed by and construed in accordance with the law of the State of Michigan exclusive of its conflicts of law rules.

**Section 9.16. Headings**

Article and Section headings in the Service Contract are included herein for convenience of reference only and do not constitute a part of the Service Contract for any other purpose.

**Section 9.17. Integration**

The Service Contract is intended by the parties as the final, complete and exclusive statement of the transactions evidenced by the Service Contract. All prior contemporaneous promises, agreements and understandings relating to such transaction, whether oral or written, are deemed to be superseded by the Service Contract, and no party is relying on any promise, agreement or understanding not set forth or referred to in the Service Contract.

**Section 9.18. Counterparts**

The Service Contract may be executed in multiple counterparts, *but* all such counterparts taken together shall evidence by one and the same original.

*[End of General Terms]*

**Index Rate Funding Cost Supplement  
to  
GRS Service Contract 2006**

**Section 1. Determination of Index Rate Service Charges**

(a) The *Index Rate Service Charges* for any Index Rate Service Charge Period are equal to Three-Month LIBOR plus the applicable Margin determined by the Contract Administrator on the Index Rate Service Charge Determination Date immediately preceding such Index Rate Service Charge Period and computed using the Index Rate Day Count Convention.

(b) Index Rate Service Charges determined for any Index Rate Service Charge Period are effective on the Index Rate Service Charge Adjustment Date for such Index Rate Service Charge Period.

**Section 2. Defined Terms – Generally**

The following terms have the respective meanings for the purpose of determining Index Rate Service Charges *unless* the context clearly otherwise requires:

*Index Rate Day Count Convention* is the actual number of days elapsed in a year of 12, 30-day months.

*Index Rate Service Charge Determination Dates* are the LIBOR Rate Determination Dates.

*Index Rate Service Charge Adjustment Dates* are the first day of each Index Rate Service Charge Period.

*Index Rate Service Charge Payment Dates* are the 15th day of each calendar quarter (or, if such day is not a Business Day, the immediately following Business Day), commencing with September 2006.

*Index Rate Service Charge Period* is the period beginning on (and including) the Closing Date or the most recent Index Rate Service Charge Payment Date and ending on (but not including) the Index Rate Service Charge Payment Date on which Index Rate Service Charges were paid in full by the City.

*Margin* means (i) for Scheduled Payments due on June 15, 2029, 30 basis points (0.30%) and (ii) for Scheduled Payments due on June 15, 2034, 34 basis points (0.34%).

**Section 3. Defined Terms – Determination of Three-Month LIBOR**

The following terms have the respective meanings for the purpose of determining Three-Month LIBOR *unless* the context clearly otherwise requires:

*LIBOR Business Day* means a Business Day on which banks in both London and New York City also are open for the transaction of business.

*LIBOR Rate Determination Date* means, with respect to a particular Index Rate Service Charge Adjustment Date, the second LIBOR Business Day immediately before such Index Rate Service Charge Adjustment Date.

*Reference Bank* means a leading bank other than the Contract Administrator engaged in transactions in Eurodollar deposits in the international Eurocurrency market *and* not controlled by or under common control with the Contract Administrator.

**Three-Month LIBOR** means for a particular LIBOR Rate Determination Date, the London Interbank Offered Rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m., London time. *If* such rate does not appear on Telerate page 3750, *then* the rate for that day shall be determined by the alternative method described in **Section 4**.

#### **Section 4. Alternative Method of Determining Three-Month LIBOR**

The following constitutes the alternative method for determining Three-Month LIBOR when a rate for a London Interbank Offered Rate for deposits with a three-month maturity in U.S. dollars *does not* appear on Telerate Page 3750 as of 11:00 a.m., London time, for a particular LIBOR Rate Determination Date.

(1) The rate for such LIBOR Rate Determination Date shall be determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least US\$1,000,000 are offered at approximately 11:00 a.m., London time, on such LIBOR Rate Determination Date to prime banks in the London interbank market by at least three Reference Banks selected by the Contract Administrator. The Contract Administrator shall request the principal London office of each Reference Bank to provide a quotation of its rate. *If* at least two quotations are provided *then Three-Month LIBOR* for such LIBOR Rate Determination Date shall be the arithmetic mean of such quotations.

(2) *If* fewer than two quotations are provided, *then Three-Month LIBOR* for such LIBOR Rate Determination Date shall be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Contract Administrator, at approximately 11:00 a.m., New York City time, on such LIBOR Rate Determination Date, for loans to leading European banks in U.S. dollars in a principal amount of at least US\$ 1,000,000 having a three-month maturity.

(3) *If* banks selected by the Contract Administrator for the purposes of **paragraph (2) above**, are not quoting rates for such loans, *then Three-Month LIBOR* for such LIBOR Rate Determination Date shall be the Three-Month LIBOR for the immediately preceding LIBOR Rate Determination Date.

*[End of Index Rate Funding Cost Supplement]*

**Schedule 1**  
**Stated Amounts Funding Schedule**  
to  
**GRS Service Contract 2006**

The Corporation is obligated to fund the amounts (which constitute the *Stated Funding Amount*) set forth opposite the respective payment purposes. Such amounts shall be disposed of as provided below.

<u>Payment Purpose</u>	<u>Amount</u>	<u>Disposition</u>
<b>Transaction Amount</b>		
Non-Tender Amount.....	\$64,342,975.99	To be applied as provided in Section 11.
Tender Amount.....	\$274,363,848.80	To be applied as provided in Section 12.
Less: 2005 Hedge		
Termination Receivables .	(\$9,178,382.27)	To be applied to the reduction of the Tender Amount <sup>1</sup>
<b>Total Transaction Amount</b>	<b>\$329,528,442.52</b>	
<b>Ancillary Amounts</b>		
Costs of Issuance .....	\$20,302,637.59	To be paid to the Persons entitled thereto
Underwriters' Discount.....	2,864,919.89	Paid as a discount from the purchase price of the Certificates
Total Ancillary Amounts.....	\$23,167,557.48	
<b>Stated Funding Amount.....</b>	<b>\$352,696,000.00</b>	

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<sup>1</sup> Section 10 provides that the balance of the 2005 Hedge Termination Receivables is to be paid to the City. The total amount of 2005 Hedge Termination Receivables (from the Schedule of 2005 Hedges to be Terminated) is \$19,999,130.00. This amount less \$9,178,382.27, the amount to be applied to the reduction of the Tender Amount, leaves a balance of \$10,820,747.73 to be paid to the City pursuant to Section 10.

**Schedule 1A**  
**Schedule of 2005 Hedges to be Terminated**  
**to**  
**GRS Service Contract 2006**

<u>Hedge Counterparty</u>	<u>Notional Amount</u>	<u>Amount to be Terminated</u>	<u>Hedge Termination Receivable</u>
UBS AG	\$161,400,000	\$161,400,000	\$12,130,515
Citibank, N.A.	\$53,800,000	\$53,800,000	\$3,825,110
SBS Financial Products Company, LLC	\$53,800,000	\$53,800,000	\$4,043,505



**Schedule 1B-NTS  
Non-Tender Schedule  
to  
GRS Service Contract 2006**

**2005 Prepayment Date: July, 13, 2006**

**Funding Rate Portion: Fixed**

Subject 2005 Scheduled Payment	2005 Scheduled Payment Dates (June 15 of each Year) For Reference Purposes Only	2005 Prepayment Premium <sup>1</sup>	Service Charge Rate	Service Charges due 06/15/06	Service Charges Accrued to 2005 Prepayment Date
\$5,055,000	2007	\$24,290.04	4.004%	\$101,201.10	\$15,742.39
7,435,000	2008	35,726.30	4.154%	154,424.95	24,021.66
10,095,000	2009	48,508.00	4.234%	213,711.15	33,243.96
8,180,000	2010	39,306.14	4.314%	176,442.60	27,446.63
7,340,000	2011	35,269.81	4.404%	161,626.80	25,141.95
7,720,000	2012	37,095.77	4.453%	171,885.80	26,737.79
8,115,000	2013	38,993.80	4.503%	182,709.23	28,421.44
8,535,000	2014	41,011.97	4.563%	194,726.03	30,290.72
<b>\$62,475,000</b>		<b>\$300,201.82</b>		<b>\$1,356,727.65</b>	<b>\$211,046.52</b>

**Summary**

Subject 2005 Scheduled Payments ..... \$62,475,000.00  
 Service Charges due 06/15/06 ..... 1,356,727.65  
 Accrued Service Charges to  
     2005 Prepayment Date ..... 211,046.52  
 2005 Prepayment Premiums ..... 300,201.82<sup>1</sup>  
**Non-Tender Amount ..... \$64,342,975.99**

**For the purposes of 2005 Section 5.03(c):**

- The Optional Prepayment Amount is the sum of the Subject 2005 Scheduled Payments and the 2005 Prepayment Premiums.
- The Accrued Service Charges are the sum of the Service Charges due 06/15/06 and the Accrued Service Charges to the 2005 Prepayment Date.
- The Hedge Amount is \$0, there being Hedge Termination Receivables due the Corporation.
- The Total Prepayment Amount is the Non-Tender Amount.

<sup>1</sup> Includes \$300,201.82 contingency since actual Prepayment Premiums cannot be determined until 3 business days prior to 2005 Prepayment Date.

**Schedule 1B-TS  
Tender Schedule  
to  
GRS Service Contract 2006**

**Tender Payment Date: June 12, 2006**

**Funding Rate Portion: Variable Rate**

Subject 2005 Scheduled Payment	2005 Scheduled Payment Dates (June 15 of each Year) For Reference Purposes Only	Tender Scheduled Payments	Tender Premiums	Service Charge Rate	Service Charges Accrued to Tender Payment Date
\$269,000,000	2025	\$269,000,000	\$1,076,000	3M LIBOR + 0.28%	\$3,451,494.17
Tender Scheduled Payments.....\$269,000,000.00					
Tender Premiums .....1,076,000.00					
Accrued Service Charges to					
Tender Payment Date .....3,451,494.17					
Tender Fees and Expenses..... <u>836,354.63</u>					
<b>Tender Amount ..... <u>\$274,363,848.80</u></b>					

**Schedule 2**  
**Scheduled Payments Attachment**  
to  
**GRS Service Contract 2006**

Scheduled Payments are due on the following Scheduled Payment Dates in the respective amounts set forth opposite such dates

<b>Scheduled Payment Dates (June 15 of each year)</b>	<b>Service Charge Class</b>			
	<b>Fixed Rate Scheduled Payments</b>	<b>Fixed Rate Service Charge Rates</b>	<b>Index Rate Scheduled Payments</b>	<b>Index Rate Service Charge Rates</b>
2029	-	-	\$90,504,000	3M LIBOR + 0.30%*
2030	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
2034	-	-	\$193,242,000	3M LIBOR + 0.34%*
2035	\$68,950,000	5.989%	-	-
<b>Totals</b>	<u>\$68,950,000</u>		<u>\$283,746,000</u>	

\* Index Rate Service Charge Rates are determined in accordance with the **Index Rate Funding Cost Supplement**

**Schedule 3**  
**Sinking Fund Installments Attachment**  
**To GRS Service Contract 2006**

Scheduled Payments due on the following Scheduled Payment Dates are subject to mandatory prepayment on the following Scheduled Payment Dates in the respective amounts set forth opposite such dates, each of which constitutes the Sinking Fund Installment due on the respective Sinking Fund Installment Date.

**Sinking Fund Installments of Scheduled Payments Due 2029**

<b>Scheduled Payment Dates</b> <b>(June 15 of each year)</b>	<b>Service Charge Class</b> <b>Index Rate</b>
2026.....	\$26,459,000
2027.....	28,107,000
2028.....	29,857,000
2029*.....	6,081,000
<b>Total .....</b>	<b><u>\$90,504,000</u></b>

\*Final maturity, not a Sinking Fund Installment Date

**Sinking Fund Installments of Scheduled Payments Due 2034**

<b>Scheduled Payment Dates</b> <b>(June 15 of each year)</b>	<b>Service Charge Class</b> <b>Index Rate</b>
2029.....	\$25,634,000
2030.....	33,699,000
2031.....	35,810,000
2032.....	38,052,000
2033.....	40,435,000
2034*.....	19,612,000
<b>Total .....</b>	<b><u>\$193,242,000</u></b>

\*Final maturity, not a Sinking Fund Installment Date

**Sinking Fund Installments of Scheduled Payments Due 2035**

<b>Scheduled Payment Dates</b> <b>(June 15 of each year)</b>	<b>Service Charge Class</b> <b>Fixed Rate</b>
2034.....	\$23,355,000
2035*.....	45,595,000
<b>Total .....</b>	<b><u>\$68,950,000</u></b>

\*Final maturity, not a Sinking Fund Installment Date

**Schedule 4**  
**Schedule of Credit Insurance**  
**to**  
**GRS Service Contract 2006**

<u>Service Charge Class/ Scheduled Payment Date</u>	<u>Financial Agreement</u>	<u>Provider</u>
Index Rate/2029	Bond Insurance Policy	XL Capital
Index Rate/2034	Bond Insurance Policy	FGIC
Fixed Rate/2035	Bond Insurance Policy	FGIC

**Schedule 5**  
**Schedule of Stated Hedges**  
**to**  
**GRS Service Contract 2006**

Service Charge Class	Type of Hedge	Hedge Counterparty	Notional Amount	Termination Date
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR + 0.30%	UBS AG	\$45,252,000	2029
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR + 0.30%	SBS Financial Products Company, LLC <sup>1</sup>	\$45,252,000	2029
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR + 0.34%	UBS AG	\$96,621,000	2034
Index Rate	Variable to Fixed: Corporation pays fixed; Counterparty pays 3 month LIBOR + 0.34%	SBS Financial Products Company, LLC <sup>2</sup>	\$96,621,000	2034

<sup>1</sup> Merrill Lynch Capital Services, Inc. (“*MLCS*”), the credit support provider of SBS, shall obtain the rights and be subject to the obligations of a Stated Hedge Counterparty hereunder upon the occurrence of a Transfer Party Accession Event (as defined in the Contract Administration Agreement), as a Stated Hedge Counterparty pursuant to the Transaction Transfer Agreement dated as of June 7, 2006 among the Corporation, SBS and MLCS. In no event shall SBS and MLCS simultaneously have the same rights hereunder.

<sup>2</sup> Merrill Lynch Capital Services, Inc. (“*MLCS*”), the credit support provider of SBS, shall obtain the rights and be subject to the obligations of a Stated Hedge Counterparty hereunder upon the occurrence of a Transfer Party Accession Event (as defined in the Contract Administration Agreement), as a Stated Hedge Counterparty pursuant to the Transaction Transfer Agreement dated as of May 25, 2005 among the Corporation, SBS and MLCS. In no event shall SBS and MLCS simultaneously have the same rights hereunder.

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## **Trust Agreement**

between the

**Detroit General Retirement System Service Corporation**

and the

**Detroit Police and Fire Retirement System Service Corporation,**

severally and not jointly,

and

**U. S Bank National Association,**

as Trustee

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**Dated June 12, 2006**

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establishing the

**Detroit Retirement Systems Funding Trust 2006**

and providing for the issuance of

**Detroit Retirement Systems Funding Trust 2006**

**Certificates of Participation Series 2006-A**

and

**Detroit Retirement Systems Funding Trust 2006**

**Certificates of Participation Series 2006-B**

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    **Detroit Police and Fire Retirement System** ..... S-1  
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**Exhibit 6.2 – Form of Initial Certificates**



This **Trust Agreement**, dated June 12, 2006, between the **Detroit General Retirement System Service Corporation** (the *GRS Corporation*) and the **Detroit Police and Fire Retirement System Service Corporation** (the *PFRS Corporation*), each a Michigan nonprofit corporation, severally and not jointly, and **U.S. Bank Trust National Association**, as trustee,

**WITNESSTH**

**Whereas**, the GRS Corporation entered into the GRS Service Contract 2006, dated June 7, 2006 (the *GRS Service Contract*), with the City of Detroit (the *City*), and the PFRS Corporation entered into the PFRS Service Contract 2006, dated June 7, 2006 (the *PFRS Service Contract*), with the City;

**Whereas**, the *Trust Agreement* referred to in the first paragraph of this instrument (i) consists of this instrument (the *Specific Terms*) and the **General Terms**, hereafter defined and incorporated by reference herein and (ii) is further defined in the General Terms;

**Whereas**, the GRS Corporation is entering into this Trust Agreement in order to fund its Stated Funding Amount, which, as defined in GRS Service Contract, is equal to \$352,696,000 (the *GRS Stated Funding Amount*);

**Whereas**, the PFRS Corporation is entering into this Trust Agreement in order to fund its Stated Funding Amount, which, as defined in PFRS Service Contract, is equal to \$595,844,000 (the *PFRS Stated Funding Amount*); and

**Whereas**, this Trust Agreement provides for the issuance of certificates of participation representing undivided interests in certain of the respective Service Payments, as defined in the Service Contracts;

**Now, Therefore**, in consideration of the premises and the mutual promises contained herein, the parties hereto agree as follows:

**Section 1. Incorporation by Reference**

**1.1. General Terms**

The **General Terms and Conditions of Detroit Retirement Systems Funding Trusts**, dated as of May 1, 2005, and attached hereto (the *General Terms*) is incorporated by reference herein and made a part hereof as if set forth in full in this Trust Agreement *except* to the extent of any conflict with any particular terms of the General Terms may conflict with the terms of these Specific Terms. Any such conflict shall be resolved in favor of the terms of these Specific Terms.

**Section 2. Definitions**

**2.1. Certain Definitions**

The following terms have the following respective meanings for the purposes of this Trust Agreement *unless* the context otherwise clearly otherwise requires.

*Additional Certificates* means one or more series of participation certificates established by supplement to this Trust Agreement.

*Certificates* means the Initial Certificates and any Additional Certificates.

**Corporation** means either the GRS Corporation or the PFRS Corporation as the context may require.

**Funding Trust** means the Funding Trust established by this Trust Agreement.

**GRS Corporation** means the corporation defined in the first paragraph of these Specific Terms as the "GRS Corporation" *unless and until* a Person becomes the successor to the GRS Corporation pursuant to law; *thereafter*, **GRS Corporation** means such successor.

**Index Rate Interest** means an amount equal to Interest computed with respect to the Principal Amount of Outstanding Index Rate Certificates determined for the particular Index Rate Interest Period at the applicable rate in accordance with the Index Rate Supplement.

**Initial Certificates** means the certificates of participation of the series established in Section 6.

**PFRS Corporation** means the corporation defined in the first paragraph of these Specific Terms as the "PFRS Corporation" *unless and until* a Person becomes the successor to the PFRS Corporation pursuant to law; *thereafter*, **PFRS Corporation** means such successor.

**Service Contract** means either the GRS Service Contract or the PFRS Service Contract as the context may require.

**Stated Funding Amount** means the GRS Stated Funding Amount or the PFRS Stated Funding Amount as the context may require.

**Trustee** means the bank described in the first paragraph of these Specific Terms as "trustee" *unless and until* a successor as trustee is appointed pursuant to this Trust Agreement; *thereafter*, **Trustee** means such successor.

## 2.2. Interpretation

2.2.1. Unless otherwise provided, references to Sections with numbers less than 100 are references to the corresponding Sections of these Specific Terms.

2.2.2. Unless otherwise provided, references to Sections with numbers 100 or greater are references to the corresponding Sections of the General Terms.

2.2.3. References to Schedules and Exhibits refer to the corresponding schedules and exhibits attached hereto unless otherwise provided.

## Section 3. Establishment of Funding Trust; Trust Estate

3.1.1. There is hereby established a Funding Trust to be known as the **Detroit Retirement Systems Funding Trust 2006** for the purpose of funding the respective Stated Funding Amount of each Corporation on an aggregate, several and not joint, basis.

3.1.2. The Trust Estate consists of:

- The Funding Trust Receivables arising under the GRS Service Contract
- The Funding Trust Receivables arising under the PFRS Service Contract
- All proceeds of the foregoing

#### Section 4. Establishment of Funding Costs

The Funding Costs that each Corporation shall incur in funding the portions set forth below of its respective Stated Funding Amount shall be determined in accordance with the Funding Rate Methodology set forth before each such portion.

<b>Funding Table</b>			
<b>Funding Rate Methodology</b>	<b>Stated Funding Amount Portion</b>		<b>Total Stated Funding Amount</b>
	<b><u>GRS Corporation</u></b>	<b><u>PFRS Corporation</u></b>	
Fixed Rate .....	\$68,950,000	\$79,590,000	\$148,540,000
Index Rate .....	\$283,746,000	\$516,254,000	\$800,000,000
<b>Total</b> .....	<b>\$352,696,000</b>	<b>\$595,844,000</b>	<b>\$948,540,000</b>

#### Section 5. Representation and Warranty of Each Corporation

Each Corporation represents and warrants for itself that the Stated Funding Amount Portion set forth under its name in the table in Section 4 (the *Funding Table*) opposite the respective Funding Rate Methodology is equal to the total amount of Scheduled Payments for the Service Charge Class for the corresponding Funding Rate Methodology in the Scheduled Payments Attachment to its Service Contract.

#### Section 6. The Initial Certificates

##### 6.1. Title

The general title of the Initial Certificates shall be as provided in Section 303 of the General Terms with the further designation of this Funding Trust. The title of each Series of the Initial Certificates shall include the series designation provided in this Section so that the general title of the Certificates of each Series shall be *Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series [particular Series designation]*.

##### 6.2. Establishment of Series; Form; Denominations

6.2.1. Two Series of Initial Certificates are hereby established:

6.2.1(1) One Series to be designated *Series 2006-A* (the *Fixed Rate Certificates*),  
and

6.2.1(2) One Series of Initial Certificates is hereby established to be designated *Series 2006-B* (the *Index Rate Certificates*).

6.2.2. The Initial Certificates shall be substantially in the form prescribed in **Exhibit 6.2**.

6.2.3. The Capital Appreciation Certificates shall be in denominations of \$5,000 of Maturity Value and any multiple thereof.

6.2.4. The Fixed Rate Certificates shall be in denominations of \$5,000 and any multiple thereof.

6.2.5. The Index Rate Certificates shall be in the denominations of \$25,000 and multiples of \$1,000 in excess thereof.

**6.3. Accretions in Value**

The Principal Amount of the Capital Appreciation Certificates of each respective maturity Date shall accrete in value in accordance with the Schedules of Accreted Values that are part of the Service Contracts.

**6.4. Authorized Principal Amount**

6.4.1. The Principal Amount of the Capital Appreciation Certificates on initial issuance shall equal the Total Stated Funding Amount set forth opposite Capital Appreciation in the Funding Table.

6.4.2. The Principal Amount of the Fixed Rate Certificates on initial issuance shall equal the Total Stated Funding Amount set forth opposite Fixed Rate in the Funding Table.

6.4.3. The Principal Amount of the Index Rate Certificates on initial issuance shall equal the Total Stated Funding Amount set forth opposite Index Rate in the Funding Table.

**Section 7. Miscellaneous.**

**7.1. Notices.**

All notices and other communications provided for hereunder shall be in writing unless otherwise stated herein mailed, sent or delivered

if to the GRS Corporation or the PFRS Corporation, at the respective Corporation's address set forth in its Service Contract.

if to the Trustee, at

U.S. Bank National Association  
HO-MI-DTGR  
535 Griswold, Suite 550  
Detroit, Michigan 48226  
Attention: Trust Officer

or to such other address as such Person may specify to the other Person and shall be effective (i) if given by mail, 3 Business Days after such communication is deposited in the mails with first class postage prepaid or (ii) if given by any other means, when delivered at the address specified in or pursuant to this Section.

**Section 8. Insurance Claim Procedures**

**8.1. FGIC**

8.1.1. As used herein, *Financial Guaranty* means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto

8.1.2. Upon receipt by the Trustee of a Shortfall Notice from the Contract Administrator pursuant to **Section 4.2.3** of the **Contract Administration Agreement**, the Trustee shall immediately notify Financial Guaranty and U.S. Bank Trust National Association, New York, New

York or its successor as its Fiscal Agent (the *Fiscal Agent*) of the amount of such deficiency and the respective amounts thereof attributable to principal and interest. If, by said interest payment date, there has not been provided the amount of such deficiency, the Trustee shall simultaneously make available to Financial Guaranty and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

8.1.2(1) The Trustee shall provide Financial Guaranty with a list of the Certificateholders entitled to receive principal or interest payments from Financial Guaranty under the terms of its Credit Insurance and shall make arrangements for Financial Guaranty and its Fiscal Agent (i) to mail checks or drafts to Certificateholders entitled to receive full or partial interest payments from Financial Guaranty and (ii) to pay principal of the Certificates surrendered to the Fiscal Agent by the Certificateholders entitled to receive full or partial principal payments from Financial Guaranty; and

8.1.2(2) The Trustee shall, at the time it makes the registration books available to Financial Guaranty pursuant to **Section 8.1.2(1)**, notify Certificateholders entitled to receive the payment of principal of or interest on the Certificates from Financial Guaranty:

8.1.2(2)(1) as to the fact of such entitlement,

8.1.2(2)(2) that Financial Guaranty will remit to them all or part of the interest payments coming due subject to the terms of its Credit Insurance,

8.1.2(2)(3) that, except as provided in **Section 8.1.3**, in the event that any Certificateholder is entitled to receive full payment of principal from Financial Guaranty, such Certificateholder must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of Financial Guaranty, and

8.1.2(2)(4) that, *except* as provided in **Section 8.1.3**, in the event that such Certificateholder is entitled to receive partial payment of principal from Financial Guaranty, such Certificateholder must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of Financial Guaranty, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Certificateholder subject to the terms of its Credit Insurance.

8.1.3. In the event that the Trustee has written notice that any payment of principal of or interest on a Certificate has been recovered from a Certificateholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to Financial Guaranty, notify all Certificateholders that in the event that any Certificateholder's payment is so recovered, such Certificateholder will be entitled to payment from Financial Guaranty to the extent of such recovery, and the Trustee shall furnish to Financial Guaranty its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Certificateholders, and the dates on which such payments were made.

8.1.4. Financial Guaranty shall, to the extent it makes payment of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of its Credit Insurance and, to evidence such subrogation:

8.1.4(1) in the case of subrogation as to claims for past due interest, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books maintained by the Trustee upon receipt from Financial Guaranty of proof of the payment of interest thereon to the Certificateholders of such Certificates and

8.1.4(2) in the case of subrogation as to claims for past due principal, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Certificateholders of such Certificates. Notwithstanding anything in this authorizing document or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to Financial Guaranty to the extent that Financial Guaranty is a subrogee with respect thereto.

## 8.2. XLCA

8.2.1. As used herein, *XLCA* means XL Capital Assurance Inc., a New York stock insurance company, or any successor thereto.

8.2.2. Upon receipt by the Trustee of a Shortfall Notice from the Contract Administrator pursuant to **Section 4.2.3** of the **Contract Administration Agreement**, the Trustee shall send immediate Notice to XLCA and its designated agent (if any) of the amount of such deficiency and the respective amounts thereof attributable to principal and interest, together with a certification in form and substance satisfactory to XLCA as to the Trustee's right to receive payments under the Credit Insurance. If, by said interest payment date, there has not been provided the amount of such deficiency, the Trustee shall simultaneously make available to XLCA the registration books for the Certificates maintained by the Trustee.

For the purposes of the preceding paragraph, *Notice* means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to XLCA, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment. *Due for Payment*, when referring to the principal of the Certificates, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on the Certificates, means when the stated date for payment of interest has been reached. In addition:

8.2.2(1) The Trustee shall provide XLCA with a list of the Certificateholders entitled to receive principal or interest payments from XLCA under the terms of its Credit Insurance and shall make arrangements for XLCA (i) to mail checks or drafts to Certificateholders entitled to receive full or partial interest payments from XLCA and (ii) to pay principal of the Certificates surrendered to XLCA by the Certificateholders entitled to receive full or partial principal payments from XLCA; and

8.2.2(2) The Trustee shall, at the time it makes the registration books available to XLCA pursuant to **Section 8.2.2(1)**, notify Certificateholders entitled to receive the payment of principal of or interest on the Certificates from XLCA (i) as to the fact of such entitlement, (ii) that XLCA will remit to them all or part of the interest payments coming due subject to the terms of its Credit Insurance, (iii) that, except as provided in **Section 8.2.3**, in the event that any Certificateholder is entitled to receive full payment of principal from XLCA, such Certificateholder must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of XLCA, and (iv) that, except as provided in **Section 8.2.3**, in the event that such Certificateholder is entitled to receive partial payment of principal from XLCA, such Certificateholder must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of XLCA, to XLCA, which will then pay the unpaid portion of principal to the Certificateholder subject to the terms of its Credit Insurance.

8.2.3. In the event that the Trustee has written notice that any payment of principal of or interest on a Certificate has been recovered from a Certificateholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to XLCA, notify all Certificateholders that in the event that any Certificateholder's payment is so recovered, such Certificateholder will be entitled to payment from XLCA to the extent of such recovery, and the Trustee shall furnish to XLCA its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee and subsequently recovered from Certificateholders, and the dates on which such payments were made.

8.2.4. XLCA shall, to the extent it makes payment of principal of or interest on the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of its Credit Insurance and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note XLCA's rights as subrogee on the registration books maintained by the Trustee upon receipt from XLCA of proof of the payment of interest thereon to the Certificateholders of such Certificates and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note XLCA's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Certificateholders of such Certificates. Notwithstanding anything in this authorizing document or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to XLCA to the extent that XLCA is a subrogee with respect thereto.

Upon payment of a claim under the Credit Insurance, the Trustee shall establish a separate special purpose trust account for the benefit of holders of Certificates referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Credit Insurance in trust on behalf of holders of Certificates and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of Certificates in the same manner as principal and interest payments are to be made with respect to the Certificates under the sections hereof regarding payment of Certificates. It shall not be

necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following a Certificate payment date shall promptly be remitted to XLCA.

**In Witness Whereof**, the parties hereto have set their respective hands on the date first set forth above.

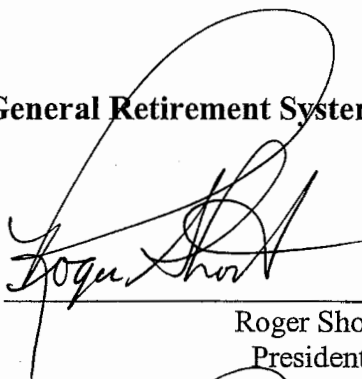
*[Signatures appear on pages S-1 et seq.]*



[Signature Page to Trust Agreement  
between the Detroit General Retirement  
System Service Corporation and the  
Detroit Police and Fire Retirement  
System Service Corporation, severally and  
not jointly, and U.S. Bank National  
Association, as Trustee, establishing the  
Detroit Retirement Systems Funding  
Trust 2006]

**Detroit General Retirement System Service Corporation**

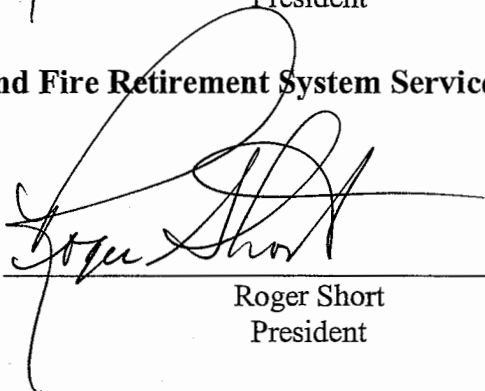
By



Roger Short  
President

**Detroit Police and Fire Retirement System Service Corporation**

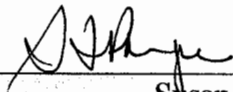
By



Roger Short  
President

[Signature Page to  
*Trust Agreement between the  
Detroit General Retirement System  
Service Corporation and the Detroit  
Police and Fire Retirement System  
Service Corporation, severally and not  
jointly, and U.S. Bank National Association,  
as Trustee, establishing the Detroit  
Retirement Systems Funding Trust 2006]*

**U.S. Bank National Association**

By  \_\_\_\_\_  
Susan T. Payne  
Vice President

## **Exhibit 6.2**

### **Form of Initial Certificates**

The Initial Certificates shall be in the following form and tenor with such changes as are appropriate for the particular Funding Rate Methodology or are otherwise approved by the Person executing the same on behalf of the funding Trust, such signature to be conclusive evidence of such approval.

NOTICE: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (*DTC*) to the Detroit Retirement Systems Funding Trust 2006 or its agent for registration of transfer, exchange or payment, and any Certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), **any Transfer, Pledge or Other Use Hereof for Value or Otherwise by or to any Person is Wrongful** inasmuch as the registered holder hereof, Cede & Co., has an interest herein.

R-1

**Detroit Retirement Systems Funding Trust 2006  
Certificates of Participation Series 2006-A**

<b>FUNDING RATE</b> <i>(INTEREST RATE)</i>	<b>PRINCIPAL PAY-</b> <b>MENT DATE</b>			<b>EUROCLEAR AND</b>
<u>PER ANNUM</u>	<u>(MATURITY DATE)</u>	<u>CUSIP</u>	<u>ISIN</u>	<b>CLEARSTREAM</b>
5.989%	JUNE 15, 2035	251228AA0	US251228AA03	<b>COMMON CODE</b>
				025779533

**ORIGINAL ISSUE DATE: JUNE 12, 2006**

**REGISTERED HOLDER: CEDE & CO.**

**DENOMINATION (PRINCIPAL): ONE HUNDRED FORTY EIGHT MILLION FIVE HUNDRED FORTY THOUSAND DOLLARS (\$148,540,000 U.S.)**

**This is to Certify that** the Registered Holder, or registered assigns, is the registered owner of this certificate, which evidences a beneficial ownership interest in the trust estate (the *Trust Estate*) described in the Trust Agreement, dated June 12, 2006 (the *Trust Agreement*), between the below identified Service Corporations, severally and not jointly, and U.S. Bank National Association, as trustee (such trustee and any successors as trustee, the *Trustee*).

This certificate is the only certificate of a series of certificates (the *Series A Certificates*) issued by the Detroit Retirement Systems Funding Trust 2006 created pursuant to the Trust Agreement (the *Funding Trust*), each evidencing a beneficial ownership interest in the portions of the Trust Estate attributable to such certificates and which, together with the Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series 2006-B (the *Series B Certificates*) and together with the Series A Certificates, the *Certificates* and each certificate of the Certificates, a *Certificate*), represent the entire beneficial ownership interests in the Trust Estate.

The Trust Estate consists of rights to receive certain payments (*Funding Trust Receivables* as defined in the Trust Agreement) made by the City of Detroit, Michigan (the *City*) pursuant to the Service Contract, dated June 7, 2006 (a *Service Contract*), between the City and the Detroit General Retirement System Service Corporation (a *Service Corporation*) and the Service Contract, dated June 7, 2006 (also a *Service Contract*), between the City and the Detroit Police and Fire Retirement System Service Corporation (also a *Service Corporation*) and together

with the other Service Corporation, the *Service Corporations*). U.S. Bank National Association, as contract administrator (such contract administrator and any successor thereto, the *Contract Administrator*) and not as Trustee, receives the payments of the Funding Trust Receivables when paid by the City, as the agent of the Funding Trust pursuant to the Contract Administration Agreement, dated June 12, 2006, among the Contract Administrator, the Funding Trust, the Service Corporations and certain other parties (the *Contract Administration Agreement*).

Capitalized terms not defined herein and defined in the Trust Agreement, the Contract Administration Agreement or either of the Service Contracts are used herein as therein defined.

The Registered Holder of this certificate is entitled to receive, subject to the terms of the Service Contracts, the Contract Administration Agreement and the Trust Agreement, in lawful money of the United States of America: (i) on the Maturity Date stated above, a portion of the Scheduled Payments coming due on that date equal to the Principal amount stated above, unless earlier redeemed as provided below, and (ii) a portion of the Service Charges (i.e., *Interest* on this certificate), payable on December 15, 2006 and semiannually thereafter (each an *Interest Payment Date*), from the Original Issue Date stated above, or the most recent date to which Interest has been paid, to (but not including) the next Interest Payment Date, computed as the cost of capital of this certificate by multiplying the outstanding Principal amount of this certificate by the Interest Rate per annum stated above. Interest on this certificate shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

So long as the Registered Holder is Cede & Co., or any other nominee of DTC, distributions of Principal and premium, if any, payable upon maturity or earlier redemption of this certificate will be paid by the Trustee by wire. Distributions to any other Registered Holder will be paid by check or draft, mailed, with respect to distributions of Interest, to the Registered Owner shown in the Certificate registry kept by the Trustee at the close of business on the 15<sup>th</sup> day (whether or not a business day) preceding the respective Interest Payment Date (a *Regular Record Date*) and, with respect to payment of Principal and premium, if any, upon presentation and surrender of this certificate at the designated office of the Trustee.

Subject in all respects to the foregoing, the Trust Agreement, Service Contracts and Contract Administration Agreement provide for allocation, computation, distribution and payments from the Trust Estate to the Registered Holder and all other registered owners of the Certificates in accordance with their relative Percentage Interests in the event that the Trustee has received less than all of the Funding Trust Receivables payable on any date by the City under the Service Contracts, generally described as follows.

On each Interest Payment Date (ending on the Maturity Date set forth above) amounts are payable as Interest on this certificate from amounts the Trustee has received from the Contract Administrator as an Interest Related Payment for such Interest Payment Date, computed as stated above, provided that such Interest Related Payment is sufficient to pay Interest on all outstanding Certificates, computed in accordance with their respective terms on the aggregate outstanding Principal amounts of all outstanding Certificates. Such Interest is payable to the respective Record Holders as of the particular Regular Record Date immediately prior to such Interest Payment Date.

If such Interest Related Payment is not sufficient to pay all Interest on the Certificates in full on such Interest Payment Date, such Interest Related Payment shall be paid, to the extent thereof, as Interest on this certificate in an amount equal to such Interest Related Payment multiplied by a fraction, the numerator of which is the amount that would have been paid as Interest on this certificate if such Interest Related Payment had been sufficient to pay Interest on all Certificates on such Interest Payment Date and the denominator of which is the aggregate amount that would have been paid as Interest on all Certificates if such Interest Related Payment had been sufficient to pay Interest on all Certificates on such Interest Payment Date. A portion of any Deficit Interest Related Payment received by the Trustee from the Contract Administrator shall be payable on this certificate in accordance with a Special Record Date established by the Trustee in accordance with the Trust Agreement, in an amount equal to such Deficit Interest Related Payment multiplied by a fraction, the numerator of which is the amount of the unpaid Interest on this certificate and the denominator of which is the aggregate amount of the unpaid Interest on all Certificates.

Any principal of any particular Certificate shall be reduced by any amount previously paid as principal or Sinking Fund Installments on such Certificate from a Sinking Fund Related Payment or a Redemption Related Payment (excluding any amount representing a prepayment premium) (such principal to the extent not so reduced *outstanding Principal*).

Outstanding Principal of this certificate is payable on the Maturity Date or the Sinking Fund Installment Date (if any) to the Registered Holder hereof if the Trustee has received a Principal Related Payment or Sinking Fund Related Payment from the Contract Administrator for such Maturity Date or Sinking Fund Installment Date sufficient to pay outstanding Principal and Sinking Fund Installments of all Certificates payable on that date.

If such Principal Related Payment or Sinking Fund Related Payment is not sufficient to pay in full all Principal and Sinking Fund Installments due on the outstanding Certificates on such date, a portion of such Principal Related Payment or Sinking Fund Related Payments shall be paid, to the extent thereof, to reduce the outstanding Principal of this certificate in an amount equal to such Principal Related Payment or Sinking Fund Related Payment multiplied by a fraction, the numerator of which is the amount of the Principal or Sinking Fund Installment of this certificate payable on such date and the denominator of which is the aggregate amount of the Principal and Sinking Fund Installments of all Certificates payable on such date. A portion of any Deficit Principal Related Payment received by the Trustee from the Contract Administrator shall be payable on this certificate in accordance with a Special Record Date established by the Trustee in accordance with the Trust Agreement in an amount equal to such Deficit Principal Related Payment multiplied by a fraction, the numerator of which is the amount of the due and unpaid Principal and Sinking Fund Installments on this Certificate and the denominator of which is the aggregate amount of the due and unpaid Principal and Sinking Fund Installments on all Certificates.

Deficit Principal Related Payments representing Principal or Sinking Fund Installments not paid in full on the Maturity Date or applicable Sinking Fund Installment Date (if any) will be paid by the Trustee from any Service Payments thereafter received by the Contract Administrator and available for such purpose in accordance with the Service Contracts, the Contract Administration Agreement and the Trust Agreement.

The Service Contracts provide for other payments to be made on a parity with or prior to Interest and Principal, and those other payments may result in either Interest or Principal not being timely paid in full. Reference is made to the Service Contracts for a statement of the applicable priorities of payments from Service Payments.

#### Mandatory Sinking Fund Redemption

All Series A Certificates maturing on June 15, 2035 are subject to *pro rata* mandatory redemption in part prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts set forth in Schedule 3 to the Service Contracts, except that the principal amount of the Series A Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series A Certificate that has been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under "Optional Redemption with Make-Whole Premium," at least 45 days before the redemption date. Mandatory Redemption from Sinking Fund Related Payments correspondingly reduces Principal payable on the Maturity Date.

#### Optional Redemption with Make-Whole Premium

The Series A Certificates are subject to optional redemption prior to maturity from Scheduled Payments prepaid by the City, in whole or in part on any date, at a redemption price equal to the greater of (i) 100% of the principal amount of the Series A Certificates to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of Principal and Interest on the Series A Certificates to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points, plus in each case accrued and unpaid Interest on the Series A Certificates being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions apply:

**Treasury Rate** means, with respect to any redemption date for a particular Series A Certificate, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Treasury Dealer.

**Comparable Treasury Issue** means, with respect to any redemption date for a particular Series A Certificate, the U. S. Treasury security or securities selected by the Designated Treasury Dealer which has an actual or interpolated maturity comparable to the remaining average life of the Series A Certificate to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series A Certificate to be redeemed.

**Comparable Treasury Price** means, with respect to any redemption date for a particular Series A

**Designated Treasury Dealer** means one of the Reference Treasury Dealers designated by the Contract Administrator.

**Reference Treasury Dealer** means UBS Securities LLC or its successor, and four other firms, selected by the Contract Administrator from time to time, that are primary U.S. Government securities dealers in the City of New York (each a **Primary Treasury Dealer**); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Contract Administrator will substitute another Primary Treasury Dealer.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series A Certificate, the average, as determined by the Designated Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Treasury Dealer by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date. Redemption from Redemption Related Payments correspondingly reduces Principal payable on the Maturity Date.

THIS CERTIFICATE DOES NOT CREATE ANY "INDEBTEDNESS" OF THE CITY OF DETROIT WITHIN THE MEANING OF ANY LIMITATION CONTAINED IN THE CONSTITUTION AND NON-TAX STATUTES OF THE STATE OF MICHIGAN OR IN THE CITY OF DETROIT CHARTER.

The Registered Holder, by purchasing or acquiring this certificate, and each beneficial owner of this certificate, by purchasing or acquiring a beneficial ownership interest therein, agree that for all U.S. federal, state and local income, business, franchise and modified value added tax purposes, (i) they will treat the Funding Trust as a grantor trust under the Internal Revenue Code of 1986, as amended, (ii) they will be treated as the owner of an undivided pro rata interest in the portion of the grantor Trust Estate attributable to this certificate, and (iii) they will treat the Funding Trust Receivables as payments in respect of indebtedness (and will thereby also acknowledge that the Service Charges and Scheduled Payments made by the City under the Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or City charter limitation).

Reference is hereby made to the Trust Agreement, the Service Contracts and the Contract Administration Agreement (copies of which and other documents related to the Certificates are on file at the designated office of the Trustee, located in Detroit, Michigan on the Original Issue Date) for a description of the rights, responsibilities, and remedies of the Certificateholders, the Trustee and the Contract Administrator.

Notice of Redemption shall be mailed by first-class mail, not less than 30 days nor more than 45 days before the Redemption Date, to the Registered Holder of this certificate, as shown on the Certificate registry kept by the Trustee, but neither failure to receive notice of redemption given as provided in the Trust Agreement nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption of any Certificates for which no failure or deficiency occurred. The Trust Agreement provides that the Trustee shall provide additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (December 3, 1986) as the same may be modified, amended or supplemented from time to time by formal action of the Securities and Exchange Commission or by generally accepted practice of cor-



porate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

If this certificate is duly called for Redemption and payment is duly provided therefor as specified in the Trust Agreement, this certificate shall cease to accrue Interest from and after the date fixed for redemption.

Registration of the ownership of this certificate is transferable only upon the Registry kept by the Trustee at the designated corporate trust office of the Trustee by the Registered Holder hereof in person, or by such Registered Holder's attorney duly authorized in writing, upon the surrender of this certificate together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Holder or such Registered Holder's attorney duly authorized in writing, and thereupon a new registered certificate or certificates of the same series and tenor, representing the same denomination in the aggregate and having the same Maturity Date shall be issued to the transferee in exchange therefor as provided in the Trust Agreement and upon the payment of the charges, if any, therein prescribed.

This certificate is not valid for any purpose until the Trustee's Certificate of Authentication on this certificate has been executed by the Trustee.

*[The Trustee's Certificate of Authentication follows]*

**Certificate of Authentication**

This certificate is one of the Series A Certificates described in the within-mentioned Trust Agreement.

**U.S. Bank National Association,**  
as Trustee of the Detroit Retirement  
Systems Funding Trust 2006

By: \_\_\_\_\_

Date of Authentication: June 12, 2006

**Assignment**

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

\_\_\_\_\_  
(Please print or typewrite name and address of transferee)

the within certificate and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer the within certificate on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature Guaranteed:

\_\_\_\_\_  
NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within certificate in every particular, without alteration or enlargement or any change whatever. When assignment is made by a guardian, trustee, executor or administrator, an officer of a corporation, or anyone in a representative capacity, proof of such person's authority to act must accompany the certificate.

Signature(s) must be guaranteed by an eligible guarantor institution participating in a Securities Transfer Association recognized signature guarantee program. The Transfer Agent will not effect transfer of this certificate unless the information concerning the transferee requested below is provided.

Name and Address: \_\_\_\_\_  
PLEASE INSERT SOCIAL \_\_\_\_\_  
SECURITY NUMBER OR OTHER \_\_\_\_\_  
IDENTIFYING NUMBER OF \_\_\_\_\_ (Include information for all joint owners  
TRANSFEEE. if the certificate is held by joint account.)

(Insert number for first named  
transferee if held by joint account)

## STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to only the DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2006 CERTIFICATES OF PARTICIPATION SERIES 2006-A MATURING IN 2035 (the "Specified Certificates"), such policy being on file at the principal office of U.S. Bank National Association, Detroit, Michigan, or its successor as paying agent (the "Paying Agent") for the Specified Certificates.

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Specified Certificateholders that portion of the principal or accreted value (if applicable) of and interest on the Specified Certificates which is then due for payment and which the issuer of the Specified Certificates (the "Issuer") shall have failed to provide. Due for payment means, with respect to principal or accreted value (if applicable), the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal or accreted value (if applicable) of the Specified Certificates is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Specified Certificateholder or the Paying Agent to Financial Guaranty that the required payment of principal, accreted value or interest (as applicable) has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Specified Certificateholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Specified Certificateholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Specified Certificateholder.

As used herein the term "Specified Certificateholder" means the person other than the Issuer or the borrower(s) of proceeds of Specified Certificates who at the time of nonpayment of the Specified Certificate is entitled under the terms of such Specified Certificate to payment thereof.

The policy is non-cancellable for any reason.

NOTICE: Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (*DTC*) to the Detroit Retirement Systems Funding Trust 2006 or its agent for registration of transfer, exchange or payment, and any Certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), **any Transfer, Pledge or Other Use Hereof for Value or Otherwise by or to any Person is Wrongful** inasmuch as the registered holder hereof, Cede & Co., has an interest herein.

R-●

**Detroit Retirement Systems Funding Trust 2006  
Certificates of Participation Series 2006-B**

<b>FUNDING RATE</b> <i>(INTEREST RATE)</i>	<b>PRINCIPAL PAY-</b> <b>MENT DATE</b>			<b>EUROCLEAR AND</b>
<u>PER ANNUM</u>	<u>(MATURITY DATE)</u>	<u>CUSIP</u>	<u>ISIN</u>	<u>CLEARSTREAM</u>
Set Forth Below	JUNE 15, 2034	●	●	●

**ORIGINAL ISSUE DATE: JUNE 12, 2006**

**REGISTERED HOLDER: CEDE & Co.**

**DENOMINATION (PRINCIPAL): ● DOLLARS (\$● U.S.)**

**This is to Certify that** the Registered Holder, or registered assigns, is the registered owner of this certificate, which evidences a beneficial ownership interest in the trust estate (the *Trust Estate*) described in the Trust Agreement, dated June 12, 2006 (the *Trust Agreement*), between the below identified Service Corporations, severally and not jointly, and U.S. Bank National Association, as trustee (such trustee and any successors as trustee, the *Trustee*).

This certificate is one of a series of certificates (the *Series B Certificates*) issued by the Detroit Retirement Systems Funding Trust 2006 created pursuant to the Trust Agreement (the *Funding Trust*), each evidencing a beneficial ownership interest in the portions of the Trust Estate attributable to such certificates and which, together with the Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series 2006-A (the *Series A Certificates* and together with the Series B Certificates, the *Certificates* and each certificate of the Certificates, a *Certificate*), represent the entire beneficial ownership interests in the Trust Estate.

The Trust Estate consists of rights to receive certain payments (*Funding Trust Receivables* as defined in the Trust Agreement) made by the City of Detroit, Michigan (the *City*) pursuant to the Service Contract, dated June 7, 2006 (a *Service Contract*), between the City and the Detroit General Retirement System Service Corporation (a *Service Corporation*) and the Service Contract, dated June 7, 2006 (also a *Service Contract*), between the City and the Detroit Police and Fire Retirement System Service Corporation (also a *Service Corporation* and together with the other Service Corporation, the *Service Corporations*). U.S. Bank National Association, as

contract administrator (such contract administrator and any successor thereto, the *Contract Administrator*) and not as Trustee, receives the payments of the Funding Trust Receivables when paid by the City, as the agent of the Funding Trust pursuant to the Contract Administration Agreement, dated June 12, 2006, among the Contract Administrator, the Funding Trust, the Service Corporations and certain other parties (the *Contract Administration Agreement*).

Capitalized terms not defined herein and defined in the Trust Agreement, the Contract Administration Agreement or either of the Service Contracts are used herein as therein defined.

The Registered Holder of this certificate is entitled to receive, subject to the terms of the Service Contracts, Contract Administration Agreement and the Trust Agreement, in lawful money of the United States of America: (i) a portion of the Scheduled Payments coming due on the Maturity Date stated above equal to the Principal amount stated above, unless earlier redeemed as provided below, and (ii) a portion of the Service Charges (i.e., *Interest* on this certificate) from the Original Issue Date stated above computed as the cost of capital of this certificate at a floating rate determined in the manner provided below, by multiplying the outstanding Principal amount of this certificate by such floating rate, payable on September 15, 2006, and quarterly thereafter on the 15<sup>th</sup> day of each December, March, June and September thereafter (each an *Interest Payment Date*) to the Registered Holder whose name was registered at the close of business on the 15<sup>th</sup> day (whether or not a business day) preceding the respective Interest Payment Date, subject to certain exceptions.

The per annum interest rate on this certificate (*Interest Rate*) in effect during an Interest Period (as defined below) shall be equal to the Three Month LIBOR plus 0.30% for Series B Certificates maturing on June 15, 2029 and 0.34% for Series B Certificates maturing on June 15, 2034. Interest on this certificate will accrue on the outstanding principal balance of this certificate. The outstanding principal balance is computed based upon the reduction of the principal balance of each Series B Certificate by the amount of the mandatory sinking fund prepayment on the specific dates set forth under the next subheading "Mandatory Sinking Fund Redemption" below.

For the initial Interest Period which begins on the Closing Date and ends on (but does not include) September 15, 2006, the Contract Administrator will set the Interest Rate on the Closing Date and will determine the LIBOR rate by reference to straight line interpolation between Three Month LIBOR and four month LIBOR based on the actual number of days in the initial Interest Period. The Interest Rate for each subsequent Interest Period for the Series B Certificates will be set on September 15, 2006 and quarterly thereafter on the 15<sup>th</sup> day of each December, March, June and September (each an *Interest Rate Adjustment Date*) until the principal of the Series B Certificates is paid or made available for payment. If any Interest Rate Adjustment Date (other than the initial Interest Rate Adjustment Date occurring on the Closing Date) and Interest Payment Date for the Series B Certificates would otherwise be a day that is not a LIBOR Business Day, such Interest Rate Adjustment Date and Interest Payment Date shall be the next succeeding LIBOR Business Day.

*LIBOR Business Day* means any day on which the City, the Trustee and banks in both London and New York City are open for the transaction of business. *Interest Period* means the period from and including the Closing Date or the most recent Interest Payment Date to but excluding the next succeeding Interest Payment Date on which interest on the outstanding Series B Certificates was paid in full.

The **Three Month LIBOR** for each Interest Period means the rate determined in accordance with the following provisions:

(i) On the second LIBOR Business Day before the Closing Date and each subsequent Interest Rate Adjustment Date (each such date an **Interest Determination Date** for the ensuing Interest Period), the Contract Administrator will determine the Three Month LIBOR which shall be the London interbank offered rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m., London time, on such Interest Determination Date. **Telerate Page 3750** means the display page so designated on Moneyline Telerate, Inc. (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If the Three Month LIBOR on such Interest Determination Date does not appear on the Telerate Page 3750, the Three Month LIBOR will be determined as described in paragraph (ii) below.

(ii) With respect to an Interest Determination Date for which the Three Month LIBOR does not appear on Telerate Page 3750 as specified in paragraph (i) above, the Three Month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on such Interest Determination Date to prime banks in the London interbank market by at least three leading banks engaged in transactions in Eurodollar deposits in the international Eurocurrency market (the **Reference Banks**) selected by the Contract Administrator. The Contract Administrator shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Contract Administrator, at approximately 11:00 a.m., New York City time, on such Interest Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity; provided, however, that if the banks in New York City selected by the Contract Administrator are not then quoting rates for such loans, the relevant Interest Rate for the Interest Period commencing on the Interest Rate Adjustment Date following such Interest Determination Date will be the Interest Rate in effect on such Interest Determination Date.

The amount of interest for each day that the Series B Certificates are outstanding (the **Daily Interest Amount**) will be calculated by dividing the Interest Rate in effect for such day by 360 and multiplying the result by the principal amount of the Series B Certificates. The amount of interest to be paid on the Series B Certificates for any Interest Period will be calculated by adding the Daily Interest Amounts for each day in such Interest Period.

The Interest Rate on the Series B Certificates will in no event be higher than the maximum rate permitted by Michigan law as the same may be modified by United States law of general application.

The Interest Rate and amount of interest to be paid on the Series B Certificates for each Interest Period will be determined by the Contract Administrator. All calculations made by the Contract Administrator shall in the absence of manifest error be conclusive for all purposes and binding on the Funding Trust and the Holders of the Series B Certificates.



So long as the Registered Holder is Cede & Co., or any other nominee of DTC, distributions of Principal and premium, if any, payable upon maturity or earlier redemption of this certificate will be paid by the Trustee by wire. Distributions to any other Registered Holder will be paid by check or draft, mailed, with respect to distributions of Interest, to the Registered Owner shown in the Certificate registry kept by the Trustee at the close of business on the 15<sup>th</sup> day (whether or not a business day) preceding the respective Interest Payment Date (a **Regular Record Date**) and, with respect to payment of Principal and premium, if any, upon presentation and surrender of this certificate at the designated office of the Trustee.

Subject in all respects to the foregoing, the Trust Agreement, Service Contracts and Contract Administration Agreement provide for allocation, computation, distribution and payments from the Trust Estate to the Registered Holder and all other registered owners of the Certificates in accordance with their relative Percentage Interests in the event that the Trustee has received less than all of the Funding Trust Receivables payable on any date by the City under the Service Contracts, generally described as follows.

On each Interest Payment Date (ending on the Maturity Date set forth above) amounts are payable as Interest on this certificate from amounts the Trustee has received from the Contract Administrator as an Interest Related Payment for such Interest Payment Date, computed as stated above, provided that such Interest Related Payment is sufficient to pay Interest on all outstanding Certificates, computed in accordance with their respective terms on the aggregate outstanding Principal Amounts of all outstanding Certificates. Such Interest is payable to the respective Record Holders as of the particular Regular Record Date immediately prior to such Interest Payment Date.

If such Interest Related Payment is not sufficient to pay all Interest on the Certificates in full on such Interest Payment Date, such Interest Related Payment shall be paid, to the extent thereof, as Interest on this certificate in an amount equal to such Interest Related Payment multiplied by a fraction, the numerator of which is the amount that would have been paid as Interest on this certificate if such Interest Related Payment had been sufficient to pay Interest on all Certificates on such Interest Payment Date and the denominator of which is the aggregate amount that would have been paid as Interest on all Certificates if such Interest Related Payment had been sufficient to pay Interest on all Certificates on such Interest Payment Date. A portion of any Deficit Interest Related Payment received by the Trustee from the Contract Administrator shall be payable on this certificate in accordance with a Special Record Date established by the Trustee in accordance with the Trust Agreement, in an amount equal to such Deficit Interest Related Payment multiplied by a fraction, the numerator of which is the amount of the unpaid Interest on this certificate and the denominator of which is the aggregate amount of the unpaid Interest on all Certificates.

Any principal of any particular Certificate shall be reduced by any amount previously paid as principal or Sinking Fund Installments on such Certificate from a Sinking Fund Related Payment or a Redemption Related Payment (excluding any amount representing a prepayment premium) (such principal to the extent not so reduced **outstanding Principal**).

Outstanding Principal of this certificate is payable on the Maturity Date or the Sinking Fund Installment Date (if any) to the Registered Holder hereof if the Trustee has received a Principal Related Payment or Sinking Fund Related Payment from the Contract Administrator for

such Maturity Date or Sinking Fund Installment Date sufficient to pay outstanding Principal and Sinking Fund Installments of all Certificates payable on that date.

If such Principal Related Payment or Sinking Fund Related Payment is not sufficient to pay in full all Principal and Sinking Fund Installments due on the outstanding Certificates on such date, a portion of such Principal Related Payment or Sinking Fund Related Payment shall be paid, to the extent thereof, to reduce the outstanding Principal of this certificate in an amount equal to such Principal Related Payment or Sinking Fund Related Payment multiplied by a fraction, the numerator of which is the amount of the Principal or Sinking Fund Installment of this certificate payable on such date and the denominator of which is the aggregate amount of the Principal and Sinking Fund Installments of all Certificates payable on such date. A portion of any Deficit Principal Related Payment received by the Trustee from the Contract Administrator shall be payable on this certificate in accordance with a Special Record Date established by the Trustee in accordance with the Trust Agreement in an amount equal to such Deficit Principal Related Payment multiplied by a fraction, the numerator of which is the amount of the due and unpaid Principal and Sinking Fund Installments on this Certificate and the denominator of which is the aggregate amount of the due and unpaid Principal and Sinking Fund Installments on all Certificates.

Deficit Principal Related Payments representing Principal or Sinking Fund Installments not paid in full on the Maturity Date or applicable Sinking Fund Installment Date (if any) will be paid by the Trustee from any Service Payments thereafter received by the Contract Administrator and available for such purpose in accordance with the Service Contracts, the Contract Administration Agreement and the Trust Agreement.

The Service Contracts provide for other payments to be made on a parity with or prior to Interest and Principal, and those other payments may result in either Interest or Principal not being timely paid in full. Reference is made to the Service Contracts for a statement of the applicable priorities of payments from Service Payments.

#### Mandatory Sinking Fund Redemption

All Series B Certificates maturing on June 15, 2029, or on June 15, 2034 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts set forth in the Service Contract, except that the principal amount of Series B Certificates of such maturity to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any such Series B Certificate that has been purchased by the Trustee and canceled by the Trustee, or redeemed as described under "Optional Redemption" below, at least 45 days before the redemption date.

Mandatory Redemption from Sinking Fund Related Payments correspondingly reduces Principal payable on the Maturity Date.

#### Optional Redemption

The Series B Certificates are subject to optional redemption on any Interest Payment Date at par, on and after June 15, 2011, in whole or in part.

THIS CERTIFICATE DOES NOT CREATE ANY "INDEBTEDNESS" OF THE CITY OF DETROIT WITHIN THE MEANING OF ANY LIMITATION CONTAINED IN THE CONSTITUTION AND NON-TAX STATUTES OF THE STATE OF MICHIGAN OR IN THE CITY OF DETROIT CHARTER.

The Registered Holder, by purchasing or acquiring this certificate, and each beneficial owner of this certificate, by purchasing or acquiring a beneficial ownership interest therein, agree that for all U.S. federal, state and local income, business, franchise and modified value added tax purposes, (i) they will treat the Funding Trust as a grantor trust under the Internal Revenue Code of 1986, as amended, (ii) they will be treated as the owner of an undivided pro rata interest in the portion of the grantor Trust Estate attributable to this certificate, and (iii) they will treat the Funding Trust Receivables as payments in respect of indebtedness (and will thereby also acknowledge that the Service Charges and Scheduled Payments made by the City under the Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or City charter limitation).

Reference is hereby made to the Trust Agreement, the Service Contracts and the Contract Administration Agreement (copies of which and other documents related to the Certificates are on file at the designated office of the Trustee, located in Detroit, Michigan on the Original Issue Date) for a description of the rights, responsibilities, and remedies of the Certificateholders, the Trustee and the Contract Administrator.

Notice of Redemption shall be mailed by first-class mail, not less than 30 days nor more than 45 days before the Redemption Date, to the Registered Holder of this certificate, as shown on the Certificate registry kept by the Trustee, but neither failure to receive notice of redemption given as provided in the Trust Agreement nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for redemption of any Certificates for which no failure or deficiency occurred. The Trust Agreement provides that the Trustee shall provide additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (December 3, 1986) as the same may be modified, amended or supplemented from time to time by formal action of the Securities and Exchange Commission or by generally accepted practice of corporate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

If this certificate is duly called for Redemption and payment is duly provided therefor as specified in the Trust Agreement, this certificate shall cease to accrue Interest from and after the date fixed for redemption.

Registration of the ownership of this certificate is transferable only upon the Registry kept by the Trustee at the designated corporate trust office of the Trustee by the Registered Holder hereof in person, or by such Registered Holder's attorney duly authorized in writing, upon the surrender of this certificate together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Holder or such Registered Holder's attorney duly authorized in writing, and thereupon a new registered certificate or certificates of the same series and tenor, representing the same denomination in the aggregate and having the same Maturity Date shall be issued to the transferee in exchange therefor as provided in the Trust Agreement and upon the payment of the charges, if any, therein prescribed.

This certificate is not valid for any purpose until the Trustee's Certificate of Authentication on this certificate has been executed by the Trustee.

*[The Trustee's Certificate of Authentication follows]*

**Certificate of Authentication**

This certificate is one of the Series B Certificates described in the within-mentioned Trust Agreement.

**U.S. Bank National Association,**  
as Trustee of the Detroit Retirement  
Systems Funding Trust 2006

By: \_\_\_\_\_

Date of Authentication: June 12, 2006

**Assignment**

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

\_\_\_\_\_  
(Please print or typewrite name and address of transferee)

the within certificate and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer the within certificate on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature Guaranteed:

\_\_\_\_\_  
NOTICE: The signature(s) to this assignment must correspond with the name as it appears upon the face of the within certificate in every particular, without alteration or enlargement or any change whatever. When assignment is made by a guardian, trustee, executor or administrator, an officer of a corporation, or anyone in a representative capacity, proof of such person's authority to act must accompany the certificate.

Signature(s) must be guaranteed by an eligible guarantor institution participating in a Securities Transfer Association recognized signature guarantee program. The Transfer Agent will not effect transfer of this certificate unless the information concerning the transferee requested below is provided.

Name and Address: \_\_\_\_\_  
PLEASE INSERT SOCIAL \_\_\_\_\_  
SECURITY NUMBER OR OTHER \_\_\_\_\_  
IDENTIFYING NUMBER OF (Include information for all joint owners  
TRANSFEEE. if the certificate is held by joint account.)

(Insert number for first named  
transferee if held by joint account)

**STATEMENT OF INSURANCE  
[OF APPROPRIATE INSURER]**



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**General Terms and Conditions**

of

**Trust Agreements**

creating

**Detroit Retirement Systems Funding Trusts**

established severally and not jointly by the

**Detroit General Retirement System Service Corporation  
and the**

**Detroit Police and Fire Retirement System Service Corporation**

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**Dated as of May 1, 2005**

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**GENERAL TERMS AND CONDITIONS  
OF  
TRUST AGREEMENTS  
CREATING  
DETROIT RETIREMENT SYSTEMS FUNDING TRUSTS  
ESTABLISHED SEVERALLY AND NOT JOINTLY BY THE  
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION  
AND THE  
DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

**Dated as of May 1, 2005  
(the *General Terms*)**

The General Terms govern Trust Agreements of the Detroit General Retirement Service Corporation and the Detroit Police and Fire Retirement Service Corporation (each, a *Corporation*) in which they are incorporated by reference (each, a *Trust Agreement*) for the establishment of Funding Trusts (each, a *Funding Trust*) for the purpose of funding of the several and not joint unfunded accrued actuarial liability (in each instance, *UAAL*) of the Detroit General Retirement System and the Detroit Police and Fire Retirement System (each, a *Retirement System*).

**Article I — Definitions and Interpretation**

**Section 101. Certain Definitions.**

The following terms have the following respective meanings for all purposes of the Trust Agreement *unless* the context clearly otherwise requires:

*Accreted Value* means, at any time, the Principal Amount of particular Capital Appreciation COPs determined in accordance with the Trust Agreement.

*Authorized Officer* means the President of a Corporation or any other individual designated as an "Authorized Officer" in a Corporation Order signed by the President.

*Capital Appreciation COPs* means Zero Coupon COPs that have Principal Amounts that accrete in accordance with the Accreted Value of such COPs.

*Certificates, Certificates of Participation* or *COPs* mean the Certificates of Participation identified in the Trust Agreement.

*Certificateholder* or *Holder* means, as of any time with respect to any Certificate, the Person in whose name such Certificate is registered in the Registry.

*City* means the City of Detroit, Michigan.

*Corporation* has the meaning given that term in the Specific Terms.

*Corporation Certificate, Corporation Request, Corporation Order* and *Corporation Consent* mean, respectively, a written certificate, request, order or consent signed in the name of a Corporation by an Authorized Officer, and delivered to the Trustee.

**Contract Administrator** means the bank serving as Trustee, in its separate capacity as Contract Administrator and not as Trustee.

**Contract Administration Agreement** means the agreement captioned as such among the Corporations, severally and not jointly, the Trustee and the Contract Administrator for the administration of the Service Contract.

**Deficiency Payment** means any Deficit Interest Related Payment or any Deficit Principal Related Payment as the context may require.

**Funding Trust** means the trust established by the Trust Agreement.

**Funding Trust Receivable** means any Principal Related Receivable or Interest Related Receivable.

**Funding Cost Supplement** means each document identified in a Service Contract as a "Funding Cost Supplement" and appended to the Trust Agreement.

**Interest** means (whether or not capitalized) amounts received by the Trustee as Service Charges.

**Interest Payment Dates** means (whether or not capitalized) dates that correspond to Service Charge Payment Dates.

**Interest Related Receivable** means an amount owing by the City as a Service Charge, including any Accrued Service Charges.

**Maturity or Maturity Date** means (whether or not capitalized), (i) as to any Certificate, the Scheduled Payment Date on which the Holder of such Certificate is entitled to receive a regular Scheduled Payment is due and (ii) as to any Regular Scheduled Payment, the Scheduled Payment Date on which such Regular Scheduled Payment is due from the City under a Service Contract. The verb *mature* has a correlative meaning.

**on** as in "Interest payable on a Certificate" or **of** as in "a Principal Payment of a Certificate" means "in respect of" as in "Interest payable in respect of a Certificate" and "a Principal Payment in respect of a Certificate".

**Outstanding** means (whether or not capitalized) all Certificates authenticated under the Trust Agreement *except*:

- (1) Certificates theretofore canceled or surrendered to the Trustee for cancellation and
- (2) Certificates replaced pursuant to **Section 313** *unless* the Trustee receives proof that the Holder of the replaced Certificate is a protected purchaser.

**Percentage Interest** means, as to any Certificate of a Series, the percentage obtained by dividing the denomination of such Certificate by the sum of the denominations of the outstanding Certificates of such Series.

**Person** means any individual, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity, however organized.

**Predecessor Certificate** of any particular Certificate means every previous Certificate evidencing all or a portion of the same beneficial interest as that evidenced by such particular Certificate; and for the purpose of this definition, any Certificate delivered under **Section 313** in lieu of a lost, destroyed or stolen Certificate shall be deemed to evidence the same beneficial interest as such lost, destroyed or stolen Certificate.

**Principal** or **Principal Amount** means (whether or not capitalized), (i) as to any Certificate, a notional amount equal to the denomination of such Certificate and (ii) as to any Series of Certificates, a notional amount equal to the total of the denominations of the Outstanding Certificates of such Series.

**Principal Payment Dates** means the dates that correspond to Scheduled Payment Dates for Regular Scheduled Payments.

**Principal Related Receivable** means an amount owing by the City as a Scheduled Payment (whether a Regular Scheduled Payment or a Sinking Fund Installment) or an Optional Prepayment Amount.

**Qualifying Opinion** means an opinion of counsel to the effect that the Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended.

**Redeemed** or **Redemption** means (whether or not capitalized), the prepayment of all or a portion of the Principal Amount of a Certificate before its Maturity. A Certificate is redeemed to the extent of the prepayment of the Principal Amount thereof. Correlative terms have correlative meanings.

**Redemption Date** means the date that corresponds to a Sinking Fund Installment Date or an Optional Prepayment Date.

**Redemption Price** means an amount equal to the amount due from the City as a Sinking Fund Installment or an Optional Prepayment Amount plus any Accrued Service Charges.

**Regular Record Date** means, as to any Interest Payment Date with respect to Certificates of a Series, the date set forth in or determined pursuant to the Service Contract for such Series as the "Regular Record Date".

**Series** means all Certificates designated by the Trust Agreement as belonging to a particular series.

**Securities Depository** means The Depository Trust Company and any Person succeeding to the business of The Depository Trust Company qualified to do so under the rules of the Securities and Exchange Commission.

**Service Contract** means the agreement between a Corporation and the City identified in the Trust Agreement as a "Service Contract".

**Service Contract Specific Terms** means the Specific Terms of a Service Contract.

**Trust Agreement** means the Trust Agreement between the Corporations and the Trustee incorporating these General Terms as such Trust Agreement may be amended in accordance with its terms.

*Trust Estate* means the revenues and assets identified as the "Trust Estate" in the Trust Agreement.

*Trustee* means the Person so named in the first paragraph of the Trust Agreement until a successor is appointed pursuant to applicable provisions of the Trust Agreement; thereafter, *Trustee* means such successor.

*Zero Coupon Certificates* means COPs that do not provide for periodic payments of Interest.

**Section 102. Definitions Elsewhere in General Terms**

The terms defined elsewhere in the General Terms include:

<u>Term</u>	<u>Defined In</u>
Beneficial Owner.....	Section 315
Supplemental Trust Agreement.....	Section 701
Participant .....	Section 315
Registry .....	Section 311

**Section 103. Definitions in Service Contract**

Undefined capitalized terms used herein and defined in the Service Contract are used here as therein defined, *unless* the context otherwise clearly requires, including:

<u>Term</u>	<u>Defined In</u>
Credit Insurance .....	GT, Section 1.01
Prepayment Receipt Day .....	GT, Section 5.03
Rating Agency .....	GT, Section 9.02
Regular Scheduled Payment.....	GT, Section 1.01
Scheduled Payment Dates .....	SP, Scheduled Payments Attachment
Scheduled Payments .....	SP, Scheduled Payments Attachment
Service Payments .....	GT, Section 8.01
Sinking Fund Installments .....	SP, Sinking Fund Installment Attachment
Sinking Fund Installment Dates .....	SP, Sinking Fund Installment Attachment
Subject UAAL.....	GT, Section 1.01

*GT* refers to Service Contract General Terms, and *SP* refers to Service Contract Specific Terms

**Section 104. Definitions in Contract Administration Agreement**

Undefined capitalized terms used herein and defined in the Service Contract are used here as therein defined, *unless* the context otherwise clearly requires, including:

<u>Term</u>	<u>Defined In</u>
Deficit Interest Related Payment.....	Section 4.6
Deficit Principal Related Payments.....	Section 4.6
Interest Related Payments .....	Section 4.6
Principal Related Payments.....	Section 4.6
Redemption Related Payments.....	Section 4.6

**Section 105. Interpretation.**

- (a) Words of the masculine gender include correlative words of the feminine and neuter genders.
- (b) *Unless* the context otherwise indicates, words importing the singular include the plural and vice versa.
- (c) Articles, Sections, Schedules and Exhibits referred to by number mean the corresponding Articles, Sections, Schedules and Exhibits of the Trust Agreement.
- (d) The terms *hereby, hereof, hereto, herein, hereunder* and any similar terms used in the Trust Agreement refer to the Trust Agreement as a whole and not to any particular portion thereof.
- (e) The term *or* is not exclusive.
- (f) The enumeration of things after the term *such as, including or for example (e.g.)* is to be interpreted as illustrative and not restrictive.
- (g) References to sections of a Public Act, or to a Public Act as a whole, also include any amendments thereto unless otherwise indicated and analogous sections or Public Acts enacted as substitutes therefor.

**Article II — The Funding Trust**

**Section 201. Conveyance of Funding Trust Receivables; Grant of Security Interest**

(a) Effective as of the Closing Date, each Corporation hereby transfers, assigns and otherwise conveys to the Funding Trust all of its right, title and interest in, to and under the Funding Trust Receivables now or hereafter created under its respective Service Contract, and all monies due or to become due with respect thereto and all proceeds (as defined in Section 9-315 of the Uniform Commercial Code as in effect in the State of Michigan) of such Funding Trust Receivables. For the avoidance of doubt, the Trustee acknowledges that it has no power to transfer, assign or otherwise convey legal title to the Funding Trust Receivables and that beneficial interests in the Funding Trust Receivables may be transferred as transfers of Certificates.

(b) Each Corporation intends that such sale, assignment and conveyance be an absolute transfer of such property for all purposes. However, in order to preserve rights if such sale, assignment and conveyance is deemed a pledge of such property, each Corporation hereby grants a security interest in all of its right, title and interest in, to and under such property to the Funding Trust for the benefit of the Certificateholders.

**Section 202. No City Indebtedness**

The Funding Trust and the Funding Trust Receivables do not constitute or create any indebtedness of the City within the meaning of the limitation contained in The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.



**Section 203. Tax Treatment; Restriction on Trustee's Powers**

(a) *Except* to the extent otherwise provided in the Trust Agreement, each Corporation entered into the Trust Agreement, Certificates will be issued and the Funding Trust will acquire the Funding Trust Receivables, with the intention that for federal, state and local income, business, franchise and modified value added tax purposes,

(i) the Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended;

(ii) each Beneficial Owner of Certificates will be treated as the owner of an undivided pro rata interest in the portion of the Trust Estate attributable to such Beneficial Owner's Certificates; and

(iii) the Funding Trust Receivables will constitute payments in respect of indebtedness.

(b) In furtherance of such intention, except to the extent otherwise provided in the Trust Agreement, the Trustee shall not have the power to vary the investment of the Beneficial Owners of the Certificates within the meaning of U.S. Treasury Department regulations section 301.7701-4(c) or to engage in any business unless the Trustee shall have received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such activity will not cause the Trust to fail to be treated as such a grantor trust.

(c) Each Corporation and the Trustee by entering into the Trust Agreement and each Certificateholder by its acceptance of its Certificate agree to treat the Funding Trust, the Certificates and the Funding Trust Receivables in accordance with the intention expressed in **this Section** (or any alternative intention expressed in the Trust Agreement) for federal, state and local income, business, franchise and modified value added tax purposes.

**Section 204. Authentication and Delivery of Certificates by Trustee; Execution of Other Documents**

(a) The Trustee shall deliver the Certificates in accordance with a Corporation Order of each Corporation (a *Delivery Order*) stating the amount of Certificate proceeds to be received by the Trustee in respect of the particular Corporation and providing for the disposition of such proceeds in accordance with **Section 205**.

(b) The Trustee is authorized and directed to execute and deliver the Contract Administration Agreement in the name of and on behalf of the Funding Trust and such other documents and instruments as may be specified in a Delivery Order or other writing signed by the Authorized Officer of each Corporation.

**Section 205. Disposition of Certificate Proceeds.**

The proceeds of the sale of Certificates shall be applied as provided in each Service Contract.

**Section 206. Additional Certificates**

(a) One or more Series of Additional Certificates may be established by supplement to the Trust Agreement *if* (i) the City approves an amendment to either Service Contract to provide for (i) the funding of obligations under the particular Service Contract not part of the Initial Funding or (ii) to provide for the payment of all or a portion of Outstanding Certificates *and* (ii) the requirement of **Section 704** is met if applicable.

(b) Such Series of Additional Certificates shall not have an aggregate principal amount that exceeds the total Scheduled Payments added by such amendment to the Service Contract, and the maturity dates and amounts maturing on such dates of such Additional Certificates shall correspond to the Scheduled Payments added by such amendment and their respective Scheduled Payment Dates.

(c) Such Series of Additional Certificates shall provide for Service Charges determined in accordance with the Funding Methodology provided in such amendment.

**Article III — The Certificates**

**Section 301. Interest Evidenced by Certificates.**

The Certificates evidence the entire beneficial interest in the Trust Estate.

**Section 302. Limitation on Amount.**

The total of the denominations of the Certificates that may be authenticated and delivered under the Trust Agreement is limited to the total specified in the Trust Agreement plus the denominations of any Certificates authenticated and delivered pursuant to **Section 311** or **Section 307**.

**Section 303. General Title.**

The general title of the Certificates shall be *Detroit Retirement Systems Funding Trust* [*designation of particular Funding Trust*] *Certificates of Participation Series* [*Series designation*], and the specific title of Certificates shall include such other designations as may be provided in the Trust Agreement.

**Section 304. Required Statement**

Each Certificate shall state on its face that it does not create any indebtedness of the City within the meaning of any limitation contained in the constitution and non-tax statutes of the State of Michigan or in the City of Detroit Charter.

**Section 305. Issuable in Series**

The Certificates shall be issued in one or more Series as provided in the Trust Agreement.

**Section 306. Form, Numbers, Denominations and Dating**

(a) The Certificates shall be issued as fully registered securities in the form prescribed by the Trust Agreement. Certificates authenticated and delivered in definitive form

shall be printed, lithographed or typewritten on plain or safety paper with or without printed or steel engraved borders.

(b) *Unless otherwise provided in the Trust Agreement, the Certificates shall be:*

(1) numbered consecutively from "R-1" within each Series; *provided* that a distinctive designation shall be in addition to such number to, or notation made on, any Certificate authenticated and delivered in substitution for any lost, mutilated or destroyed Certificate;

(2) issued in the denomination of \$5,000 and any multiple thereof; and

(3) dated the date of initial issuance.

### **Section 307. Authentication.**

No Certificate shall be valid for any purpose or be entitled to any security or benefit under the Trust Agreement unless and until a certificate of authentication on such Certificate, substantially in the form prescribed by the Trust Agreement, has been manually executed by the Trustee. Such executed certificate of the Trustee upon a Certificate shall be the only and conclusive evidence that such Certificate has been authenticated and delivered under the Trust Agreement.

### **Section 308. Capital Appreciation COPs**

The Principal Amount of any Capital Appreciation COPs shall accrete in accordance with the Accreted Value provided for in the Trust Agreement.

### **Section 309. Payments in US Dollars**

All payments on Certificates shall be made by negotiable instruments payable in funds representing legal tender in the United States or by means of transferring such funds.

### **Section 310. Payment of Interest; Interest Rights Preserved.**

(a) Interest payable on any Certificate and paid on an Interest Payment Date shall be paid to the Person in whose name that Certificate (or one or more Predecessor Certificates) is registered at the close of business on the Regular Record Date for such Series.

(b) Interest payable on any Certificate and *not* paid on an Interest Payment Date when due shall be *not* paid to the registered Holder on the relevant Regular Record Date by virtue of being such Holder and shall be payable as a Deficit Interest Related Payment to the Person in whose name such Certificate (or a Predecessor Certificate) is registered at the close of business on a Special Record Date for the payment of such Deficit Interest Related Payment.

(c) If an amount is payable as all or any part of a Deficit Interest Related Payment received by the Trustee, the Trustee shall establish a day for the payment of such amount not less than 10 days after the receipt of such amount and shall establish a Special Record Date which shall be not more than 15 nor fewer than 10 days before the date set for payment of such amount. The Trustee shall mail notice of a Special Record Date to the Certificateholders at least 10 days before such Special Record Date.

(d) Subject to the foregoing provisions of **this Section**, each Certificate delivered under the Trust Agreement upon transfer of or in exchange for or in lieu of any other Certificate

shall carry all the rights to Interest accrued and unpaid, and to accrue, which were carried by such other Certificate.

**Section 311. Registration, Exchanges and Transfers.**

(a) There shall be kept by the Trustee at the designated corporate trust office of the Trustee a register (the *Registry*) for the registration of Certificates and for the registration of transfers of Certificates as herein provided *subject* to such reasonable regulations as the Trustee may prescribe.

(b) Upon surrender of any Certificate for transfer of the registration thereof, the Trustee shall authenticate and register in the name of the designated transferee or transferees one or more new Certificates of the same tenor in any authorized denomination in like aggregate Principal Amount.

(c) At the option of the Holder, Certificates may be exchanged for other Certificates of the same tenor in any authorized denomination, of like aggregate principal amount, upon surrender of the Certificates to be exchanged at the designated corporate trust office of the Trustee. Whenever any Certificates are surrendered for exchange, the Trustee shall authenticate and deliver the Certificates that the Certificateholder making the exchange is entitled to receive.

(d) All Certificates issued upon any transfer of registration or exchange of Certificates shall constitute valid evidences of beneficial interests in the Trust Estate evidencing the same beneficial interests and entitled to the same benefits under the Trust Agreement as the Certificates surrendered in such transfer or exchange.

(e) No service charge may be made for any transfer of registration or exchange of Certificates, but the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect such transfer or exchange. The Trustee may make the payment of such tax, fee or other governmental charge and the cost of preparing each new Certificate delivered in such transfer or exchange a condition precedent to making any transfer of registration or exchange of any Certificate, to be paid by the Person requesting such transfer or exchange *unless* otherwise provided in the Trust Agreement.

(f) The Trustee shall not be required (i) to transfer or exchange any Certificate during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Certificate and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Certificate selected for redemption in whole or in part, during a period beginning at the opening of business on any Regular Record Date for such Certificates and ending at the close of business on the relevant Interest Payment Date therefor.

**Section 312. Persons Deemed Owners.**

The Trustee may treat the Person in whose name any Certificate is registered in the Registry as the owner of such Certificate, whether payments with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of the principal thereof, premium, if any, and (subject to Section 310) Interest thereon and for all other purposes whatsoever.

**Section 313. Mutilated, Destroyed, Stolen or Lost Certificates.**

(a) To the extent not otherwise provided by law, *if* (i) any mutilated Certificate is surrendered to the Trustee, or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Certificate, and (ii) there is delivered to the Trustee such security or indemnity as may be required by the Trustee to save the Trustee harmless, *then*, in the absence of notice to the Trustee that such Certificate has been acquired by a protected purchaser, the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Certificate, a new Certificate of the same maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Certificate has become or is about to become due and payable at Maturity, the Trustee in its discretion may, instead of issuing a new Certificate, pay such Certificate.

(c) Upon the issuance of any new Certificate under **this Section**, the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

(d) Every new Certificate issued pursuant to **this Section** in lieu of any destroyed, lost or stolen Certificate, shall constitute an original additional beneficial interest in the Funding Trust, whether or not the destroyed, lost or stolen Certificate shall be at any time enforceable by anyone, and shall be entitled to all the security and benefits of the Trust Agreement equally and ratably with all other Certificates issued thereunder

(e) The provisions of **this Section** are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Certificates.

**Section 314. Cancellation and Destruction of Certificates.**

(a) All Certificates surrendered for payment, redemption, transfer or exchange shall be promptly cancelled by the Trustee upon its receipt thereof if not already cancelled.

(b) No Certificate shall be authenticated in lieu of or in exchange for any Certificate cancelled as provided in **this Section**, *except* as expressly provided by the Trust Agreement.

(c) All cancelled Certificates held by the Trustee shall be destroyed and disposed of by the Trustee in accordance with applicable record retention requirements.

**Section 315. Book-Entry Certificates; Securities Depository.**

(a) As used herein:

**Beneficial Owner** means any Person who indirectly owns Certificates pursuant to Part 5 of Article 8 of the Uniform Commercial Code in effect in the State of Michigan.

**Participant** means any Person whose ownership of Certificates and other securities is shown on books of the Securities Depository.

(b) For so long as Certificates are registered in the name of a Securities Depository or its nominee, the Trustee shall not have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to the following:

(1) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership Interest in the Certificates,

(2) the delivery to any Participant, and Beneficial Owner or any other Person, other than the Securities Depository of any notice with respect to the Certificates, including any notice of redemption, or

(3) the payment to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal of or premium, if any, or Interest on the Certificates.

(c) The Trustee shall pay all principal (and premium, if any) of and Interest on such Certificates only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Funding Trust's obligations with respect to the principal (and premium, if any) of, and Interest on such Certificates to the extent of the sum or sums so paid.

(d) Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository and upon receipt of notice from the Securities Depository containing sufficient information, the Trustee shall authenticate and deliver Certificates in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any Authorized Denomination.

(e) Notwithstanding any other provision of the Trust Agreement to the contrary, *so long as* any Certificate is registered in the name of the Securities Depository or its nominee:

(1) all payments with respect to the Principal and Interest on such Certificate and all notices of redemption, tender and otherwise with respect to such Certificate shall be made and given, respectively, to Securities Depository as provided in the representation letter with respect to such Certificates;

(2) if less than all such Certificates of a maturity and series are to be redeemed, then the particular Certificates or portions of Certificates of such maturity and series to be redeemed shall be selected by the Securities Depository in such manner as the Securities Depository may determine; and

(3) all payments with respect to principal of such Certificate and premium, if any, and Interest on such Certificate shall be made in such manner as shall be prescribed by the Securities Depository.

## **Article IV — Redemption of Certificates**

### **Section 401. Selection of Certificates to be Redeemed.**

(a) Whenever any Certificates of a Series are to be redeemed, the Trustee shall select the maturity or maturities that correspond to the prepaid Scheduled Payments giving rise to such redemption.

(b) Whenever Certificates of less than all of a maturity are to be redeemed, the Trustee shall select the particular Certificates to be redeemed from the Outstanding Certificates of such maturity and Series that have not previously been called for redemption in such manner as results in pro-rata redemption among all Holders of Certificates of the maturity being redeemed.

(1) All Certificates of the same Series and having the same maturity shall constitute a class for purposes of pro-rata redemption.

(2) The Trustee shall select Certificates for redemption pro-rata within each class.

(c) In the case of any maturity of Certificates for which Sinking Fund Installments have been established, any optional redemption of such Certificates shall be credited among such Sinking Fund Installments pro rata in accordance with the unpaid amounts thereof.

#### **Section 402. Notice of Redemption.**

(a) When any Certificates are to be redeemed, notice of any such redemption shall be given by the Trustee by first class mail, no fewer than 30 days and no more than 45 days before the Redemption Date to each Holder of Certificates to be redeemed at his/her last address in the Registry.

(b) All notices of redemption shall be dated and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) if less than all Outstanding Certificates are to be redeemed, the identification number, maturity dates and, in the case of a partial redemption of Certificates, the respective principal amounts of the Certificates to be redeemed;

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date;

(5) the place where the Certificates to be redeemed are to be surrendered for payment of the Redemption Price, which place of payment shall be the designated corporate trust office of the Trustee or other Paying Agent; and

(6) the proposed redemption (except in the case of a redemption from Sinking Fund Installments (a *Sinking Fund Redemption*) is conditioned on the Trustee having received a Redemption Related Payment on the Prepayment Receipt Day sufficient to pay the full Redemption Price of the Certificates to be redeemed.

(c) The failure of the Holder of any Certificate to receive notice of redemption given as provided above, or any defect therein, shall not affect the sufficiency of the proceedings for the redemption of any Certificates as to which no failure or deficiency occurred.

(d) Concurrently with giving any notice of redemption, the Trustee shall provide additional notices in accordance with **this subsection** to the extent applicable:

(1) An additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (Dec. 3, 1986) as the same may be modified, amended or supplemented from time to time by formal action of the Securities and Exchange Commission or by generally accepted practice of corporate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

(2) Except in the case of a Sinking Fund Redemption, an additional notice that identifies the Certificates to be redeemed and the principal amounts and CUSIP numbers thereof shall be provided to each Insurer.

(3) No failure to give any additional notice provided for in **this subsection** or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

#### **Section 403. Certificates Payable on Redemption Date.**

(a) Notice of redemption having been given as aforesaid, the Holders of the Certificates so to be redeemed shall be entitled, on the Redemption Date, to payment of an amount equal to the Redemption Price therein specified and from and after such date (unless the full amount of the Redemption Price is not distributed) the Holders of such Certificates shall cease to be entitled to any further payment in respect of Interest. Upon surrender of any such Certificate for redemption in accordance with said notice, the Holder of such Certificate shall be paid by the Trustee an amount equal to the Redemption Price. Installments of Interest with a due date on or prior to the Redemption Date shall be payable to the Holders of the Certificates as of the relevant Record Dates.

(b) If any Certificate called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear Interest from the Redemption Date at the rate prescribed in the Certificate.

#### **Section 404. Certificates Redeemed in Part.**

Any Certificate which is to be redeemed only in part may, at the option of the Holder thereof:

(1) be presented for notation thereon by the Trustee of the payment as of the Redemption Date of the redeemed portion of the principal thereof; or

(2) be surrendered at the place of payment therefor (with, if the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Holder thereof or his attorney or legal representative duly authorized in writing), and the Trustee shall authenticate and deliver to such Holder, without service charge, a new Certificate or Certificates of the same maturity and Series of any authorized denomination or denominations as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Certificate so surrendered.



## Article V — Payments to Certificateholders

### Section 501. Deficiency Payments

(a) On the day that the Trustee receives a Deficit Interest Related Payment from the Contract Administrator, the Trustee shall establish a Special Record Date pursuant to **Section 310** and pay the same to the Certificate Holders entitled thereto in accordance with their relative Percentage Interests.

(b) On the day that the Trustee receives a Deficiency Payment, other than a Deficit Interest Payment, from the Administrator the Trustee shall pay the same to the Certificate Holders entitled thereto in accordance with their relative Percentage Interests.

### Section 502. Other Payments

(a) On each Interest Payment Date for which the Trustee has received an Interest Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Interest by the terms of their Certificates as of the Regular Record Date in accordance with their relative Percentage Interests.

(b) On each Principal Payment Date for which the Trustee has received a Principal Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Certificates entitled to such Principal Related Payment by the terms of their Certificates in accordance with their relative Percentage Interests.

(c) On each Sinking Fund Installment Date for which the Trustee has received a Sinking Fund Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Sinking Fund Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

(d) On each Redemption Date that *is* also an Interest Payment Date for which the Trustee has received a Redemption Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Redemption Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

(e) On each Redemption Date that is *not* also an Interest Payment Date for which the Trustee has received a Redemption Related Payment that includes associated Accrued Service Charges from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Redemption Related Payment and Accrued Service Charges by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

### Section 503. Payments Made From Credit Insurance

In determining if any payment under the Certificates has been made, no effect shall be given to any payment made with funds provided under any Credit Insurance.

## Article VI — The Trustee

### Section 601. Certain Duties and Responsibilities.

(a) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee.

(b) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Trustee and conforming to the requirements of the Trust Agreement or the Service Contract; *but* in the case of any such certificates, documents, other instruments or opinions which by any provision hereof or thereof are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine the same to determine whether or not they conform to the requirements of the Trust Agreement.

(c) No provision of the Trust Agreement or the Service Contract shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, *except* that

(1) the Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Trustee, *unless* it is proved that the Trustee was negligent in ascertaining the pertinent facts;

(2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement or the Service Contract; and

(3) no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Trust Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Article.

### Section 602. Certain Rights of Trustee.

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction or consent of a Corporation mentioned in the Trust Agreement shall be sufficiently evidenced respectively by a Corporation Request, Corporation Order or Corporation Consent.

(c) Whenever in the administration of the Trust Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of the Contract Administrator.

(d) The Trustee may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon.

(e) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Certificateholders pursuant to the Trust Agreement, *unless* such Certificateholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, *but* the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(h) The Trustee shall have no duty to see to the recording, filing or registration of any instrument or document (including financing or continuation statements or filing under tax or security laws) or any rerecording, refiling or re-registration.

(i) The Trustee shall not have any responsibility to examine or review and shall have no liability for the contents of any documents submitted to or delivered to any Certificateholder or any other Person in the nature of an official statement or offering circular, preliminary or final.

#### **Section 603. Not Responsible for Recitals or Issuance of Certificates.**

The Trustee assumes no responsibility for the correctness of the recitals contained in the Trust Agreement, in a Service Contract or in the Certificates *except* the certificate of authentication on the Certificates. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title thereto or as to the security afforded thereby or hereby, or as to the validity or sufficiency of the Trust Agreement or of the Certificates.

#### **Section 604. May Hold Certificates.**

The Trustee, in its individual or any other capacity, may become the owner or pledgee of Certificates with the same rights it would have if it were not Trustee.

**Section 605. Money Held in Trust.**

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law or by other provision of the Trust Agreement. The Trustee shall be under no liability for interest on any money received by it hereunder.

**Section 606. Compensation and Reimbursement**

(a) The Trustee is entitled to payment or reimbursement:

(1) from time to time for reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust); and

(2) except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of the Trust Agreement (including, without limitation, the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence, willful misconduct or bad faith.

(b) The Trustee is also entitled indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Trust Agreement, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

(c) The compensation, expenses and indemnification of the Trustee here under shall be an Additional Service Payment under the Service Contracts.

**Section 607. No Lien**

The Trustee shall not have any lien on any funds held by it under the Trust Agreement.

**Section 608. Corporate Trustee Required; Eligibility.**

(a) There shall at all times be a Trustee hereunder which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. *If* such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, *then* for the purposes of **this Section**, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Trustee shall resign immediately in the manner and with the effect specified in this Article if it becomes ineligible under **this Section**.

**Section 609. Replacement of Trustee.**

(a) ***No Vacancy.***

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall be effective until the successor Trustee accepts its appointment as provided in **this Section**.

(b) ***Resignation.***

The Trustee may resign at any time, but such resignation shall become effective only in accordance with **subsection (a)**, above. Notice of any such resignation shall be given to the Corporations, the Holders of all Outstanding Certificates and any Insurer not then in default under its Credit Insurance.

(c) ***Removal by Certificateholders.***

(1) The Holders of a majority in principal amount of Outstanding Certificates may remove the Trustee by so notifying the Trustee and any Insurer.

(2) If the Trustee becomes ineligible under **Section 608**, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor.

(d) ***Appointment of Successor.***

(1) The retiring Trustee or the Corporations may appoint a successor at any time prior to the date on which a successor Trustee takes office.

(2) If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(3) Within one year after a successor Trustee appointed by the Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Trustee to replace such successor Trustee.

(e) ***Acceptance of Appointment.***

(1) A successor Trustee shall deliver written acceptance of its appointment to the retiring Trustee and to each Corporation. Thereupon the resignation or removal of the retiring Trustee shall be effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Trust Agreement.

(2) The successor Trustee shall mail a notice of its succession to the Certificateholders.

(3) Upon the appointment of a successor Trustee becoming effective as provided in **this Section**, the retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

**Section 610. Merger, Consolidation and Succession to Business.**

If the Trustee consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act

shall be the successor Trustee *if* such successor corporation is eligible under **Section 608**. The successor Trustee may adopt the authentication of Certificates authenticated by the predecessor Trustee and deliver such Certificates with the same effect as if the successor Trustee had authenticated such Certificates.

#### **Section 611. ERISA**

The Trustee acknowledges and agrees that, in the event that assets of the Funding Trust are deemed to be plan assets of a Certificateholder that is an employee benefit plan subject to Title I of ERISA (an **ERISA Plan**), the Trustee is a fiduciary to such ERISA Plan with respect to such ERISA Plan's undivided interests in the Trust Estate, and this Trust Agreement shall be deemed to be the management agreement between the Trustee and such ERISA Plan.

### **Article VII — Supplemental Trust Agreements**

#### **Section 701. Supplemental Trust Agreements without Consent of Certificateholders.**

Without the consent of the Holders of any Certificates, the Corporations and the Trustee may from time to time enter into one or more Trust Agreements supplemental to the Trust Agreement (a **Supplemental Trust Agreement**) for any of the following purposes:

- (1) to correct or amplify the description of Trust Estate, or better to assure, convey and confirm unto the Trustee any of the Trust Estate or the lien of the Trust Agreement thereon, or to add to the Trust Estate subject to the lien of the Trust Agreement additional property; or
- (2) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the issue, authentication and delivery of the Certificates, as herein set forth, additional conditions, limitations and restrictions thereafter to be observed; or
- (3) to evidence the succession of a new trustee under the Trust Agreement; or
- (4) to add to rights, powers and remedies of the Trustee for the benefit of the Holders of the Certificates; or
- (5) to cure any ambiguity, to correct or to supplement any provision in the Trust Agreement which may be inconsistent with any other provision herein; or
- (6) to provide for the issuance of Additional Certificates; or
- (7) to make any other change that does not adversely affect the rights of Certificateholders.

#### **Section 702. Supplemental Trust Agreements with Consent of Certificateholders.**

(a) With the consent of the Holders of not less than a majority in principal amount of the Certificates then Outstanding, the Trustee may enter into one or more Supplemental Trust Agreements for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Agreement or of modifying in any manner the rights of the Holders of the Certificates under the Trust Agreement; *provided*, however, that no

such Supplemental Trust Agreement shall, without the consent of the Holder of each Outstanding Certificate affected thereby; or

(1) change any Principal Payment Date, or Interest Payment Date of any Certificate, or reduce the principal amount thereof or Sinking Fund Installment or the Interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, any Certificate, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the Redemption Date); or

(2) reduce the percentage in principal amount of the Outstanding Certificates, the consent of whose Holders is required for any such Supplemental Trust Agreement, or the consent of whose Holders is required for any waiver provided for in the Trust Agreement of compliance with certain provisions of the Trust Agreement or certain defaults hereunder and their consequences; or

(3) modify any of the provisions of **Sections 202 and 203**; or

(4) modify any of the provisions of **this Section**, or **Section 701** *except* to increase any percentage provided thereby or to provide that certain other provisions of the Trust Agreement cannot be modified or waived without the consent of each Holder affected thereby.

(b) It is not necessary that the required percentage in principal amount of Certificateholders under **this Section** approve the particular form of any proposed Supplemental Trust Agreement. It is sufficient if the Certificateholders approve the substance thereof.

### **Section 703. Execution of Supplemental Trust Agreements.**

(a) Prior to executing, or accepting the additional trusts created by, any Supplemental Trust Agreement permitted by this Article or the modification thereby of the trusts created by the Trust Agreement, the Trustee shall be entitled to receive and shall be fully protected in relying upon, an opinion of counsel addressed and delivered to the Trustee stating to the effect that the execution of such Supplemental Trust Agreement is authorized or permitted by the Trust Agreement and that the Supplemental Trust Agreement will be a valid and binding agreement of each Corporation, upon the execution and delivery thereof.

(b) The Trustee is not obligated to enter into any Supplemental Trust Agreement that affects the Trustee's own rights, duties or immunities under the Trust Agreement.

### **Section 704. Preconditions to Effectiveness**

(a) *If* the Trustee received a Qualifying Opinion in connection with the formation of the Trust, *then no* Supplemental Trust Agreement shall become effective *unless and until* the Trustee receives an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such supplement will not cause the Trust to fail to be treated as such a grantor trust.

(b) Each Supplemental Trust Agreement is subject to the prior written consent of any Insurer not then in default under its Credit Insurance.

(c) Any Rating Agency shall receive notice of each Supplemental the Trust Agreement and a copy thereof at least 15 days in advance of its execution.

**Section 705. Effect of Supplemental Trust Agreements.**

Upon the execution of any Supplemental Trust Agreement under this Article, the Trust Agreement shall be modified in accordance therewith and such Supplemental Trust Agreement shall form a part of the Trust Agreement for all purposes; and every Holder of Certificates theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

**Section 706. Copies to Insurer**

Any Insurer shall be provided with a full transcript of all proceedings relating to the execution of any Supplemental Trust Agreement.

**Section 707. Reference in Certificates to Supplemental Trust Agreements.**

(a) Certificates authenticated and delivered after the execution of any Supplemental Trust Agreement pursuant to this Article may, and if required by the Trustee shall, bear a notation in form approved by the Trustee as to any matter provided for in such Supplemental Trust Agreement.

(b) If a Corporation shall so determine, new Certificates so modified as to conform, in the opinion of the Trustee and such Corporation, to any such Supplemental Trust Agreement may be prepared and executed by such Corporation and authenticated and delivered by the Trustee in exchange for Outstanding Certificates.

**Article VIII — Miscellaneous Provisions**

**Section 801. Notices to Certificateholders; Waiver.**

(a) Where the Trust Agreement provides for the publication of notice to Certificateholders, such notice shall be sufficiently given (unless otherwise expressly provided in the Trust Agreement) if in writing and mailed, first-class postage prepaid, to each Certificateholder at his address as it last appears in the Registry, no later than the latest date and no earlier than the earliest date provide for the first publication of such notice.

(b) Where the Trust Agreement provides for notice in any manner, such notice may be waived by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice shall be filed with the Trustee, *but* such filing shall not be a condition precedent to the validity of any action taken in reliance on the waiver.

**Section 802. Insurer Treated as Certificateholder**

*Notwithstanding any other provision hereof*, any Insurer not then in default under its Credit Insurance shall be treated as the Holder of the Certificates insured by it for the purposes of actions to be taken by Certificateholders under the Trust Agreement and for the purpose of giving all other consents, directions and waivers that Certificateholders may give.



**Section 803. Severability**

The invalidity or unenforceability of any provision of the Trust Agreement shall not affect the remaining provisions hereof.

**Section 804. Payments Due on Saturdays, Sundays and Holidays**

In any case where the date fixed for payment of the Certificates shall not be a Business Day, *then* such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such payment.

*[End of General Terms]*

**New Issue – Book-Entry Only**

**DAC Bond**

This Offering Circular provides information about the 2006 Certificates. Information on this cover page is for ready reference. A prospective investor should read the entire Offering Circular to make an informed investment decision.

**\$948,540,000**

**TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2006**

issued by the **DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2006**

evidencing undivided proportionate interests  
in the rights to receive certain payments  
pursuant to two Service Contracts between

**CITY OF DETROIT, MICHIGAN**

and

**DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION**

and

**DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

**\$148,540,000 SERIES 2006-A (FIXED RATE)**  
**\$800,000,000 SERIES 2006-B (FLOATING RATE)**

<b>Dated: Date of Delivery</b>	<b>Due: June 15 as shown on the inside cover</b>
<b>Ratings</b>	See pages 22-23
<b>Interest Payment Dates</b>	Series 2006-A: December 15, 2006 and each June 15 and December 15 thereafter Series 2006-B: September 15, 2006 and the 15th day of each December, March, June and September thereafter
<b>Redemption</b>	Series 2006-A Certificates maturing in 2035 are subject to <i>pro rata</i> mandatory sinking fund redemption at par. Series 2006-A Certificates are subject to optional redemption on any date with a make-whole premium.—See pages 11-12 Series 2006-B Certificates maturing in 2029 and 2034 are subject to <i>pro rata</i> mandatory sinking fund redemption at par. Series 2006-B Certificates are subject to optional redemption on any Interest Payment Date at par, beginning June 15, 2011.—See page 12-16
<b>Source of Payment</b>	Principal of and interest on the 2006 Certificates are payable, when due, solely from 2006 COP Service Payments to be paid by the City under the 2006 Service Contracts.—See pages 9-10
<b>Insurance</b>	The scheduled payment of principal of and interest on 2006 Certificates will be guaranteed under insurance policies (as specifically indicated on the inside cover of this Offering Circular with respect to particular 2006 Certificates) to be issued concurrently with delivery of the 2006 Certificates by Financial Guaranty Insurance Company and XL Capital Assurance Inc.
	<b>FGIC</b> <span style="margin-left: 200px;"><b>XL CAPITAL ASSURANCE</b></span>
<b>Tax Matters</b>	Interest on the 2006 Certificates is subject to U.S. federal income tax and State of Michigan income tax.
<b>Purpose</b>	The 2006 Certificates are being issued to provide moneys to fund the optional redemption of certain certificates of participation and the purchase and cancellation of certain other certificates of participation that were issued in 2005 to fund certain then existing unfunded accrued actuarial liabilities of each Retirement System of the City.—See pages 5-9
<b>Denominations</b>	Series 2006-A: Multiples of \$5,000 Series 2006-B: \$25,000 and multiples of \$1,000 in excess thereof
<b>Closing</b>	On or about June 12, 2006
<b>Global Book-Entry System</b>	Clearance is expected to be available through The Depository Trust Company (the depository for the 2006 Certificates), Clearstream, and Euroclear.
<b>Global Offering</b>	The 2006 Certificates are offered globally for sale in jurisdictions where it is lawful to make such offers.—See page 22
<b>Stock Exchange Listing</b>	Application will be made for the 2006 Certificates to be listed on the Luxembourg Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the 2006 Certificates is not conditioned on the listing of the 2006 Certificates on the Luxembourg Stock Exchange.
<b>2006 Certificate Counsel</b>	Lewis & Munday, A Professional Corporation—See page 23
<b>Trustee</b>	U.S. Bank National Association

**UBS Investment Bank**

**Siebert Brandford Shank & Co., LLC**

Co-Managers for Series 2006-A Certificates Only

Bear, Stearns & Co. Inc.

Citigroup Global Markets

M.R. Beal & Company

Popular Securities

This Offering Circular is dated: June 7, 2006

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATE, YIELDS, AND PRICES**

**\$948,540,000**

**TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2006**

issued by the DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2006

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**DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

\$148,540,000 SERIES 2006-A (FIXED RATE)

\$800,000,000 SERIES 2006-B (FLOATING RATE)

**\$148,540,000 Series 2006-A Certificates**

<u>CUSIP†</u>	<u>ISIN†</u>	<u>Euroclear and Clearstream Common Code†</u>	<u>Maturing (June 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield at Issuance</u>	<u>Price at Issuance</u>
251228AA0	US251228AA03	025779533	2035*	\$148,540,000	5.989%	5.989%	100%

**\$800,000,000 Series 2006-B Certificates**

<u>CUSIP†</u>	<u>ISIN†</u>	<u>Euroclear and Clearstream Common Code†</u>	<u>Maturing (June 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price at Issuance</u>
251228AB8	US251228AB85	025766539	2029**	\$299,155,000	Three-month LIBOR plus 0.30%	100%
251228AC6	US251228AC68	025766610	2034*	500,845,000	Three-month LIBOR plus 0.34%	100%

The Series 2006-A Certificates maturing in 2035 are subject to *pro rata* mandatory sinking fund redemption. For a schedule of the mandatory sinking fund redemption payments, see "THE 2006 CERTIFICATES - The Series 2006-A Certificates (Fixed Rate) - Mandatory Sinking Fund Redemption."

The Series 2006-B Certificates maturing in 2029 and 2034 are subject to *pro rata* mandatory sinking fund redemption. For a schedule of the mandatory sinking fund redemption payments, see "THE 2006 CERTIFICATES - The Series 2006-B Certificates (Floating Rate) - Mandatory Sinking Fund Redemption."

\* Insured by Financial Guaranty Insurance Company.

\*\* Insured by XL Capital Assurance Inc.

† CUSIP, ISIN and Euroclear and Clearstream Common Code data herein are set forth herein for convenience of reference only. Neither the 2006 Funding Trust, the Service Corporations, the City nor the Underwriters assume responsibility for the accuracy of such information.

This document, the Offering Circular, contains the only authorized information about the offering of the 2006 Certificates. This document is not an offer or solicitation for the 2006 Certificates, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document is not a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the 2006 Certificates, and anything else related to the offering.

This document provides prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the City's permission. The City is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under the securities laws of the United States of America, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document are not hard facts, and no one guarantees them. Some of the people who prepared, compiled or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the 2006 Certificates other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the 2006 Certificates implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

Other than information concerning Financial Guaranty Insurance Company contained in APPENDIX E, none of the information in this Offering Circular has been supplied or verified by Financial Guaranty Insurance Company, and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the 2006 Certificates.

Other than information concerning XL Capital Assurance Inc. contained in the APPENDIX F, none of the information in this Offering Circular has been supplied or verified by XL Capital Assurance Inc., and it makes no representation or warranty, express or implied, as to the accuracy or completeness of such information or the validity of the 2006 Certificates.

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## OFFERING CIRCULAR

\$948,540,000

### TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2006

issued by the DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2006

evidencing undivided proportionate interests

in the rights to receive certain payments

pursuant to two Service Contracts between

**CITY OF DETROIT, MICHIGAN**

and

**DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION**

and

**DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION**

\$148,540,000 SERIES 2006-A (FIXED RATE)

\$800,000,000 SERIES 2006-B (FLOATING RATE)

### INTRODUCTION

This Offering Circular sets forth information concerning the Certificates of Participation Series 2006-A in the original aggregate principal amount of \$148,540,000 (**Series 2006-A Certificates**) and the 2006 Certificates of Participation Series 2006-B in the original aggregate principal amount of \$800,000,000 (**Series 2006-B Certificates**, and collectively with the Series 2006-A Certificates, **2006 Certificates**) issued by the Detroit Retirement Systems Funding Trust 2006 (**2006 Funding Trust**) to be formed under the Trust Agreement described below.

The 2006 Certificates evidence individual undivided proportionate interests in the rights to receive certain payments (**2006 COP Service Payments**) to be made by the City of Detroit, Michigan (**City**) under two Service Contracts of the City, namely, its (i) Detroit General Retirement System Service Contract 2006 (**2006 GRS Service Contract**) with the Detroit General Retirement System Service Corporation, and (ii) Detroit Police and Fire Retirement System Service Contract 2006 with the Detroit Police and Fire Retirement System Service Corporation (**2006 PFRS Service Contract**, and together with the 2006 GRS Service Contract, **2006 Service Contracts**).

As authorized by Ordinance No. 05-05 of the City (**Funding Ordinance**), the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation (each a **Service Corporation**) were incorporated in 2005. They were created for the purposes of providing services to assist the City in meeting its obligation to provide funding, over an applicable period of years, of unfunded accrued actuarial liabilities (**UAAL**) of the City's General Retirement System (**GRS**) and Police and Fire Retirement System (**PFRS**, and collectively with the GRS, **Retirement Systems**).

On May 25, 2005 (**2005 Contract Date**) and pursuant to the Funding Ordinance, the City entered into its first service contract with each Service Corporation (together, **2005 Service Contracts**), and certificates of participation (**2005 COPs**) were issued on June 2, 2005 evidencing undivided proportionate interests in the rights to receive certain payments (**2005 COP Service Payments**) to be made by the City under those 2005 Service Contracts through June 15, 2025. The 2005 COPs were issued to provide moneys to fund specific amounts of UAAL of the GRS and the PFRS (**2005 Subject UAAL**) and to pay certain related ancillary amounts set forth in the 2005 Service Contracts. The 2005 Subject UAAL was irrevocably funded in full on June 2, 2005 from proceeds of the 2005 COPs, and the 2005 COPs, the 2005 Service Contracts and the City's contractual obligation thereunder to pay the 2005 COP Service Payments, when due, all remain currently in effect.

Michigan law entitles each Retirement System to have its UAAL funded over a specified period (**Amortization Period**), which may be duly changed up to a 30-year maximum. Each 2005 Service Contract required the City to make 2005 COP Service Payments over a period that was limited to the PFRS or GRS

Amortization Period then applicable (13 years for the PFRS and 20 years for the GRS). The Funding Ordinance anticipated the possible future extension of the PFRS and GRS Amortization Periods and authorized the Service Corporations, in that event, to assist the City in gaining the financial benefits of making its 2005 COP Service Payments over a similarly lengthened period.

On February 8, 2006, the governing board of the GRS (**GRS Board**) extended the Amortization Period for GRS UAAL from 20 to 30 years. On March 30, 2006, the governing board of the PFRS (**PFRS Board**) extended the Amortization Period for PFRS UAAL from 13 to 30 years. Accordingly, as part of the services that the Service Corporations agreed in their 2005 Service Contracts to provide, the 2006 Certificates are being issued to enable the City to replace certain scheduled payment obligations that it incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable over the extended 30-year periods under the 2006 Service Contracts, and to provide moneys to pay costs of issuance of the 2006 Certificates and related amounts. This will enable the City to achieve financial benefits such as would have been available under the 2005 Service Contracts if it could have utilized then the now longer Amortization Period of each Retirement System.

In their respective 2006 Service Contracts, the Service Corporations have agreed to perform the above-described services, to assist the City in extending the period for its scheduled payments incurred to provide funding of the 2005 Subject UAAL, in the current year and in future years. In return for such present and future services, the City has agreed in the 2006 Service Contracts to make the 2006 COP Service Payments and certain additional payments.

The 2006 Certificates are issued pursuant to the Funding Ordinance, an authorizing Resolution adopted by the Detroit City Council on April 26, 2006 (the **Resolution**), the 2006 Service Contracts and the Trust Agreement, dated the date of original delivery of the 2006 Certificates (**2006 Closing Date**), among the Service Corporations and U.S. Bank National Association, as Trustee (**Trust Agreement**). U.S. Bank National Association will also serve as the Contract Administrator under the Contract Administration Agreement described below.

On the 2006 Closing Date, the Service Corporations, severally and not jointly, will enter into the Trust Agreement with the Trustee, establishing the 2006 Funding Trust and irrevocably selling and assigning to it all of their rights under the 2006 Service Contracts to receive, collect and enforce all 2006 COP Service Payments to become due thereunder. On the 2006 Closing Date, the 2006 Funding Trust will issue and sell the 2006 Certificates and then apply the proceeds in part to optionally redeem certain outstanding 2005 COPs, Series 2005-A (**Series 2005-A COPs**) and in part to purchase and cancel certain outstanding 2005 COPs, Series 2005-B (**Series 2005-B COPs**).

**THE PAYMENT OBLIGATIONS OF THE CITY UNDER THE 2006 SERVICE CONTRACTS ARE UNSECURED CONTRACTUAL OBLIGATIONS OF THE CITY. NEITHER THE FAITH AND CREDIT, THE TAXING POWER NOR ANY SPECIAL REVENUES OF THE CITY ARE PLEDGED TO THE 2006 COP SERVICE PAYMENTS COMING DUE UNDER THE 2006 SERVICE CONTRACTS. THE 2006 SERVICE CONTRACTS AND THE PAYMENT OBLIGATIONS OF THE CITY UNDER THE 2006 SERVICE CONTRACTS DO NOT CONSTITUTE "INDEBTEDNESS" WITHIN THE MEANING OF ANY LIMITATION CONTAINED IN THE CONSTITUTION AND NON-TAX STATUTES OF THE STATE OF MICHIGAN OR IN THE CITY CHARTER.**

**No Pledge of Retirement System Assets or of Proceeds of the 2006 Certificates**

No Retirement System assets and no proceeds of the 2006 Certificates will either secure or be available to pay the 2006 Certificates. See "PLAN OF FINANCE" and "SOURCES OF PAYMENT AND SECURITY FOR THE 2006 CERTIFICATES."

## Investment Considerations

This is a relatively new financing structure which is being used for the second time in the State of Michigan (State). The City's unconditional contractual obligation to make 2006 COP Service Payments is not "subject to appropriation" (i.e., the contractual obligation is not subject to termination if the City were to fail to appropriate sufficient amounts for the required payments in any single year). The City is legally bound to make all 2006 COP Service Payments for the full term of both 2006 Service Contracts, and statutory remedies exist to enforce the City's obligations. See "PLAN OF FINANCE" and its first subheading "Constitutional, Statutory and Ordinance Authority for Payment of UAAL and Issuance of the 2006 Certificates."

## Defined Terms

All capitalized terms used in this Offering Circular, unless otherwise defined or the context otherwise indicates, have the same meaning as in the 2006 Service Contracts, the Trust Agreement and the Contract Administration Agreement. See "DEFINITIONS OF CERTAIN TERMS" in APPENDIX A.

## Underlying Documents

The descriptions and summaries of various documents set forth below do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the 2006 Service Contracts, the Trust Agreement and the Contract Administration Agreement are available in reasonable quantities upon request to the Contract Administrator.

## THE CITY

### Governmental Structure

Pursuant to the Michigan Constitution of 1963, as amended (State Constitution), and the Home Rule City Act (Act No. 279 of the Michigan Public Acts of 1909, as amended), the City is a home rule city with significant independent powers. The City provides the following services: public protection, public works, cultural and recreational, civic center, health, physical and economic development, public lighting, transportation, water supply and sewage disposal, human services, airport, and parking. In accordance with the City Charter (Charter), the governance of the City is organized into two branches: an Executive Branch, which is headed by the Mayor, and the Legislative Branch, which is comprised of the City Council and its agencies. The Mayor and the members of the City Council are elected every four years. The last regular election for these positions was on November 8, 2005, in which Kwame M. Kilpatrick was re-elected as Mayor, and five incumbent members and four new members of the City Council were elected. There are no limits as to the number of terms that may be served by City-elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the judicial branch of State government. The Charter provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify certain ordinances enacted by the City by referendum. The period within which voters of the City could, under the Charter, petition for a referendum to nullify the Funding Ordinance or either of the Alternative Funding Mechanism Ordinances (referred to below under "PLAN OF FINANCE - Constitutional, Statutory and Ordinance Authority for Payment of UAAL and Issuance of the 2006 Certificates") lapsed without any such petitions being filed.

### Economic Characteristics

Detroit is located in Wayne County, which is in the southeastern section of the lower peninsula of Michigan. The City covers approximately 138 square miles and is the largest city in Michigan, accounting for nearly half of the population of the County. According to the U.S. Census Bureau, the City is now the nation's eleventh largest city and is the center of the nation's eighth largest consolidated metropolitan statistical area. The City is internationally known for its automobile manufacturing and trade. The southeastern border of the City is on the Detroit River, an international waterway, which is linked via the St. Lawrence Seaway to



seaports around the world. The City is the commercial capital of Michigan and a major economic and industrial center of the nation. The City has eight diverse industrial parks, and more than 50 firms have world headquarters within the City. See APPENDIX B - "Information Concerning the City of Detroit, Michigan" for information about the City's economic condition and outlook.

### Current Fiscal Situation

Similar to many large urban governmental units, the City has faced and continues to face fiscal challenges. In the past three fiscal years (having a June 30 fiscal year-end), the five major revenue categories of the City's General Fund decreased 3.1% from \$965 million to \$935 million while the five major expenditure categories of the General Fund increased 18.0% from \$832 million to \$982 million (fiscal 2003 compared to fiscal 2005). This contributed to the City reporting year-end General Fund deficits for fiscal 2001, 2003, 2004 and 2005. The primary causes for these past results include a declining population base and its adverse effects on tax revenues, increases in health care and pension benefit costs, and a disproportionate number of City employees compared to the population served. The City has consistently sought to reduce expenditures and increase revenues in any fiscal year in which estimates and actual results may not coincide with budgeted assumptions. The City also has utilized various one-time revenue enhancement strategies in an attempt to balance year-end deficits (e.g., issuance of fiscal stabilization bonds and exhausting the remaining balance in the Budget Stabilization Fund). In addition, the City has taken steps to significantly reduce budgeted positions by over 5,500 employees since fiscal 2002, including 3,300 in its General Fund to reverse the disproportion of the number of employees to resident population. The reductions represent 26% and 39% overall and in the General Fund respectively.

For the fiscal year ended June 30, 2004, the City recorded an unexpected unreserved General Fund deficit of \$95 million that it carried, as required, into fiscal 2005. The fiscal 2004 deficit was primarily attributable to below budgeted income tax and utility users tax collections; tax penalties and interest for remitting payroll withholding taxes late to the Internal Revenue Service; capital costs for an 800-megahertz communication system; and payment resulting from the loss of a lawsuit to the PFRS. In March 2005, the City administration implemented mid-year layoffs, salary reductions for certain employees and other expenditure reductions. Such actions were taken to bring the budget into balance.

The Fiscal Year 2006 Budget was built upon significant cuts in existing City departments, broad-based expenditure reductions and provisions for a then anticipated carryover of undesignated General Fund deficit from fiscal 2005 estimated at \$101.7 million. As required, the estimated fiscal 2005 deficit was appropriated as an expenditure in the balanced Fiscal Year 2006 Budget. The City's actual carryover fiscal 2005 deficit was \$155.4 million.

As a result of the higher than expected fiscal 2005 deficit and not gaining its unions' approval of proposed health care benefit reductions that the City had expected would generate approximately \$47 million of cost savings, the City administration implemented further reductions to the City's work force and other cost saving initiatives during the current fiscal year. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund - Fiscal Year 2006" in APPENDIX B for more detail and assumptions regarding the budgeted figures.

The City administration believes that the steps the City has already taken together with those outlined in the Fiscal Year 2007 Executive Budget will correct the structural imbalance between its current level of revenues and expenditures. This involves gaining additional permanent revenue sources, such as the refuse collection fee discussed under the heading "Fiscal 2007 Budget" in "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund" in APPENDIX B. In addition, the City administration believes that the City must continue to control its basic level of ongoing General Fund expenditures. Such expenditure control measures will be accomplished through reducing the number of employees and their employee benefits, additional efficiency measures and reducing or terminating certain services.

The City administration currently estimates that it will complete fiscal 2006 with a reported \$63 million deficit. This is a significant reduction from the \$155.4 million deficit it reported in fiscal 2005.

While the City is pursuing steps to reduce this deficit even further, the estimated \$63 million deficit has been appropriated as an expenditure, as required, in the balanced Fiscal Year 2007 Executive Budget. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund - Fiscal 2007 Budget" in APPENDIX B.

#### **Financial Controls and Accounting**

Prior to the start of each fiscal year the City prepares an annual budget which constitutes the financial plan for such fiscal year. Reference to a fiscal year refers to the fiscal year ended or ending on June 30 of the year indicated. The budget is required to set forth estimated revenues from all sources and all appropriations. The appropriation for every function of each City department is a fixed expenditure and may not exceed the original appropriation without City Council approval. The City estimates a prior year surplus or deficit for the General Fund that reflects the projected ending financial position for the prior year. Subject to certain limitations, one half of any surplus realized at the end of any fiscal year is credited to a Budget Stabilization Fund with the remainder being included as revenue available for appropriation in the budget for the next succeeding fiscal year. Any deficit realized at the end of any fiscal year is entered into the budget for the next succeeding fiscal year as an appropriation in accordance with the Charter. The total of proposed expenditures cannot exceed the total of estimated revenues so that the budget as submitted by the Mayor and adopted by City Council is a balanced budget. See "FINANCIAL PROCEDURES - Budget Process" and "Budget Stabilization Fund" in APPENDIX B.

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, except for entity-wide statements and the enterprise and pension funds, reflect the modified accrual basis of accounting. See "FINANCIAL PROCEDURES - Accounting System" and "Accounting Methods" in APPENDIX B. The audited basic financial statements of the City as of and for the year ended June 30, 2005, are included in APPENDIX C.

#### **PLAN OF FINANCE**

The 2006 Certificates are being issued to provide moneys to fund the optional redemption of \$104,055,000 aggregate principal amount of Series 2005-A COPs of certain maturities and the purchase and cancellation of \$800,000,000 aggregate principal amount of Series 2005-B COPs of certain maturities, as shown in the table below. This is the second issuance of certificates of participation in connection with the City's use of its alternative funding mechanism authorized last year for meeting its State constitutional and statutory obligation to fund an approximately \$1.37 billion portion of outstanding unfunded accrued actuarial liabilities (2005 Subject UAAL) of its two Retirement Systems. In using the alternative funding mechanism last year, rather than paying the 2005 Subject UAAL in annual installments, with interest, directly to the Retirement Systems over the ensuing 13-20 years (the UAAL Amortization Periods then in effect for the PFRS and GRS, respectively), the City instead entered into a separate 2005 Service Contract with each of two Service Corporations it had caused to be formed for this purpose and contractually obligated itself to make periodic 2005 COP Service Payments to them over the same 13-20 years in return for their agreeing to perform the services in the current year and in future years of reducing the financial burden of the 2005 Subject UAAL.

As part of the services the Service Corporations agreed in their 2005 Service Contracts to provide if the existing UAAL Amortization Periods of the PFRS and GRS were later extended and if requested by the City and approved by the City Council, the 2006 Certificates will be issued to enable the City to replace certain scheduled payment obligations it originally incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable under the 2006 Service Contracts over the recently extended 30-year Amortization Periods, and to pay costs of issuance of the 2006 Certificates and related amounts. This will enable the City to achieve financial benefits as would have been available originally under the 2005 Service Contracts if it could have utilized the now longer Amortization Period of each Retirement System on the 2005 Contract Date.

The Service Corporations will form the 2006 Funding Trust under the Trust Agreement on the 2006 Closing Date and irrevocably sell, assign and convey to the 2006 Funding Trust all their rights to receive, collect and enforce all 2006 COP Service Payments to become due under the 2006 Service Contracts. The 2006 Funding Trust and the Service Corporations will enter into the Contract Administration Agreement with U.S. Bank National Association, as Contract Administrator (**Contract Administrator**), and other parties. See "2006 SERVICE CONTRACT ADMINISTRATION." The Service Corporations are not expected to have a significant active role with regard to any outstanding 2006 Certificates after the 2006 Closing Date. The Retirement Systems will not be a party to the 2006 Service Contracts, the Trust Agreement or the Contract Administration Agreement.

The 2006 Funding Trust will issue and sell the 2006 Certificates on the 2006 Closing Date and apply the proceeds, with other available funds, in part to optionally redeem certain outstanding Series 2005-A COPs and in part to purchase and cancel certain outstanding Series 2005-B COPs. The Series 2005-B COPs to be purchased will be procured by a tender offer conducted by the Service Corporations. All such purchased Series 2005-B COPs of the same maturity will be purchased at the same price in relation to their principal amount, but no minimum principal amount of Series 2005-B COPs is required to be either tendered or purchased.

Upon issuance of the 2006 Certificates and such optional redemption of certain Series 2005-A COPs and such purchase and cancellation of Series 2005-B COPs which are tendered by their holders to the Service Corporations for that purpose, some 2005 COPs will still remain outstanding concurrently with the 2006 Certificates. The 2005 COPs and the 2006 Certificates are wholly independent of each other. The City's contractual payment obligations underlying the 2006 Certificates are totally separate and distinct from its contractual payment obligations underlying the 2005 COPs. Holders of 2006 Certificates will have no rights or interests in the City's payment obligations under the 2005 Service Contracts, and holders of 2005 COPs will have no rights or interests in the City's payment obligations under the 2006 Service Contracts.

The following Series 2005-A COPs will be optionally redeemed, and the following tendered Series 2005-B COPs will be purchased and canceled, from proceeds of the 2006 Certificates.

<u>Series 2005-A COPs Optionally Redeemed</u>		<u>Series 2005-B COPs Purchased and Canceled</u>	
<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Maturity (June 15)</u>	<u>Principal Amount</u>
2007	\$10,845,000	2014	\$250,615,000
2008	13,905,000	2025	549,385,000
2009	17,310,000		
2010	16,200,000		
2011	13,925,000		
2012	12,220,000		
2013	10,615,000		
2014	9,035,000		

***Constitutional, Statutory and Ordinance Authority for  
Payment of UAAL and Issuance of the 2006 Certificates***

Pursuant to the Funding Ordinance, the City and Service Corporations entered into the 2005 Service Contracts and 2005 COPs were issued as a means of enabling the City to fulfill its State constitutional and statutory obligations to provide funding for the 2005 Subject UAAL of its Retirement Systems. The periods for the City's scheduled payment obligations under the 2005 PFRS Service Contract and the 2005 GRS Service Contract were limited to 13 and 20 years, respectively, the Amortization Periods then in effect for the PFRS and GRS. The Funding Ordinance anticipated the possible future extension of the PFRS and GRS Amortization Periods and authorized the Service Corporations, in that event, to assist the City in gaining the financial benefits of making its 2005 COP Service Payments over a similarly lengthened period. Now that the PFRS and GRS Amortization Periods have been extended to 30 years currently, the City and Service Corporations are entering into the 2006 Service Contracts and the 2006 Certificates are being issued, as

anticipated and authorized in the Funding Ordinance, as a means of enabling the City to utilize the permitted longer payment period for the obligations it incurred to fulfill its constitutional and statutory obligations to provide such funding for the 2005 Subject UAAL.

The constitutional, statutory and ordinance authority for the funding of the 2005 Subject UAAL through issuance of the 2005 COPs, and for funding the optional redemption of certain 2005 COPs and the purchase and cancellation of other 2005 COPs through issuance of the 2006 Certificates to enable the City to extend its payment period for the obligations it incurred for funding the 2005 Subject UAAL, is described below.

The Home Rule City Act permits the City to provide in its Charter for the establishment and maintenance of a pension plan for its employees. Pursuant to that authority, the City has established by Charter and maintains pursuant to ordinances two employee pension systems – its General Retirement System (GRS) and Police and Fire Retirement System (PFRS). The two Retirement Systems were established in 1938 and 1941, respectively, by amendments to the 1918 Detroit City Charter, and exist for the purpose of providing retirement allowances and death and survivor benefits for eligible City employees and their beneficiaries. Each Retirement System is governed by its own Board, which invests and administers the System's assets as trust funds solely for the benefit of its participants, retirees and their beneficiaries. The assets of each Retirement System are separate and distinct from assets of the City, are outside the City's control and are not available to pay any obligation or expense of the City. See "RETIREMENT SYSTEMS" in APPENDIX B.

Article 9, Section 24 of the State Constitution obligates the City to contribute sufficient funds to the GRS and PFRS to maintain their actuarial integrity. The Michigan Supreme Court has held that this constitutionally obligates a Michigan municipality to fund its employee retirement systems to a level which includes pension benefit liabilities incurred in the current year and any existing unfunded accrued actuarial liabilities (UAAL). *Shelby Township Police and Fire Retirement Board v. Shelby Township*, 438 Mich. 247 (1991). The Court noted that the State Constitution does not provide specifics for how a municipality must meet its constitutionally-imposed UAAL funding obligations.

Michigan's Public Employees Retirement System Investment Act provides more specificity. That statute, which applies to both the GRS and PFRS, prescribes (in MCL §38.1140m) that a Michigan municipality's required annual contribution to its employee retirement system must be an actuarially determined contribution amount, consisting of (1) a current service cost payment, (2) a payment of at least the annual accrued amortized interest on any UAAL and (3) a payment of the annual accrued amortized portion of the unfunded principal liability.

The City's GRS and PFRS ordinances have long specified a traditional funding mechanism for the City to meet its constitutional and statutory obligation to provide funding for each System's UAAL through required annual payments. The City last year authorized an alternative funding mechanism for such UAAL through new enabling legislation duly enacted by the Detroit City Council, Ordinances No. 03-05 and 04-05 (**Alternative Funding Mechanism Ordinances**) amending the City's GRS and PFRS ordinances. The Alternative Funding Mechanism Ordinances, together with the Funding Ordinance (No. 05-05), enabled the City, the Service Corporations and a corporate trustee to provide for the issuance and sale of the 2005 COPs and the use of the 2005 COPs proceeds to fund the 2005 Subject UAAL of both Retirement Systems on the date of delivery of the 2005 COPs (**2005 Closing Date**).

Each Retirement System receives an annual actuarial report from its consulting actuary as of each June 30, providing actuarial valuations of its vested benefits, prior service costs and unfunded accrued liabilities. Each Retirement System Board uses those actuarial valuations, together with certain actuarial assumptions, to determine the annual contribution amounts requested from the City to fulfill its constitutional and statutory pension funding obligations. As part of their regular, periodic review of the actuarial assumptions used to administer their respective Retirement Systems, the GRS and PFRS Boards may receive recommendations from time to time to increase or decrease the interest rate and to change other actuarial assumptions.

The most recent annual actuarial reports available for the Retirement Systems when the 2005 Service Contracts were entered into were as of June 30, 2004. Although the GRS and PFRS had assets actuarially valued at \$2,470,243,470 and \$3,074,516,589, respectively, as of that date, they also had estimated UAAL of \$913,683,202 and \$782,976,693, respectively, as of that date, as determined by their actuary. \$739,793,898 of GRS UAAL and \$630,829,189 of PFRS UAAL were designated the "Subject UAAL" that was funded in full from 2005 COPs proceeds on the 2005 Closing Date.

The 2005 Subject UAAL was a major part, but not all, of the existing UAAL of the Retirement Systems on the 2005 Closing Date. The funding of the 2005 Subject UAAL from 2005 COPs proceeds was not intended to and did not fund the entire then existing UAAL of either or both Retirement Systems.

When the 2005 Service Contracts were entered into on May 25, 2005, under the Boards' current actuarial assumptions and the traditional funding mechanism, the City would have been required to amortize the 2005 Subject UAAL over a remaining period of 13 years for the PFRS and 20 years for the GRS. In each year that the City has outstanding UAAL, it is assessed interest thereon (in May 2005 and still currently, at annual rates of 7.9% on GRS UAAL and 7.8% on PFRS UAAL).

By arranging through the alternative funding mechanism for the 2005 Subject UAAL to be funded (in effect, prepaid) on the 2005 Closing Date, the City avoided further interest accrual on the amount thus funded; and the Retirement Systems gained complete possession and control of those funds (including the exclusive right to invest and receive all investment earnings on those funds) sooner than they would under the traditional funding mechanism. The Alternative Funding Mechanism Ordinances impose certain technical restrictions on the Retirement Systems' uses of those funds, but neither rescind any substantive rights, entitlements or obligations with respect to benefits earned or accrued of members, retirees or beneficiaries of the Retirement Systems nor affect the validity or enforceability of the 2005 Service Contracts or the 2006 Service Contracts or the City's payment obligations thereunder.

The financing plan for the first use of the alternative funding mechanism on the 2005 Closing Date reflected the expectation that by prepaying the 2005 Subject UAAL, the City reduced its costs and better ensured the timely and full payment of retirement benefits. As a practical matter, it also was expected that amounts that otherwise would have been expended by the City for the annual amortization of the 2005 Subject UAAL (under the traditional funding mechanism) would be sufficient to offset all the contractual payments to be made by the City under the 2005 Service Contracts. Those contractual payments in effect replaced payments the City would have otherwise had to make to meet its constitutional obligation to amortize the 2005 Subject UAAL.

Apart from the 2005 Subject UAAL, other UAAL of the Retirement Systems may exist and arise in the ordinary course of the City's operations, which the City may elect to fund by utilizing the traditional funding mechanism or the alternative funding mechanism. Any utilization of the alternative funding mechanism for such other UAAL would, however, require (i) separate authorization by a future enabling ordinance or resolution of the City enacted for that purpose; (ii) a new funding trust separate and distinct from the 2006 Funding Trust and the different funding trust which exists with respect to the 2005 Service Contracts and the 2005 COPs; (iii) one or more new service contracts separate and distinct from the 2006 Service Contracts and the 2005 Service Contracts; and (iv) issuance of new certificates of participation unrelated to the 2006 Certificates and the 2005 COPs.

#### *Swap Agreements*

The Service Corporations are parties to interest rate exchange agreements (**2005 Swap Agreements**) they entered into to hedge variable-rate exposure under the 2005 Service Contracts in regard to the Series 2005-B COPs. The Service Corporations expect to terminate, in whole or in part, the 2005 Swap Agreements corresponding to the Series 2005-B COPs purchased and canceled as described under "PLAN OF FINANCE" above. Such 2005 Swap Agreement terminations are expected to entitle the Service Corporations to receive certain termination payments from the 2005 Swap Agreement counterparties. A portion of the proceeds of

such termination receivables will be used as shown under "Sources and Uses of Funds" below. The balance of such termination receivables will be paid to the City in accordance with the 2005 Service Contracts.

It also is expected that the Service Corporations will enter into interest rate exchange agreements or similar agreements (2006 Swap Agreements) before or at the time of issuance of the Series 2006-B Certificates, to hedge variable-rate exposure under the 2006 Service Contracts, and they may do so from time to time with respect to any rate exposure under the 2006 Service Contracts. Each Service Corporation will enter into one or more 2006 Swap Agreements with each of UBS AG and with SBS Financial Products Company, LLC, as the counterparties. Payments under a 2006 Swap Agreement may include net payments based on the interest rates exchanged. Under the 2006 Swap Agreements, the Service Corporations will be obligated in certain instances to make periodic payments to the 2006 Swap Agreement counterparty, and should a 2006 Swap Agreement be terminated, under certain circumstances the Service Corporations may be required to pay a termination payment. The Service Corporations' obligation to make all payments under the 2006 Swap Agreements will be payable from moneys paid by the City under the 2006 Service Contracts. In applying moneys so received from the City, the Contract Administrator will be required to treat any termination payment owing to a 2006 Swap Agreement counterparty as subordinated in right of payment to the prior payment in full of any Scheduled Payments and Service Charges (corresponding to principal of and interest on 2006 Certificates) then due and unpaid.

**Sources and Uses of Funds**

The proceeds from the sale of the 2006 Certificates are expected to be used as follows:

**Sources of Funds**

Principal Amount of Series 2006-A Certificates .....	\$148,540,000.00
Principal Amount of Series 2006-B Certificates .....	800,000,000.00
Swap Termination Receivables .....	<u>36,051,234.67</u>
<b>TOTAL SOURCES .....</b>	<b>\$984,591,234.67</b>

**Uses of Funds**

Optional redemption of certain 2005-A COPs <sup>1</sup> .....	\$107,149,970.44
Purchase (for cancellation) of tendered Series 2005-B COPs <sup>2</sup> .....	815,594,283.37
Premiums of insurance policies on 2006 Certificates and 2006 Swap Agreements .....	50,642,427.28
Costs of Issuance <sup>3</sup> .....	<u>11,204,553.58</u>
<b>TOTAL USES .....</b>	<b>\$984,591,234.67</b>

<sup>1</sup> Includes prepayment premiums, Service Charges due after closing and prior to optional redemption date, and accrued interest to the date of redemption.

<sup>2</sup> Includes tender premiums, accrued interest to the date of purchase, and tender fees and expenses.

<sup>3</sup> Includes underwriters' discount and costs for legal counsel, financial and swap advisors, rating agencies, trustee, offering circular distribution and miscellaneous expenses incidental to issuance of the 2006 Certificates.

**SOURCES OF PAYMENT AND SECURITY FOR THE 2006 CERTIFICATES**

The 2006 Certificates are payable solely from all 2006 COP Service Payments which may be received by the Trustee pursuant to the 2006 Service Contracts. Such 2006 COP Service Payments will include all Scheduled Payments and Service Charges payable by the City under the 2006 Service Contracts, corresponding to the principal of and interest on the 2006 Certificates, respectively. The City's obligations to make 2006 COP Service Payments are unsecured contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City. Such payment obligations of the City are not general obligations of the City, and neither the faith and credit, taxing power nor any specific revenues of the City are pledged to the 2006 COP Service Payments coming due under the 2006 Service Contracts.

The City's unconditional contractual obligation to pay all 2006 COP Service Payments is not "subject to appropriation," as is customary with many certificate of participation transactions entered into by

municipalities in the United States. The City's 2006 Service Contracts are not subject to termination if the City were to fail to appropriate sufficient amounts for the required payments in any single year. The City is legally bound to make all 2006 COP Service Payments for the full term of both 2006 Service Contracts, and statutory remedies exist to enforce the City's obligations.

To secure the payment of the 2006 Certificates, the Service Corporations will irrevocably sell, assign and convey to the 2006 Funding Trust all of their rights to receive, collect and enforce all 2006 COP Service Payments to become due under the 2006 Service Contracts. As further security for the payment of the 2006 Certificates, although the parties intend that such sale, assignment and conveyance be an absolute transfer of those rights under the 2006 Service Contracts, in the Trust Agreement the Service Corporations will additionally grant a security interest in their right to receive 2006 COP Service Payments to the 2006 Funding Trust for the benefit of the 2006 Certificateholders. That security interest will be a perfected first security interest in such property under the Michigan Uniform Commercial Code.

The 2006 Service Contracts additionally require the City to make certain other payments, such as general corporate expenses of the Service Corporations, fees and expenses of the Trustee and the Contract Administrator, and certain amounts payable to one or more 2006 Swap Agreement counterparties. The amounts paid by the City for such additional purposes do not constitute part of the 2006 COP Service Payments and are not pledged for the payment of the 2006 Certificates.

If the City were to fail to pay any 2006 COP Service Payment when due, the Contract Administrator could file a lawsuit against the City to enforce that contractual obligation, a right that is available to all parties entering into valid enforceable contracts with the City. The City would be required to pay any resulting judgment against it, the same as any other. If the City were to fail to provide for payment of any such judgment, a court can compel the City to raise the payment through the levy of taxes, as provided in the Revised Judicature Act of 1961, Act No. 236 of the Michigan Public Acts of 1961, as amended (Michigan Compiled Laws Section 600.6093), without limit as to rate or amount. This is the same remedy that the Retirement Systems would have against the City if it failed to make its required annual payment to fund UAAL under the traditional funding mechanism described above under "PLAN OF FINANCE - Constitutional, Statutory and Ordinance Authority for Payment of UAAL and Issuance of the 2006 Certificates." It also is the same remedy that the contract administrator with respect to the 2005 Service Contracts would have against the City if it were to fail to pay any 2005 COP Service Payment when due.

The Contract Administrator has no duty under the Contract Administration Agreement to pursue any remedy against the City for nonpayment of 2006 COP Service Payments except at the request of 2006 Certificateholders representing at least 25% of the outstanding principal amount of 2006 Certificates, the payments on which have not been made when due, or at least 50% of the outstanding principal amount of all 2006 Certificates. See "2006 SERVICE CONTRACT ADMINISTRATION - Enforcement."

#### **THE 2006 CERTIFICATES**

The 2006 Certificates are being issued in two series, as described below.

##### ***The Series 2006-A Certificates (Fixed Rate)***

The Series 2006-A Certificates will be dated the date of their issuance. Interest from that date will be payable on each Series 2006-A Certificate on December 15, 2006 and semiannually thereafter on each June 15 and December 15 until its maturity or earlier redemption. The interest on the Series 2006-A Certificates will be computed at the rates shown on the inside cover of this Offering Circular, on the basis of a 30-day month and a 360-day year. The Series 2006-A Certificates are issued as fully registered 2006 Certificates, in principal denominations of \$5,000 or multiples thereof.

Mandatory Sinking Fund Redemption

All Series 2006-A Certificates maturing in 2035 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series 2006-A Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series 2006-A Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under "THE 2006 CERTIFICATES – The Series 2006-A Certificates (Fixed Rate) - Optional Redemption with Make-Whole Premium," at least 45 days before the redemption date:

<u>Redemption Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2034	\$ 36,255,000
2035 <sup>(a)</sup>	112,285,000

<sup>(a)</sup> Stated Maturity

Optional Redemption with Make-Whole Premium

The Series 2006-A Certificates are subject to optional redemption prior to their maturity from Scheduled Payments prepaid by the City, in whole or in part (and if in part, as described below under "THE 2006 CERTIFICATES – Selection of 2006 Certificates for Redemption") on any date, at a redemption price equal to the greater of:

- 100% of the principal amount of the Series 2006-A Certificates to be redeemed, or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2006-A Certificates to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points,

plus in each case, accrued and unpaid interest on the Series 2006-A Certificates being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions apply:

**Treasury Rate** means, with respect to any redemption date for a particular Series 2006-A Certificate, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Treasury Dealer.

**Comparable Treasury Issue** means, with respect to any redemption date for a particular Series 2006-A Certificate, the U.S. Treasury security or securities selected by the Designated Treasury Dealer which has an actual or interpolated maturity comparable to the remaining average life of the Series 2006-A Certificate to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2006-A Certificate to be redeemed.

**Comparable Treasury Price** means, with respect to any redemption date for a particular Series 2006-A Certificate, (1) if the Designated Treasury Dealer receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding



the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Designated Treasury Dealer obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

**Designated Treasury Dealer** means one of the Reference Treasury Dealers designated by the Contract Administrator.

**Reference Treasury Dealer** means UBS Securities LLC or its successor, and four other firms, selected by the Contract Administrator from time to time, that are primary U.S. Government securities dealers in the City of New York (each a **Primary Treasury Dealer**); *provided, however*, that if any of them ceases to be a Primary Treasury Dealer, the Contract Administrator will substitute another Primary Treasury Dealer.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2006-A Certificate, the average, as determined by the Designated Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Treasury Dealer by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

#### *The Series 2006-B Certificates (Floating Rate)*

The Series 2006-B Certificates will be dated the date of their issuance and mature on the dates set forth on the inside cover of this Offering Circular. The amount of interest for each day that the Series 2006-B Certificates are outstanding will be calculated by dividing the Interest Rate in effect for such day by 360 and multiplying the result by the outstanding principal amount of the Series 2006-B Certificates. The Series 2006-B Certificates are issued as fully registered 2006 Certificates, in principal denominations of \$25,000 and integral multiples of \$1,000 in excess thereof.

Interest will be payable on the Series 2006-B Certificates from the delivery date at a floating rate determined in the manner provided below, payable on September 15, 2006 and the 15<sup>th</sup> day of each December, March, June and September thereafter (each an **Interest Payment Date**) to the persons in whose name the Series 2006-B Certificates were registered at the close of business on the 15th day (whether or not a business day) preceding the respective Interest Payment Date, subject to certain exceptions.

The per annum interest rate on the Series 2006-B Certificates (**Interest Rate**) in effect during an Interest Period (as defined below) will be equal to the Three Month LIBOR plus the margin indicated on the inside cover of this Offering Circular, and interest on the Series 2006-B Certificates will accrue on the outstanding principal balance of the Series 2006-B Certificates as shown below. The outstanding principal balance is computed based upon the reduction of the principal balance of each Series 2006-B Certificate by the amount of the mandatory sinking fund prepayment on the specific dates set forth under the next subheading "**Mandatory Sinking Fund Redemption**" below.

<u>Dates</u>	<u>2029 Maturity</u>	<u>2034 Maturity</u>
	<u>Outstanding Principal Balance</u> <u>(Weighted Average Life: 19.945 Years)</u>	<u>Outstanding Principal Balance</u> <u>(Weighted Average Life: 25.949 Years)</u>
June 12, 2006 – June 15, 2007	\$299,155,000	\$500,845,000
June 16, 2007 – June 15, 2008	299,155,000	500,845,000
June 16, 2008 – June 15, 2009	299,155,000	500,845,000
June 16, 2009 – June 15, 2010	299,155,000	500,845,000
June 16, 2010 – June 15, 2011	299,155,000	500,845,000
June 16, 2011 – June 15, 2012	299,155,000	500,845,000
June 16, 2012 – June 15, 2013	299,155,000	500,845,000
June 16, 2013 – June 15, 2014	299,155,000	500,845,000
June 16, 2014 – June 15, 2015	299,155,000	500,845,000
June 16, 2015 – June 15, 2016	299,155,000	500,845,000
June 16, 2016 – June 15, 2017	299,155,000	500,845,000
June 16, 2017 – June 15, 2018	299,155,000	500,845,000
June 16, 2018 – June 15, 2019	299,155,000	500,845,000
June 16, 2019 – June 15, 2020	284,526,000	500,845,000
June 16, 2020 – June 15, 2021	270,722,000	500,845,000
June 16, 2021 – June 15, 2022	257,875,000	500,845,000
June 16, 2022 – June 15, 2023	246,107,000	500,845,000
June 16, 2023 – June 15, 2024	235,569,000	500,845,000
June 16, 2024 – June 15, 2025	226,419,000	500,845,000
June 16, 2025 – June 15, 2026	218,827,000	500,845,000
June 16, 2026 – June 15, 2027	153,696,000	500,845,000
June 16, 2027 – June 15, 2028	84,511,000	500,845,000
June 16, 2028 – June 15, 2029	11,020,000	500,845,000
June 16, 2029 – June 15, 2030		433,799,000
June 16, 2030 – June 15, 2031		350,849,000
June 16, 2031 – June 15, 2032		262,705,000
June 16, 2032 – June 15, 2033		169,041,000
June 16, 2033 – June 15, 2034		69,512,000

For the initial Interest Period which begins on the 2006 Closing Date and ends on (but does not include) September 15, 2006, the Contract Administrator will set the Interest Rate on the 2006 Closing Date and will determine the LIBOR rate by reference to straight line interpolation between Three Month LIBOR and four month LIBOR based on the actual number of days in the initial Interest Period. The Interest Rate for each subsequent Interest Period for the Series 2006-B Certificates will be set on September 15, 2006 and the 15<sup>th</sup> day of each December, March, June and September thereafter (each an Interest Rate Adjustment Date) until the principal on the Series 2006-B Certificates is paid or made available for payment. If any Interest Rate Adjustment Date (other than the initial Interest Rate Adjustment Date occurring on the 2006 Closing Date) and Interest Payment Date for the Series 2006-B Certificates would otherwise be a day that is not a LIBOR Business Day, such Interest Rate Adjustment Date and Interest Payment Date shall be the next succeeding LIBOR Business Day.

**LIBOR Business Day** means any day on which the City, the Trustee and banks in both London and New York City are open for the transaction of business. **Interest Period** means the period from and including the 2006 Closing Date or the most recent Interest Payment Date to but excluding the next succeeding Interest Payment Date on which interest on the outstanding Series 2006-B Certificates was paid in full.

The **Three Month LIBOR** for each Interest Period means the rate determined in accordance with the following provisions:

(i) On the second LIBOR Business Day before the 2006 Closing Date and each subsequent Interest Rate Adjustment Date (each such date an **Interest Determination Date** for the ensuing Interest Period), the Contract Administrator will determine the Three Month LIBOR which shall be the London interbank offered rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 as of 11:00 a.m., London time, on such Interest Determination Date. **Telerate Page 3750** means the display page so designated on Moneyline Telerate, Inc. (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If the Three Month LIBOR on such Interest Determination Date does not appear on the Telerate Page 3750, the Three Month LIBOR will be determined as described in paragraph (ii) below.

(ii) With respect to an Interest Determination Date for which the Three Month LIBOR does not appear on Telerate Page 3750 as specified in paragraph (i) above, the Three Month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on such Interest Determination Date to prime banks in the London interbank market by at least three leading banks engaged in transactions in Eurodollar deposits in the international Eurocurrency market (the **Reference Banks**) selected by the Contract Administrator. The Contract Administrator shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three Month LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted by three major banks in New York City, selected by the Contract Administrator, at approximately 11:00 a.m., New York City time, on such Interest Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity; provided, however, that if the banks in New York City selected by the Contract Administrator are not then quoting rates for such loans, the relevant Interest Rate for the Interest Period commencing on the Interest Rate Adjustment Date following such Interest Determination Date will be the Interest Rate in effect on such Interest Determination Date.

The amount of interest for each day that the Series 2006-B Certificates are outstanding (the **Daily Interest Amount**) will be calculated by dividing the Interest Rate in effect for such day by 360 and multiplying the result by the outstanding principal amount of the Series 2006-B Certificates. The amount of interest to be paid on the Series 2006-B Certificates for any Interest Period will be calculated by adding the Daily Interest Amounts for each day in such Interest Period.

The Interest Rate on the Series 2006-B Certificates will in no event be higher than the maximum rate permitted by Michigan law as the same may be modified by United States law of general application.

The Interest Rate and amount of interest to be paid on the Series 2006-B Certificates for each Interest Period will be determined by the Contract Administrator. All calculations made by the Contract Administrator shall in the absence of manifest error be conclusive for all purposes and binding on the 2006 Funding Trust and the Holders of the Series 2006-B Certificates.

#### Mandatory Sinking Fund Redemption

All Series 2006-B Certificates maturing in 2029 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts specified below, except that the principal amount of the Series 2006-B Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series 2006-B Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under "*The Series 2006-B Certificates (Floating Rate) - Optional Redemption*," at least 45 days before the redemption date:

<u>Redemption Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2019	\$14,629,000
2020	13,804,000
2021	12,847,000
2022	11,768,000
2023	10,538,000
2024	9,150,000
2025	7,592,000
2026	65,131,000
2027	69,185,000
2028	73,491,000
2029 <sup>(a)</sup>	11,020,000

<sup>(a)</sup> Stated Maturity

All Series 2006-B Certificates maturing in 2034 are subject to *pro rata* mandatory redemption prior to maturity, at a redemption price equal to par (100% of the principal amount to be redeemed), together with accrued interest to the redemption date, on June 15 of each of the years, and in the respective amounts, specified below, except that the principal amount of the Series 2006-B Certificates to be redeemed on each such redemption date will be reduced by a *pro rata* portion of the principal amount of any Series 2006-B Certificates that have been purchased by the Trustee and canceled by the Trustee, or redeemed as described below under "The Series 2006-B Certificates (Floating Rate) - Optional Redemption," at least 45 days before the redemption date:

<u>Redemption Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2029	\$67,046,000
2030	82,950,000
2031	88,144,000
2032	93,664,000
2033	99,529,000
2034 <sup>(a)</sup>	69,512,000

<sup>(a)</sup> Stated Maturity

#### Optional Redemption

The Series 2006-B Certificates are subject to optional redemption on any Interest Payment Date at par, beginning June 15, 2011, in whole or in part (and if in part, as described below under "THE 2006 CERTIFICATES - Selection of 2006 Certificates for Redemption").

#### *Selection of 2006 Certificates for Redemption*

If some but less than all of the 2006 Certificates of either Series 2006-A or Series 2006-B are to be redeemed on any date, the Contract Administrator, at the direction of the City, will select the maturity or maturities to be redeemed. Within a maturity, the particular 2006 Certificates of a Series to be redeemed shall be redeemed *pro rata* as described below.

So long as the 2006 Certificates of either Series are in the book-entry-only system, the securities depository will administer the prorating of partial redemptions among beneficial owners of the 2006 Certificates of that Series. See "THE 2006 CERTIFICATES - Global Book-Entry System."

***Notice of Redemption***

The Trustee will mail a notice to the registered owner of each 2006 Certificate to be redeemed in whole or in part at the address for the registered owner shown in the registration books (the securities depository so long as the book-entry-only system is in effect). The notice will be mailed at least 30 days but not more than 45 days prior to the redemption date. Failure to give a notice of redemption or a defect in it will not affect the validity of the proceedings for the redemption of any 2006 Certificates for which proper notice was given.

***Global Book-Entry System***

Payments of principal and interest for each 2006 Certificate will be paid to the registered owner of the 2006 Certificates. The 2006 Certificates are being issued initially in book-entry-only form, so the registered owner will be a securities depository, a nominee of The Depository Trust Company (DTC). Clearance is expected to be available through DTC and also through Clearstream and Euroclear, which will hold omnibus positions on behalf of their participants in the books of their respective depositories. For more information about the global book-entry system, see APPENDIX D. Under certain conditions the 2006 Certificates may be issued in certificated form.

The Trustee is the registrar and paying agent for the 2006 Certificates and may be contacted as follows:

*Contact:* U.S. Bank National Association  
*Attn:* Trust Finance Management  
*Phone:* 651-495-3713  
*Mail:* Corporate Trust Services  
U.S. Bank National Association  
60 Livingston Avenue  
St. Paul, MN 55107  
Mail Station EP-MN-WS3T

***Registration and Payment of 2006 Certificates***

How the 2006 Certificates are paid depends on whether or not they are in book-entry-only form.

While the 2006 Certificates are in book-entry-only form (as they are initially), payment of principal will be made by wire transfer to the securities depository or its nominee. Payment of interest will be made by wire transfer to the securities depository or its nominee on the payment date.

If the 2006 Certificates are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the 2006 Certificates at the designated office of the Trustee. Payment of interest due on the 2006 Certificates will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the 15th day (whether or not a business day) preceding the respective interest payment date.

**2006 COP SERVICE PAYMENTS**

The following table sets forth the contractual obligations of the City under the 2006 Service Contracts in each fiscal year for payment of Scheduled Payments and Service Charges, corresponding to the principal of and interest on the 2006 Certificates, respectively.

**2006 COP SERVICE PAYMENTS SCHEDULE**

Maturity (June 15)	Series 2006-A			Series 2006-B			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ 8,970,194	\$ 8,970,194	\$ -	\$ 40,260,733	\$ 40,260,733	\$ -	\$ -	\$ 49,230,928
2008	-	8,896,061	8,896,061	-	45,328,000	45,328,000	-	-	54,224,061
2009	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2010	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2011	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2012	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2013	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2014	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2015	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2016	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2017	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2018	-	8,896,061	8,896,061	-	49,936,975	49,936,975	-	-	58,833,035
2019	-	8,896,061	8,896,061	14,629,000	49,936,975	64,565,975	14,629,000	-	73,462,035
2020	-	8,896,061	8,896,061	13,804,000	49,026,612	62,830,612	13,804,000	-	71,726,673
2021	-	8,896,061	8,896,061	12,847,000	48,167,589	61,014,589	12,847,000	-	69,910,650
2022	-	8,896,061	8,896,061	11,768,000	47,368,120	59,136,120	11,768,000	-	68,032,181
2023	-	8,896,061	8,896,061	10,538,000	46,635,798	57,173,798	10,538,000	-	66,069,858
2024	-	8,896,061	8,896,061	9,150,000	45,980,018	55,130,018	9,150,000	-	64,026,079
2025	-	8,896,061	8,896,061	7,592,000	45,410,613	53,002,613	7,592,000	-	61,898,674
2026	-	8,896,061	8,896,061	65,131,000	44,938,163	110,069,163	65,131,000	-	118,965,224
2027	-	8,896,061	8,896,061	69,185,000	40,885,061	110,070,061	69,185,000	-	118,966,122
2028	-	8,896,061	8,896,061	73,491,000	36,579,679	110,070,679	73,491,000	-	118,966,739
2029	-	8,896,061	8,896,061	78,066,000	32,006,334	110,072,334	78,066,000	-	118,968,394
2030	-	8,896,061	8,896,061	82,950,000	27,127,818	110,077,818	82,950,000	-	118,973,878
2031	-	8,896,061	8,896,061	88,144,000	21,940,436	110,084,436	88,144,000	-	118,980,496
2032	-	8,896,061	8,896,061	93,664,000	16,428,241	110,092,241	93,664,000	-	118,988,301
2033	-	8,896,061	8,896,061	99,529,000	10,570,845	110,099,845	99,529,000	-	118,995,906
2034	36,255,000	8,896,061	45,151,061	69,512,000	4,346,675	73,858,675	105,767,000	13,242,735	119,009,735
2035	112,285,000	6,724,749	119,009,749	-	-	-	112,285,000	6,724,749	119,009,749
<b>Totals</b>	<b>\$148,540,000</b>	<b>\$255,888,579</b>	<b>\$404,428,579</b>	<b>\$800,000,000</b>	<b>\$1,152,307,457</b>	<b>\$1,952,307,457</b>	<b>\$948,540,000</b>	<b>\$1,408,196,036</b>	<b>\$2,356,736,036</b>

<sup>1</sup> Series 2006-B interest calculated at fixed swap rates.

## 2006 CERTIFICATE INSURANCE

The scheduled payment of principal of and interest on the particular 2006 Certificates specifically identified on the inside cover of this Offering Circular as the "FGIC-insured 2006 Certificates" will be guaranteed under an insurance policy to be issued concurrently with the delivery of the FGIC-insured 2006 Certificates by Financial Guaranty Insurance Company (**Financial Guaranty**). Information provided by Financial Guaranty about its operations and financial condition is included as APPENDIX E, as is the form of its insurance policy.

The scheduled payment of principal of and interest on the particular 2006 Certificates specifically identified on the inside cover of this Offering Circular as the "XLCA-insured 2006 Certificates" will be guaranteed under an insurance policy to be issued concurrently with the delivery of the XLCA-insured 2006 Certificates by XL Capital Assurance Inc. (**XLCA**). Information provided by XLCA about its operations and financial condition is included as APPENDIX F, as is the form of its insurance policy.

In addition, Financial Guaranty and XLCA are expected to provide insurance policies that cover payments required to be made by the Service Corporations under the 2006 Swap Agreements that the Service Corporations are expected to enter into before or at the time of issuance of the Series 2006-B Certificates.

## 2006 SERVICE CONTRACT ADMINISTRATION

On the 2006 Closing Date, the 2006 Funding Trust, the Service Corporations, severally and not jointly, and the 2006 Swap Agreement counterparties and a guarantor for one of them, will enter into the Contract Administration Agreement (**Administration Agreement**) with U.S. Bank National Association, as Contract Administrator. U.S. Bank National Association will also be the Trustee under the Trust Agreement. The Administration Agreement will permit the substitution of a different Contract Administrator if a conflict of interest were to arise from the same institution serving in both roles.

Under the Administration Agreement, each of the Service Corporations and the Trustee on behalf of the 2006 Funding Trust will appoint the Contract Administrator as its respective agent to collect 2006 COP Service Payments, as well as periodic or termination payment amounts received from the City under the 2006 Service Contracts (**Hedge Payables**) or received from a 2006 Swap Agreement counterparty (**Hedge Receivables**), and will require the Contract Administrator to determine in accordance with prescribed priorities and prorating provisions to whom they must be disbursed. Also under the Administration Agreement, the Trustee on behalf of the 2006 Funding Trust will appoint the Contract Administrator as its agent to enforce the payment of 2006 COP Service Payments. Additionally, under the Administration Agreement, each Service Corporation will appoint the Contract Administrator as its agent if directed by the Service Corporation to enforce the payment of Hedge Receivables and Hedge Payables.

Although (i) another contract administration agreement and another trust agreement, which created another funding trust, exist with respect to the 2005 Service Contracts and the 2005 COPs, (ii) U.S. Bank National Association also is both the contract administrator under that contract administration agreement and the trustee under that trust agreement and (iii) that other trust agreement, funding trust and contract administration agreement, as well as the 2005 Service Contracts and certain of the 2005 COPs, will continue to exist after the 2006 Closing Date, all of the foregoing are totally separate and distinct from the 2006 Certificates, the 2006 Funding Trust, the 2006 Service Contracts, the related new Trust Agreement and Administration Agreement, and U.S. Bank National Association's serving as Trustee under the new Trust Agreement and as Contract Administrator under the new Administration Agreement. Similarly all funds paid, received, held or disbursed under the 2006 Service Contracts, Administration Agreement, Trust Agreement and 2006 Certificates are totally separate and distinct from all funds paid, received, held or disbursed under the 2005 Service Contracts, the related 2005 contract administration agreement and trust agreement and the 2005 COPs.

*Payments to the Trustee or Others*

On any date that principal or interest is due and payable on any 2006 Certificates, the applicable 2006 Certificateholders are entitled to receive the amount due from the Trustee in accordance with the Trust Agreement. The Trustee is dependent on receiving from the Contract Administrator, as the agent of each Service Corporation, the proceeds of 2006 COP Service Payments collected by the Contract Administrator for that purpose. In the event that on such date the Trustee has insufficient moneys to pay the full aggregate amount thus due, the Trustee is required by the Trust Agreement to disburse all of the available moneys it then holds to the entitled 2006 Certificateholders on a *pro rata* basis.

The Contract Administrator is required to distribute the moneys it receives from the City as Service Payments (which term includes not only 2006 COP Service Payments but also payments for fees, expenses and indemnification of the Contract Administrator and amounts in respect of periodic Hedge Payables and termination Hedge Payables) in accordance with the following priorities of payment among specific categories of payments, as prescribed in each 2006 Service Contract:

- First:** any fees, expenses and indemnification then owing to the Contract Administrator under the Contract Administration Agreement, including reasonable fees and expenses of its counsel, in connection with any waiver or consent thereunder or any amendment thereof or of a 2006 Service Contract, or in connection with the enforcement thereof, are payable to it,
- Second:** all theretofore due and unpaid Service Charges (corresponding to interest due and unpaid to 2006 Certificateholders) and amounts in respect of periodic Hedge Payables due and unpaid to a 2006 Swap Counterparty are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Third:** all then due and about to become due Service Charges (corresponding to interest to 2006 Certificateholders) and amounts in respect of periodic Hedge Payables to a 2006 Swap Counterparty are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Fourth:** all theretofore due and unpaid regular Scheduled Payments and Sinking Fund Installments (corresponding to principal due and unpaid to 2006 Certificateholders) are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Fifth:** all then due or about to become due regular Scheduled Payments and Sinking Fund Installments (corresponding to principal to 2006 Certificateholders) are payable on a parity, before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Sixth:** all theretofore due and unpaid amounts in respect of termination Hedge Payables to a 2006 Swap Counterparty are payable before the Contract Administrator can pay any available moneys then held by it to the next priority, namely,
- Seventh:** all then due and about to become due amounts in respect of termination Hedge Payables to a 2006 Swap Counterparty are payable before the Contract Administrator can pay any available moneys then held by it to the final priority, namely,
- Eighth:** all then due and about to become due Optional Prepayment Amounts (corresponding to optional prepayments of principal to 2006 Certificateholders) and Accrued Service Charges.



For purposes of the above priorities, an amount is "about to become due" (i) in the case of amounts which are payable not more frequently than once each calendar week, when there are six or fewer days before its due date, or (ii) for amounts which are payable more frequently than once each calendar week, the day after its most recent due date.

The Administration Agreement requires the Contract Administrator, before paying any 2006 COP Service Payment proceeds to the Trustee for pass through to 2006 Certificateholders on any payment date, to determine which priorities are then due and owing, whether on that date or in arrears, and to apply those moneys according to the priorities described above. Thus, if after satisfying the First priority, the Contract Administrator has insufficient moneys to pay all amounts then owing among the next priorities, it shall use the available moneys first to pay amounts owing in the Second priority on a parity between Service Charges (payable by the Contract Administrator to the Trustee) and periodic Hedge Payables (payable to a 2006 Swap Counterparty); and in that event, 2006 Certificateholders may receive on that date less than the full amount then owing to them. If that occurred, however, the affected 2006 Certificateholders would have the benefit of the applicable 2006 Certificate insurance. See "2006 CERTIFICATE INSURANCE."

#### *Enforcement*

Promptly after any failure of the City to pay any 2006 COP Service Payment when due, the Contract Administrator is required to give written notice by mail to all 2006 Certificateholders and others, except that such notice shall be given to the insurer of particular 2006 Certificates rather than those 2006 Certificateholders as long as the insurer is not in default under its insurance policy. The Contract Administrator has no duty under the Contract Administration Agreement to pursue any remedy against the City for nonpayment of 2006 COP Service Payments except at the request of 2006 Certificateholders representing at least 25% of the outstanding principal amount of 2006 Certificates, the payments on which have not been made when due, or at least 50% of the outstanding principal amount of all 2006 Certificates, and only if they shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request.

#### **THE SERVICE CORPORATIONS AND THE 2006 FUNDING TRUST**

The two Service Corporations are Michigan nonprofit corporations incorporated by the City pursuant to the Home Rule City Act, the Funding Ordinance and the Michigan Nonprofit Corporation Act. They are organized primarily for the purpose of assisting the City in carrying out its constitutionally mandated obligation to maintain the actuarial integrity of its two Retirement Systems through performing the services of reducing the financial burden of the unfunded accrued actuarial liabilities of the GRS or PFRS, as applicable, by funding specified amounts thereof and by funding a reduction or rescheduling (or both) of certain related contractual payment obligations of the City as contemplated by the Funding Ordinance. They did this with respect to the 2005 Subject UAAL by entering into and undertaking their obligations under the two respective 2005 Service Contracts and related agreements including a trust agreement, a contract administration agreement and certain swap agreements. Similarly, they will do this again by entering into and performing their obligations under the two respective 2006 Service Contracts, the Trust Agreement, the Contract Administration Agreement and the 2006 Swap Agreements. The Service Corporations are not expected to have a significant active role with regard to any outstanding 2006 Certificates after the 2006 Closing Date.

The governing body of each respective Service Corporation is its Board of Directors, comprised of five directors. The Articles of Incorporation of each Service Corporation prescribe that its Board of Directors shall consist of three officials of the City – the Finance Director, the Budget Director and the Corporation Counsel – plus two members of the Detroit City Council appointed by the City Council. The current Board of Directors of each Service Corporation is comprised of these same five individuals:

Roger Short	Interim Finance Director of the City
Pamela Scales	Budget Director of the City
John E. Johnson, Jr.	Corporation Counsel of the City
Kenneth V. Cockrel, Jr.	City Council member
Alberta Tinsley-Talabi	City Council member

The officers of both Service Corporations are: Mr. Short, President; Ms. Scales, Treasurer; and Mr. Johnson, Secretary.

Detroit Retirement Systems Funding Trust 2006 (the **2006 Funding Trust**) is a grantor trust that will be established and existing under Michigan law beginning on the 2006 Closing Date. It will be created by the Service Corporations, severally and not jointly, by their entering into the Trust Agreement on that date with U.S. Bank National Association, as Trustee. The purposes of the 2006 Funding Trust are to purchase and accept from the Service Corporations their assignment of the rights to receive all 2006 COP Service Payments payable by the City under the 2006 Service Contracts, to issue and sell the 2006 Certificates in accordance with the Trust Agreement and, acting through the Trustee, to pay all received 2006 COP Service Payments to the 2006 Certificateholders. In the event that at any future time either Service Corporation enters into a service contract with the City to provide for funding a particular amount of unfunded accrued actuarial liabilities of the City other than the 2005 Subject UAAL, the 2006 Funding Trust will have nothing to do with those transactions and the Service Corporation would have to create one or more other funding trusts to issue any certificates of participation for those transactions.

#### UNDERWRITING

The Series 2006-A Certificates are being purchased by certain underwriters (**Series 2006-A Underwriters**), and UBS Securities LLC is serving as representative for the Series 2006-A Underwriters. The Series 2006-A Underwriters have agreed, subject to certain conditions, to purchase the Series 2006-A Certificates from the 2006 Funding Trust at an aggregate purchase price of \$147,333,422.10 (reflecting underwriters' discount of \$1,206,577.90).

The Series 2006-B Certificates are being purchased by certain underwriters (**Series 2006-B Underwriters**), and UBS Securities LLC is serving as representative for the Series 2006-B Underwriters. The Series 2006-B Underwriters have agreed, subject to certain conditions, to purchase the Series 2006-B Certificates from the 2006 Funding Trust at an aggregate purchase price of \$793,501,667.42 (reflecting underwriters' discount of \$6,498,332.58).

The Underwriters have agreed to reoffer the 2006 Certificates at the public offering prices or yields set forth on the inside cover of this Offering Circular. The 2006 Certificates may be offered and sold to certain dealers (including dealers depositing the 2006 Certificates into investment trusts) at prices lower than such public offering prices, and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions, and they will be obligated to purchase all the 2006 Certificates if any 2006 Certificates are purchased.

The Underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions, and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum. Syndicate covering transactions involve purchases of the 2006 Certificates in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit an Underwriter to reclaim a selling concession from a syndicate member when the 2006 Certificates originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate

short positions. Such stabilizing transactions, syndicate covering transactions, and penalty bids may cause the price of the 2006 Certificates to be higher than it would otherwise be in the absence of such transactions. Such transactions, if commenced, may be discontinued at any time.

Affiliates of one or more of the Underwriters may also be counterparties in 2006 Swap Agreements entered into by the Service Corporations in connection with the 2006 Service Contracts.

**Global Plan of Distribution**

The 2006 Certificates are offered by the Underwriters for sale in those jurisdictions in the United States, Europe, Asia, and elsewhere where it is lawful to make such offers. Each Underwriter has undertaken that it will not offer, sell, or deliver, directly or indirectly, any of the 2006 Certificates or distribute this Offering Circular or any other material relating to the 2006 Certificates, in or from any jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with the applicable laws and regulations thereof and not impose any obligations on the City, the Service Corporations or the Funding Trust-except as contained in the underwriting agreement among the City, the Service Corporations and the Underwriters. Persons who receive this Offering Circular are required to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell, or deliver the 2006 Certificates or have in their possession, distribute, or publish any offering material relating to the 2006 Certificates, in all cases at their own expense.

**Reference Information about the 2006 Certificates**

The table on the inside cover of this Offering Circular provides information about the 2006 Certificates. The CUSIP, ISIN and Euroclear and Clearstream Common Code numbers for each maturity have been obtained from sources the City and the Service Corporations believe to be reliable, but the City, the Service Corporations, the Trustee and the Underwriters are not responsible for the correctness of the CUSIP, ISIN and Euroclear and Clearstream Common Code numbers or other identifying numbers assigned to the 2006 Certificates. The Underwriters have provided the reoffering yields and prices. The yield at issuance is the yield to maturity.

**RATINGS**

At the City's and the Service Corporations' request, several rating agencies have rated the 2006 Certificates as set forth in the table below with the understanding that, upon delivery of the 2006 Certificates, the insurance policies described under "2006 CERTIFICATE INSURANCE" will be issued.

<u>Insured Rating</u>		<u>Rating Agency</u>
<u>Series 2006-A Certificates</u>	<u>Series 2006-B Certificates</u>	
AAA	AAA	Fitch Ratings
Aaa	Aaa	Moody's Investors Service, Inc.
AAA	AAA	Standard & Poor's Ratings Services

In addition, at the City's request, several rating agencies have assigned an underlying rating to the 2006 Certificates (the rating that would apply to the 2006 Certificates if the insurance policies were not issued) as set forth in the table below.

<u>Underlying Rating</u>		<u>Rating Agency</u>
<u>Series 2006-A Certificates</u>	<u>Series 2006-B Certificates</u>	
BBB	BBB	Fitch Ratings
Baa2	Baa2	Moody's Investors Service, Inc.
Aa2	Aa2	Moody's Investors Service, Inc. (corporate equivalent rating)
BBB-	BBB-	Standard & Poor's Ratings Services

Any explanation of what a rating means may only be obtained from the rating agency assigning the rating. There is no assurance that a rating assigned to the 2006 Certificates will continue for any period of time. A rating agency may lower or withdraw the rating it assigns if in its judgment circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the trading value and the market price of the 2006 Certificates. The 2006 Funding Trust, the Service Corporations and City make no representations as to the appropriateness of the ratings.

#### **FINANCIAL ADVISORS**

Robert W. Baird & Co. and Scott Balice Strategies, LLC each have been employed by the City to perform professional services in the capacity of financial advisors with respect to the 2006 Service Contracts and the 2006 Certificates.

#### **INDEPENDENT ACCOUNTANTS**

The basic financial statements of the City, as of and for the fiscal year ended June 30, 2005, included in APPENDIX C, have been audited by the firm of KPMG LLP, independent accountants, to the extent indicated in their report thereon, which also appears in APPENDIX C.

KPMG LLP's qualified report dated May 13, 2006, which is based on the reports of other auditors, states that the financial statements of the Detroit Housing Commission Component Unit (**Housing**) included in the City's basic financial statements have not been audited and that KPMG LLP was not engaged to audit the financial statements of Housing as part of the City's basic financial statements. Housing's financial activities are included in the City's financial statements as a discretely presented component unit and represent 3.1%, 37.8% and 1.2% of the assets, net assets and revenues, respectively, of the City's aggregate discretely presented component units.

#### **TRUSTEE AND CONTRACT ADMINISTRATOR**

U.S. Bank National Association will be the Trustee under the Trust Agreement which creates the 2006 Funding Trust pertaining to the 2006 Certificates and also the Contract Administrator under the Administration Agreement pertaining to the 2006 Service Contract, the 2006 Swap Agreements and related matters. U.S. Bank National Association also is the trustee under another trust agreement which created another funding trust pertaining to the 2005 COPs and also the contract administrator under another contract administration agreement pertaining to the 2005 Service Contracts, the 2005 Swap Agreements and related matters. See "2006 SERVICE CONTRACT ADMINISTRATION."

#### **LEGAL MATTERS**

Legal matters incident to the authorization, issuance, and sale of the 2006 Certificates are subject to the approval of Lewis & Munday, A Professional Corporation, Detroit, Michigan, 2006 Certificate Counsel, whose approving opinion, substantially in the form shown in APPENDIX G, will be delivered on the date of issuance of the 2006 Certificates. In the event certificated 2006 Certificates are issued, the opinion will be printed on the reverse side of each 2006 Certificate.

Certain legal matters will be passed upon for the Underwriters by their counsel, Honigman Miller Schwartz and Cohn LLP, Detroit, Michigan.

A legal opinion addressing certain labor law matters will be delivered by Sullivan, Ward, Asher & Patton, P.C., of Southfield, Michigan, as special labor counsel to the City.

A legal opinion addressing the United States federal income tax characterization of the 2006 Funding Trust, the Scheduled Payments and Service Charges to be received by the 2006 Funding Trust under the 2006

Service Contracts, and the income to be earned by the Service Corporations pursuant to the transactions described in this Offering Circular will be delivered by Mayer, Brown, Rowe & Maw LLP, New York, New York, as special U.S. federal tax counsel. A legal opinion on certain State of Michigan tax considerations relating to the transactions described in this Offering Circular will be delivered by Honigman Miller Schwartz and Cohn LLP, as special Michigan tax counsel.

#### LITIGATION

The City is a defendant in numerous lawsuits and is also subject to other claims. Among these are the following matters which relate to the administration of the City's pension plans.

*Trustees of the Policemen and Firemen Retirement System of the City of Detroit v City of Detroit.* The governing board (PFRS Board) of the City's Police and Fire Retirement System (PFRS) filed this action in June 2004 for a declaratory judgment that the PFRS Board can impose a shorter amortization period for the City's funding of the unfunded accrued actuarial liabilities (UAAL) of the PFRS than set forth in a 1974 City ordinance, codified in the City Code. That ordinance and City Code section prescribed a 30-year amortization period, to be reduced by one year each subsequent year until reaching; and thereafter maintaining, a 20-year amortization period. The PFRS Board alleged that such ordinance provision is permissive only, and that under an agreement entered into in 1992, the PFRS Board has the authority to establish amortization periods of less than 20 years. The PFRS Board, accordingly, had adopted a declining amortization policy such that the amortization period for computing the City's annual contribution for PFRS UAAL due June 30, 2006 would be 13 years. The City denied that there was such an agreement, and argued that under the City Code there cannot be an amortization period shorter than 20 years. Both sides moved for summary disposition, and on May 16, 2005, the Court granted summary disposition to the City. The PFRS Board appealed to the Michigan Court of Appeals, which on February 28, 2006 reversed the lower court decision and granted "the Board's declaratory judgment that it has the authority under applicable law to set the amortization period." On April 11, 2006, the City applied for leave to appeal this decision to the Michigan Supreme Court, which has not yet ruled on the application.

After such lower court decision in the City's favor and before such Michigan Court of Appeals decision in the PFRS Board's favor, the City Council adopted an ordinance which became effective on February 8, 2006, establishing a 30-year amortization period for the funding of PFRS UAAL. After the Michigan Court of Appeals decision, on March 30, 2006, the PFRS Board adopted a resolution also establishing a 30-year amortization period for the funding of PFRS UAAL (the **Board Amortization Resolution**).

*Detroit Police Officers Association, Charging Party, and City of Detroit, Respondent* (Employment Relations Commission, Michigan Department of Labor & Economic Growth (MERC)). An unfair labor practice charge was filed against the City by the Detroit Police Officers Association (DPOA) on April 19, 2006, with the Employment Relations Commission. The DPOA in its charge asserts that the establishment of the PFRS amortization schedule is a mandatory subject of bargaining and that the City engaged in an unfair labor practice by representatives of the City, acting as trustees of the PFRS Board, voting in favor of the Board Amortization Resolution. The period over which the City's scheduled payment obligations are payable under the 2006 PFRS Service Contract is determined with reference to action of the PFRS Board in its Board Amortization Resolution.

The City's special labor counsel, Sullivan, Ward, Asher & Patton, P.C., of Southfield, Michigan (**Labor Counsel**), has reviewed the DPOA's charge, the Board Amortization Resolution and applicable MERC and court decisions. While recognizing that the outcome of any litigation or administrative proceeding cannot be predicted with certainty, Labor Counsel will deliver its opinion that the establishment of the PFRS amortization schedule is not a mandatory subject of bargaining and that the DPOA's charge is wholly without merit. Certificate Counsel will deliver its approving opinion, substantially in the form shown in APPENDIX G, on the date of issuance of the 2006 Certificates.

The following are significant General Fund litigation matters which remain pending or have arisen since June 30, 2005. It has been the City's experience that lawsuits and claims are settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Law Department have estimated that the liability for all such litigation and claims approximates \$132.9 million for governmental activities as of June 30, 2005.

*City of Detroit v Detroit Plaza Limited Partnership.* This is a condemnation action that was filed in September of 2000. The property owners in this case initially challenged the necessity of the acquisition. The City and the property owners ultimately reached an agreement for withdrawal of the necessity challenge, which allowed the case to proceed only on the question of valuation of the property. The respective appraised values for the property have served as the basis for the City's estimated just compensation and the property owners claims, and would indicate that a material expense to the City might result from any adverse verdict. The matter was tried in April 2004. A verdict of \$25,000,000 was rendered by the jury. The City's estimated just compensation was \$13,712,500, which had been previously paid by the City. The increase was approximately \$11,287,500. A judgment was entered in May 2004. Motions for new trial, judgment notwithstanding the verdict and remittitur, along with the property owners' motion for attorneys fees, costs and case evaluation sanctions have been heard by the trial court. The trial court denied the City's motions for new trial and judgment notwithstanding the verdict, and granted the property owners motions for attorneys' fees and costs. A claim of appeal was timely filed on October 12, 2004, and the parties have filed their briefs on appeal. The City intends to continue to vigorously prosecute this matter through appeal. The City believes that the trial court made a number of evidentiary rulings that were in error, but the ultimate outcome is difficult to assess at this time.

*Estate of Lamar Grable v Eugene Brown.* The suit arises out of a shooting incident in which the plaintiff's decedent died after being shot by Officer Brown. Both Officer Brown and his partner testified at trial that the decedent fired his weapon twice and struck Brown twice in his abdominal area. Judgment was entered on a jury verdict of \$4,000,000 plus taxable costs of \$18,510 and attorney fees of \$255,055, against City police officer Eugene Brown and in favor of the plaintiff. The Michigan Court of Appeals upheld the judgment. An application for leave to appeal to the Michigan Supreme Court has been filed and is pending before that Court.

*HRT Enterprises, et al v City of Detroit.* These consolidated inverse condemnation cases have two plaintiffs: HRT Enterprises, a Michigan partnership, the fee owner of the industrial property in question; and Merkur Steel Supply, Inc., a sub-tenant. The fee owner of the property seeks to compel the City to purchase the subject buildings. After the trial court granted the City's summary disposition motion against HRT Enterprises and Merkur Steel Supply, Inc, they filed on December 23, 2003, a timely claim of appeal of right to the Michigan Court of Appeals from the trial court's grant of summary disposition in favor of the City. On May 12, 2005, the Court of Appeals reversed the trial court's decision on the HRT claim and affirmed its decision on the Merkur claim. The HRT matter proceeded to trial on September 6, 2005 and the jury returned a verdict in favor of the City. HRT filed post-judgment motions, which were denied by the trial court on January 19, 2006. HRT's appeal to the Michigan Court of Appeals, filed on February 8, 2006, is pending in that Court.

*Trustees of the Policemen and Firemen Retirement System of the City of Detroit v City of Detroit, et al.* The PFRS Board filed this lawsuit in August 2005 seeking payment of \$53 million for the City's unpaid contribution obligation to the PFRS due June 30, 2005. The PFRS Board has since adopted a resolution approving the City's proposed settlement terms, and the lawsuit has been inactive by mutual agreement of the parties pending completion of the settlement. Under the approved settlement terms, the balance of the June 30, 2005 required City contributions to the PFRS will be paid with interest at 7.8% per annum no later than June 30, 2006, and the required City contributions to the PFRS due June 30, 2006 will be paid with interest at 7.8% per annum no later than June 30, 2007.

*George Marshall Grace, et al v City of Detroit.* This is a class action lawsuit filed in April 1990 arising from the City's residency requirement. The United States District Court held that the City unconstitutionally discriminated against applicants for employment who were not residents of the City at the time they made application. The City ceased requiring residency upon application for employment and subsequently state law enacted in March 2000 now prohibits residency requirements in most respects. The claims of over four hundred class members have been adjudicated with a finding of liability in ninety-four of those claims. The Court ruled in favor of the City on the issue of mitigation of damages, but permitted the class to file an interlocutory appeal to the Sixth Circuit Court of Appeals, pursuant to 28 U.S.C. §1292b. This relief is permissive and may or may not be granted by the Court of Appeals. In the interim, the District Court has ordered the parties to continue resolving the liability claimants, pending the outcome of the potential appeal. Because the Court found liability pursuant to 42 U.S.C. §1983, the Court will award attorneys fees and costs to class counsel and the court-appointed special master.

*800-Megahertz Communication System Cost Allocation Lawsuit.* This is litigation brought by three southeastern Michigan counties (Wayne, Oakland and Macomb Counties (collectively Counties)) against the City in late 2005, within the proceedings of a longstanding case in the U.S. District Court involving the City and its Detroit Water and Sewerage Department (DWSD), an enterprise fund department of the City. The Counties are wholesale sewerage customers of DWSD and claim that the allocation to DWSD of 60% of the \$64.4 million capital (i.e., infrastructure) costs of the City's 800-megahertz communication system (800-MHz System), passed on, in part, to the Counties through DWSD's rates, is improper. The City recently completed construction of the 800-MHz System, which provides communication capabilities to all City departments for both day-to-day operations and emergency response. The total cost of the 800-MHz System was approximately \$128 million. In May 2003, the City Budget Department, on behalf of all General Fund departments, and the DWSD entered into a Memorandum of Understanding under which (a) DWSD took the lead in contracting for and overseeing the construction of the 800-MHz System, and (b) DWSD paid 60% of the project's infrastructure costs and the General Fund departments paid the other 40%. The 60/40 allocation was based on DWSD's larger service area (approximately 1,000 square miles, including the City) compared to the approximately 100 square-mile area of the City served by the General Fund departments, and on the understanding that 15 of the 29 communications towers needed to support the 800-MHz System would be constructed outside the City. Accordingly, of the total infrastructure costs of \$64.4 million, DWSD paid \$38.6 million and the General Fund departments paid the balance. The Counties argue in their court briefs that DWSD's allocated share of the infrastructure costs should have been closer to 6-8%, rather than 60%, based on DWSD's actual air time use of the 800-MHz System. The City intends to vigorously defend the original allocation, but cannot predict the outcome of the litigation.

#### UNITED STATES FEDERAL TAX CONSIDERATIONS

**NOTICE PURSUANT TO IRS CIRCULAR 230: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) THIS OFFERING CIRCULAR IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS DISCUSSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following is a general discussion of certain U.S. federal tax considerations relating to the purchase, ownership and disposition of the 2006 Certificates. The discussion below does not deal with all U.S. federal tax considerations applicable to all categories of investors, some of which may be subject to special rules. In addition, this discussion is generally limited to investors who will hold 2006 Certificates as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the Code), and who would be treated as holding the 2006 Funding Trust's right to receive 2006 COP Service Payments under the 2006 Service Contracts as a capital asset if they held such right directly. This discussion is limited to initial purchasers of 2006 Certificates. Investors (including subsequent purchasers of 2006 Certificates) are strongly urged to consult their own tax advisors about the U.S. federal, state (including State of Michigan), local and other tax consequences of the purchase, ownership and disposition of 2006 Certificates.

This discussion is based on the Code, administrative pronouncements, judicial decisions and existing and proposed U.S. Department of Treasury regulations. Prospective purchasers should note that no rulings have been or will be sought from the Internal Revenue Service (IRS) with respect to any of the U.S. federal tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Mayer, Brown, Rowe & Maw LLP has opined on none of the tax considerations discussed below except as expressly indicated below.

As used below, the term "U.S. 2006 Certificateholder" means a beneficial owner of a 2006 Certificate who is a citizen or resident of the United States or a U.S. domestic corporation, or a 2006 Certificateholder who otherwise will be subject to U.S. federal income taxation on a net basis in respect of the 2006 Certificates; and the term "Non-U.S. 2006 Certificateholder" means a beneficial owner of a 2006 Certificate other than a U.S. 2006 Certificateholder. Except as stated below, the following discussion does not address any tax considerations that apply specifically to a Non-U.S. 2006 Certificateholder.

#### ***Tax Status of the 2006 Funding Trust***

In the opinion of Mayer, Brown, Rowe & Maw LLP, the 2006 Funding Trust will be treated as a grantor trust under Subpart E, Part I of Subchapter J of the Code, and each 2006 Certificateholder will be treated for U.S. federal income tax purposes as the owner of an undivided *pro rata* interest in the payments in respect of the 2006 Service Contracts received by the 2006 Funding Trust that are attributable to the specific maturity of such 2006 Certificateholder's 2006 Certificate.

#### ***Tax Status of the 2006 COP Service Payments under the 2006 Service Contracts***

In the opinion of Mayer, Brown, Rowe & Maw LLP, payments in respect of the 2006 Service Contracts received by the 2006 Funding Trust will constitute payments in respect of indebtedness for U.S. federal income tax purposes. Accordingly, the Service Charges received by the 2006 Funding Trust under the 2006 Service Contracts will constitute interest in respect of indebtedness for U.S. federal income tax purposes.

#### ***Agreements Regarding Tax Status of the 2006 Funding Trust and 2006 COP Service Payments under the 2006 Service Contracts***

The City. In a written agreement the City agrees that, for all federal, state and local income, business, franchise and modified value added tax purposes, the City shall treat Scheduled Payments and Services Charges as payments in respect of indebtedness for all such tax purposes (but the City expressly acknowledges and agrees that the Service Charges and Scheduled Payments made by the City under the 2006 Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or Charter limitation).



The Service Corporations. In the Trust Agreement each Service Corporation agrees, for U.S. federal, state and local income, business, franchise and modified value added tax purposes, to treat the 2006 Funding Trust, the 2006 Certificates and the 2006 COP Service Payments in accordance with the Service Corporation's intention that (i) the 2006 Funding Trust will qualify as a grantor trust under the Code, (ii) each 2006 Certificateholder will be treated as the owner of an undivided *pro rata* interest in the portion of the grantor Trust Estate attributable to such 2006 Certificateholder's 2006 Certificate(s); and (iii) the 2006 COP Service Payments will constitute payments in respect of indebtedness (but the Service Corporations expressly acknowledge and agree that the 2006 Funding Trust and the 2006 COP Service Payments do not constitute or create any indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or Charter limitation).

2006 Certificateholders. By purchasing or acquiring a 2006 Certificate, each 2006 Certificateholder agrees that for all U.S. federal, state and local income, business, franchise and modified value added tax purposes, (i) 2006 Certificateholder will treat the 2006 Funding Trust as a grantor trust under the Code, (ii) each 2006 Certificateholder will be treated as the owner of an undivided *pro rata* interest in the portion of the grantor Trust Estate attributable to such 2006 Certificateholder's 2006 Certificate(s); and (iii) 2006 Certificateholder will treat the 2006 COP Service Payments as payments in respect of indebtedness (and will thereby also acknowledge that the Services Charges and Scheduled Payments made by the City under the 2006 Service Contracts do not constitute indebtedness of the City for purposes of any State of Michigan constitutional or non-tax statutory or Charter limitation).

#### *Tax Status of the Service Corporations*

In the opinion of Mayer, Brown, Rowe & Maw LLP, the Service Corporations will either be treated as an integral part of the City or their gross income from the transactions described in this Offering Circular will constitute gross income described in Section 115 of the Code, and the Service Corporations will not be subject to U.S. federal income tax in respect of any income derived by the Service Corporations from the transactions described in this Offering Circular.

#### *U.S. 2006 Certificateholders*

Interest Income. A U.S. 2006 Certificateholder will be required to recognize its allocable share of the Service Charges payable under the 2006 Service Contracts as interest income in accordance with the 2006 Certificateholder's method of tax accounting. Accordingly, a cash method U.S. 2006 Certificateholder will recognize its allocable share of the Service Charges as interest income at the time the Service Charges are received by the 2006 Funding Trust. An accrual method U.S. 2006 Certificateholder will recognize its allocable share of the Service Charges at the time the Service Charges are accrued by the 2006 Funding Trust.

Original Issue Discount. In the event that the face amount of a 2006 Certificate exceeds its issue price, the excess constitutes original issue discount (**OID**) provided that such excess equals or exceeds 0.25% of the face amount of the 2006 Certificate multiplied by the number of complete years to maturity from the issue date of the 2006 Certificate (such 2006 Certificates being **OID 2006 Certificates**). The issue price of 2006 Certificates of a particular maturity is the first price at which a substantial amount of the 2006 Certificates of that maturity are sold (excluding, without limitation, sales to bond houses, brokers or underwriters). The issue price of Series 2006-A Certificates of each maturity is expected to be the amount set forth on the inside cover of this Offering Circular, but is subject to change based on actual sales.

With respect to a U.S. 2006 Certificateholder that purchases in the initial offering an OID 2006 Certificate, the amount of OID that accrues in respect of the OID 2006 Certificate during any accrual period equals (i) the adjusted issue price of the OID 2006 Certificate at the beginning of the accrual period, multiplied by (ii) the yield to maturity of the OID 2006 Certificate, less (iii) the amount of any stated interest payable on the OID 2006 Certificate allocable to the accrual period. The "accrual periods" of an OID 2006 Certificate generally correspond to the six-month intervals ending on the June 15 and December 15 interest payment dates on the OID 2006 Certificate, with a first long accrual period from the 2006 Closing Date to December 15,

2006. The "adjusted issue price" of an OID 2006 Certificate at the beginning of any accrual period equals the issue price of the OID 2006 Certificate, plus the amount of OID that has accrued on the OID 2006 Certificate on a constant-yield basis in all prior accrual periods, minus the amount of any Scheduled Payments received on the OID 2006 Certificate in prior accrual periods. The "yield to maturity" of an OID 2006 Certificate is determined on the basis of compounding at the end of each accrual period and properly adjusted for the length of the accrual period.

The amount of OID so accrued on an OID 2006 Certificate during a particular accrual period will be divided by the number of days in the accrual period to derive a "daily portion." A U.S. 2006 Certificateholder who owns an OID 2006 Certificate must include as ordinary income the daily portions of OID that accrue on the OID 2006 Certificate for each day during the taxable year on which the U.S. 2006 Certificateholder owns the OID 2006 Certificate. Such an inclusion in advance of receipt of the cash attributable to the income is required even if the U.S. 2006 Certificateholder is on the cash method of accounting for U.S. federal income tax purposes. The amount of OID includible in a U.S. 2006 Certificateholder's income will increase the U.S. 2006 Certificateholder's tax basis in the OID 2006 Certificate for purposes of determining the U.S. 2006 Certificateholder's gain or loss upon a sale, exchange or redemption of the OID 2006 Certificate.

Trustee's Fees and Expenses. In general, each U.S. 2006 Certificateholder will be entitled to deduct, consistent with its method of tax accounting, its *pro rata* share of fees and expenses, if any, paid or incurred by the 2006 Funding Trust as provided in Sections 162 or 212 of the Code. The U.S. federal income tax treatment of the Trustee's fees is unclear, and prospective U.S. 2006 Certificateholders should consult their own tax advisors regarding such treatment, including the effect of the possible treatment of the Trustee's fees as having been constructively received by the 2006 Funding Trust from the City (followed by the constructive payment of such fees by the 2006 Funding Trust).

If a U.S. 2006 Certificateholder is an individual, estate or trust, the deduction for the 2006 Certificateholder's share of the fees and expenses, if any, paid or incurred by the 2006 Funding Trust, including the Trustee's fees, will be allowed only to the extent that all of the 2006 Certificateholder's miscellaneous itemized deductions exceed 2% of the 2006 Certificateholder's adjusted gross income. In addition, in the case of U.S. 2006 Certificateholders who are individuals, certain otherwise allowable itemized deductions will be subject generally to additional limitations on itemized deductions under the applicable provisions of the Code.

Sale or Other Disposition of a 2006 Certificate. Upon the sale, exchange or redemption of a 2006 Certificate owned by a U.S. 2006 Certificateholder, the 2006 Certificateholder will recognize gain or loss in an amount generally equal to the difference between the amount realized by the 2006 Certificateholder on the sale, exchange or redemption and the 2006 Certificateholder's adjusted tax basis in its 2006 Certificate. A U.S. 2006 Certificateholder's adjusted tax basis in its 2006 Certificate will equal the price paid by the 2006 Certificateholder for the 2006 Certificate (excluding the portion of such price, if any, attributable to accrued interest on the 2006 Certificate), increased by any amounts includible in income by the 2006 Certificateholder as OID on the 2006 Certificate, and reduced by the 2006 Certificateholder's allocable share of Scheduled Payments received by the 2006 Funding Trust under the 2006 Service Contracts. In general, any such gain or loss recognized by a U.S. 2006 Certificateholder would be capital gain or loss, and will be long-term capital gain or loss if the 2006 Certificateholder held the 2006 Certificate for more than one year.

#### ***Non-U.S. 2006 Certificateholders***

A Non-U.S. 2006 Certificateholder that has no connection with the United States other than holding a 2006 Certificate will not be subject to U.S. withholding or income tax with respect to the 2006 Certificate; provided, with respect to interest (including OID), that the 2006 Funding Trust's rights to receive 2006 COP Service Payments under the 2006 Service Contracts are considered "portfolio debt investments" (as defined in Sections 871(h) and 881(c) of the Code) and that such 2006 Certificateholder provides an appropriate statement (generally on IRS Form W-8BEN), signed under penalties of perjury, identifying the Non-U.S. 2006 Certificateholder and stating, among other things, that such 2006 Certificateholder is a non-U.S. person.

Special certification rules may apply to non-U.S. partnerships or trusts (or entities that are so treated for U.S. federal tax purposes). If these conditions are not met, a 30% withholding tax will apply to interest (including OID) unless an income tax treaty reduces or eliminates such tax or unless the interest is effectively connected with the conduct of a trade or business within the United States by such 2006 Certificateholder and certain other requirements are met. In the latter case, the Non-U.S. 2006 Certificateholder will be subject to U.S. federal income tax with respect to all income attributable to the 2006 Certificate at regular rates then applicable to U.S. taxpayers (and, in the case of corporations, possibly also the branch profits tax). A Non-U.S. 2006 Certificateholder will not be considered engaged in a United States trade or business solely by reason of holding a 2006 Certificate.

#### ***Information Reporting and Backup Withholding***

Information reporting to the IRS generally will be required with respect to amounts distributed by the 2006 Funding Trust to 2006 Certificateholders other than corporations and other exempt recipients. A "backup" withholding tax at the rates described below will apply to those payments if such 2006 Certificateholder fails to provide certain identifying information (such as the 2006 Certificateholder's taxpayer identification number) to the Trustee. Non-U.S. 2006 Certificateholders generally will be required to comply with applicable certification procedures to establish that they are not U.S. 2006 Certificateholders in order to avoid the application of such information reporting requirements and backup withholding. Any amount withheld under the backup withholding rules will be allowable as a credit against the 2006 Certificateholder's U.S. federal income tax, provided that the required information is provided to the IRS. The current backup withholding rate of 28% applies to payments made through the year 2010. For payments made after the year 2010, the backup withholding rate will be increased to 31%.

#### ***State and Other Tax Considerations***

In addition to the U.S. federal income tax considerations described above, potential investors should consider the state, local and foreign tax consequences of the acquisition, ownership and disposition of the 2006 Certificates offered under this Offering Circular. Such other tax laws may differ substantially from the corresponding U.S. federal income tax law, and the discussion above does not purport to describe any aspect of the tax laws of any state, local, foreign or other jurisdiction.

Under existing Michigan law, the State's single business tax (SBT) act will be automatically repealed for tax years that begin after December 31, 2009. The SBT is a general tax on business activity conducted in Michigan. In 2005, the State Governor announced an SBT reform proposal to amend and continue the SBT beyond December 31, 2009. The State Legislature has passed alternative tax reforms, some of which the Governor has signed into law. Such recent enacted State tax reforms did not amend or change any provisions of the SBT applicable to the issuance, purchase, holding or disposition of the 2005 COPs or the 2006 Certificates.

On May 30, 2006, petitions were filed with the Michigan Secretary of State for a proposal to be placed on the ballot for the State-wide general election in November 2006, to initiate legislation to repeal the SBT on December 31, 2007 and to encourage the State Legislature to enact unspecified replacement taxes on business. The State Senate Majority Leader and the State House Speaker have established a Senate-House committee to recommend a replacement State business tax proposal by December 1, 2006, with plans for a vote on the replacement proposal in the State Legislature before the year-end. They announced plans for the State Legislature to enact the petitioners' proposed December 31, 2007 repeal of the SBT after the petitions are certified by the Secretary of State, which legislation would not be subject to the Governor's veto. It is not possible to predict whether the petitions will be certified, whether or when such or other SBT reform legislation will be enacted into law in the State, whether or when a replacement State tax on business conducted in Michigan will be enacted into law, or the provisions and effect of any such potential legislation.

Each 2006 Certificateholder is strongly urged to consult its own tax advisor with respect to all aspects of the U.S. federal, state (including State of Michigan), local and foreign tax treatment of the purchase, ownership and disposition of a 2006 Certificate.

#### *ERISA Considerations*

The Employee Retirement Income Security Act of 1974, as amended (ERISA), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA (ERISA Plans). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on, among other things, tax-qualified retirement plans described in Section 401(a) of the Code (Qualified Retirement Plans) and on Individual Retirement Accounts described in Sections 408(a) and (b) and 408A of the Code (collectively, Tax-Favored Plans).

Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA) and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Accordingly, assets of such plans may be invested in 2006 Certificates without regard to the ERISA considerations described below, subject to the provisions of applicable federal and state law. Any such plan which is a Qualified Retirement Plan and exempt from taxation under Sections 401(a) and 501(a) of the Code, however, is subject to the prohibited transaction rules set forth in the Code.

In addition to the imposition of general fiduciary requirements (including those of investment prudence and diversification, and the requirement that a plan's investment be made in accordance with the documents governing the plan), Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans, Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, Benefit Plans) and persons who have certain specified relationships to the Benefit Plans (Parties in Interest or Disqualified Persons), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding, or transfer of 2006 Certificates might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the City or the 2006 Funding Trust were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (Plan Asset Regulation), the assets of the City, the Service Corporations or the 2006 Funding Trust would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the City, the Service Corporations or the 2006 Funding Trust and none of the exceptions contained in the Plan Assets Regulation is applicable.

An equity interest is defined under the Plan Asset Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the 2006 Certificates should be treated as debt without substantial equity features for purposes of the Plan Asset Regulation. Although also not free from doubt, it also appears that, so long as the 2006 Certificates retain a rating of at least investment grade, they should continue to be treated as indebtedness without substantial equity features for the purposes of the Plan Asset Regulation.

However, without regard to whether the 2006 Certificates are treated as an equity interest for such purposes, the acquisition or holding of 2006 Certificates by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the City, the Service Corporations or the 2006 Funding Trust, or any of their affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. A prohibited transaction could also occur in the event that a Benefit Plan transfers a 2006 Certificate to a Party in Interest or a Disqualified Person. In such case, certain exemptions from the prohibited transaction rules

could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a 2006 Certificate. Included among these exemptions are: Prohibited Transaction Class Exemption (PTCE) 96-23, regarding transactions effected by "in-house asset managers;" PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general accounts;" PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional assets managers."

A transferee (including any purchaser in the initial transfer of the 2006 Certificates) of the 2006 Certificates or any interest therein, who is a trustee of or is acting on behalf of a Benefit Plan or who is using Benefit Plan assets to effect such transfer, will be deemed to represent that: (i) at the time of such transfer the 2006 Certificates are rated at least investment grade and such transferee believes that the 2006 Certificates are properly treated as indebtedness without substantial equity features for purposes of the Plan Asset Regulation, and agrees to so treat the 2006 Certificates, or (ii) such transferee's acquisition and holding of the 2006 Certificates do not result in a violation of the prohibited transaction rules of Section 406 of ERISA or Section 4975 of the Code because the transaction is covered by an applicable exemption, including PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. In addition such transferee will be deemed to represent that neither the City, either Service Corporation or any provider of credit support nor any of their affiliates is a Party in Interest with respect to such Benefit Plan.

Alternatively, a prospective transferee of the 2006 Certificates or any interest therein who is a trustee of, or who is acting on behalf of, a Benefit Plan, or who is using Benefit Plan assets to effect such transfer, may provide the City, the Service Corporations or the 2006 Funding Trust, as applicable; an opinion of counsel satisfactory to such trustee, which opinion will not be at the expense of the City, the Service Corporations or the 2006 Funding Trust, that the purchase, holding and transfer of the 2006 Certificates or interests therein is permissible under applicable law and will not constitute or result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code and will not subject the City, the Service Corporations or the 2006 Funding Trust to any obligation in addition to those undertaken in the 2006 Service Contracts or the Trust Agreement, as applicable.

Any ERISA Plan fiduciary considering whether to purchase 2006 Certificates on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code. Moreover, each Benefit Plan fiduciary should take into account, among other considerations:

- whether the fiduciary has the authority to make the investment;
- whether the investment constitutes a direct or indirect transaction with a Party in Interest or Disqualified Person;
- the diversification by type of the assets in the Benefit Plan's portfolio;
- the Benefit Plan's funding objectives;
- the tax effect of the investment; and
- whether under the general fiduciary standards of investment procedure and diversification an investment in the securities is appropriate for the Benefit Plan, taking into account the overall investment policy of the Plan and the composition of the Benefit Plan's investment portfolio.

## CONTINUING DISCLOSURE

The City will undertake, for the benefit of the beneficial owners of the 2006 Certificates, pursuant to a Continuing Disclosure Undertaking to be delivered on the 2006 Closing Date (**Disclosure Undertaking**), to provide an annual report presenting certain financial information and operating data about the City (**Annual Report**). The City will agree to send the Annual Report, by about January 26 of each year, to each nationally recognized municipal securities information repository (**NRMSIR**) and Michigan's State Information Depository (**SID**), in each case as designated from time to time by the United States Securities and Exchange Commission (the **SEC**). The City will also agree to provide notices of the occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (**MSRB**), and to any SID. A copy of the undertaking is set forth in APPENDIX H.

In order to provide continuing disclosure with respect to the 2006 Certificates in accordance with such undertaking and with Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, the City has entered into a Disclosure Dissemination Agent Agreement (**Disclosure Dissemination Agreement**) for the benefit of the beneficial owners of the 2006 Certificates with Digital Assurance Certification, L.L.C. (**DAC**), under which the City has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent that the City has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the contents of any disclosures made or notice given pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Report, any audited financial statements, notice or voluntary report, or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the beneficial owners of the 2006 Certificates or any other party. The Disclosure Dissemination Agent has no responsibility for the City's failure to report to the Disclosure Dissemination Agent any specified event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the City has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

Copies of the notices may be obtained from:

*Mail:* DAC Digital Assurance Certification  
390 N. Orange Avenue, 17th Floor  
Orlando, FL 32801

*Attn:* Jenny Emami  
Client Service Manager

*Phone:* 407-515-1100

*E-mail:* [jemami@dacbond.com](mailto:jemami@dacbond.com)

*Web site:* [www.dacbond.com](http://www.dacbond.com)

The undertaking also describes the consequences if the City fails to provide any required information. A failure by the City to comply with the undertaking must be reported by the City in accordance with Rule 15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2006 Certificates in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the 2006 Certificates and the market price therefor.

Since its fiscal year ended June 30, 1999, the City has been unable to meet its obligation to provide annual financial information within the periods specified in the applicable continuing disclosure agreements. Annual financial information for fiscal 1999 through 2004 was filed on May 10, 2000, May 28, 2001, May 31, 2002, March 10, 2003, February 9, 2004 (for water supply system bonds and sewage disposal system bonds), March 1, 2004 (for other bonds), February 16, 2005 (for water supply system bonds and sewage disposal system bonds), May 5, 2005 (for other bonds) and June 1, 2006.

Dated: June 7, 2006

**CITY OF DETROIT**

By /s/ Roger Short  
Roger Short  
Its: Interim Finance Director

**DETROIT GENERAL RETIREMENT SYSTEM  
SERVICE CORPORATION**

By /s/ Roger Short  
Roger Short  
Its: President

**DETROIT POLICE AND FIRE RETIREMENT  
SYSTEM SERVICE CORPORATION**

By /s/ Roger Short  
Roger Short  
Its: President

## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS, THE CONTRACT ADMINISTRATION AGREEMENT AND THE TRUST AGREEMENT

The summaries of certain provisions of the Service Contracts, the Contract Administration Agreement and the Trust Agreement set forth below do not purport to be complete and are qualified by reference to the complete text of such documents. All capitalized terms used in this APPENDIX A, unless otherwise defined or the context otherwise indicates, have the same meaning as in the Service Contracts, the Trust Agreement, the Contract Administration Agreement and the forepart of this Offering Circular.

#### DEFINITIONS OF CERTAIN TERMS

All capitalized terms that are defined in the Offering Circular which precedes this APPENDIX A have the same meaning in this Appendix, unless the context otherwise indicates. All other capitalized terms used in this Appendix, unless otherwise defined or the context otherwise indicates, have the same meaning as in the Service Contracts, the Trust Agreement and the Contract Administration Agreement. Certain of those terms are defined as follows, unless the context clearly otherwise requires.

**Additional Service Payments** means such periodic amounts as may be necessary to provide for the general administrative expenses of the Service Corporations as authorized or permitted by the Act of Council plus compensation, expenses and indemnification due the Trustee under the Trust Agreement and certain amounts payable by the Corporation to the Enforcement Officer and the Insurers under the Contract Administration Agreement.

**Authorized Denominations** means (a) for Series 2006-A Certificates, denominations of \$5,000 and any multiple thereof; and (b) for Series 2006-B Certificates, denominations of \$25,000 and multiples of \$1,000 in excess thereof.

**Authorized Investments** means direct obligations of, or obligations unconditionally guaranteed by, the United States of America (US Governments) and repurchase agreements whereby the counterparty agrees to repurchase US Governments so long as the obligations to be repurchased are under the exclusive "control" (as defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) of the Service Corporation. STRIPS issued by the United States Treasury are **Authorized Investments**, but private proprietary stripped US Governments, whether interest or principal strips, are not Authorized Investments.

**Beneficial Owner** means any Person who indirectly owns Certificates pursuant to Part 5 of Article 8 of the Michigan Uniform Commercial Code.

**Certificates or Certificates of Participation** mean the Certificates of Participation issued by the 2006 Funding Trust representing beneficial interests in the Service Payments other than Hedge Payables, Contract Administrator Payments and Additional Service Payments (i.e., beneficial interests in the Funding Trust Receivables only).

**Contract Administrator Payments** means amounts equal to amounts payable as fees, expenses and indemnification of the Contract Administrator in accordance with the Contract Administration Agreement, including reasonable fees and expenses of its counsel, in connection with any waiver or consent thereunder or any amendment thereof or of a Service Contract, or in connection with the enforcement thereof.

**Credit Insurance** means any insurance intended to protect owners of Certificates from loss arising from a failure of the City to timely pay Service Charges or Scheduled Payments. **Credit Insurance** also means any financial arrangement intended to protect a Hedge Counterparty from a failure of a Service Corporation to timely pay any Hedge Payable.



**Creditor Lien** means any lien or security interest granted by the Contract Administration Agreement in the amounts payable by the City under the Service Contracts in respect of Hedge Payables, including rights to proceeds and rights of enforcement, and granted by the Trust Agreement in Funding Trust Receivables.

**Enforcement Officer** means the same entity who is acting as the Contract Administrator but in its separate capacity as the Enforcement Officer under provisions of the Contract Administration Agreement which apply only if and when all Insurers are in default under their respective Credit Insurance.

**Fixed Rate Funding Portion** means all the portion, if any, of the Stated Funding Amount to be funded in a particular Funding equal to the total of the Scheduled Payments set forth for Fixed Rate Service Charges.

**Fixed Rate Service Charge Class** means all Scheduled Payments that have related Service Charges determined by a fixed rate methodology.

**Funding** means the Service Corporation's funding the Stated Funding Amount by the provision of money through the issuance of Certificates.

**Funding Costs** has the meaning given within the definition of "Service Charges" below.

**Funding Rate Portion** means the Fixed Rate Funding Portion or the Variable Rate Funding Portion as the context may require.

**Funding Trust Receivables** means any Principal Related Receivables or Interest Related Receivables. (This corresponds to the right to receive 2006 COP Service Payments payable by the City under each Service Contract.)

**Hedge Amount** means, in connection with any Optional Prepayment of Scheduled Payments, the amount, if any, of any Hedge Termination Payable that will be owed by the Service Corporation pursuant to any Stated Hedge relating to the Scheduled Payments being prepaid as a result of any required reduction in the notional amount of such Stated Hedge due to such prepayment and the Hedge Periodic Payable, if any, accrued to the date of termination.

**Hedge Counterparty** means the particular counterparty as to any Stated Hedge.

**Hedge Payable** means, after giving effect to any netting under the particular Stated Hedge, any Hedge Periodic Payable or any Hedge Termination Payable as the context may require.

**Hedge Periodic Payable** means, after giving effect to any netting under the particular Stated Hedge, a periodic amount owing by a Service Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Periodic Receivables** means, after giving effect to any netting under the particular Stated Hedge, periodic payments owing by the Hedge Counterparty under a Stated Hedge.

**Hedge Receivable** means any Hedge Periodic Receivable or Hedge Termination Receivable as the context may require.

**Hedge Termination Payable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by a Service Corporation under a Stated Hedge to the respective Hedge Counterparty.

**Hedge Termination Receivable** means, after giving effect to any netting under the particular Stated Hedge, any termination payment owing by the Hedge Counterparty under a Stated Hedge.

**Insurer** means the Person obligated under Credit Insurance to make payments with respect to Certificates or a Stated Hedge.

**Interest Related Receivable** means an amount owing by the City as a Service Charge, including any Accrued Service Charges. (This corresponds to interest on the Certificates.)

**Non-Tender Amount** means an amount sufficient to pay to all entitled beneficial owners of the Series 2005-A COPs being optionally prepaid by the Service Corporation: (i) all of the Scheduled Payments and any applicable premiums that the City is obligated to pay under the 2005 Service Contract with respect to the optional prepayment of such Series 2005-A COPs, and (ii) accrued Service Charges to the prepayment date.

**Participant** means any Person whose ownership of Certificates and other securities is shown on books of the Securities Depository.

**Payment Time** means 12:00 noon, Detroit, Michigan time.

**Principal Related Receivable** means an amount owing by the City as a Scheduled Payment (whether a Regular Scheduled Payment or a Sinking Fund Installment) or an Optional Prepayment Amount exclusive on any prepayment premium. (These correspond to principal of the Certificates.)

**Scheduled Payments** means the payments specified and so defined in each Service Contract Specific Terms. (These correspond to principal of the Certificates.)

**Service Charge Class** means all Scheduled Payments that have the same methodology for determining related Service Charges.

**Service Charges** means the amounts payable under the Service Contract by the City to the Service Corporation on Service Charge Payment Dates sufficient to pay the periodic costs of capital (**Funding Costs**) incurred by the 2006 Funding Trust for the particular Funding. (This corresponds to interest on the Certificates.) **Service Charges** do not include Hedge Payables.

**Service Contract Deficiency** means any unsatisfied amount under the following clauses set forth under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - *Preservation of Parity among Service Contracts*" below in this Appendix: **First, Second, Fourth and Sixth.**

**Service Contract Priority Sections** means those particular numbered clauses set forth under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - *Preservation of Parity among Service Contracts*" below in this Appendix.

**Service Payments** has the meaning given under "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - *Service Payments*" below.

**Stated Funding Amount** means the total amount to be funded by the Service Corporation in the Initial Funding or in an Additional Funding, as applicable.

**Stated Hedge** means a variable to fixed interest rate swap agreement permitted by the Act of Council and specified in a Service Contract, entered into between a Service Corporation and a Hedge Counterparty.

**Tender Amount** means an amount sufficient to pay to all entitled beneficial owners of the tendered Series 2005-B COPs being purchased by the Service Corporation: (i) all of the Scheduled Payments and accrued Service Charges that the City is obligated to pay under the 2005 Service Contract with respect to such tendered Series 2005-B COPs, and (ii) any applicable premiums.

**Trust Estate** means the Funding Trust Receivables arising under the GRS Service Contract, the Funding Trust Receivables arising under the PFRS Service Contract, and all proceeds of the foregoing.

**2005 Trustee** means the trustee under the Trust Agreement dated June 2, 2005, under which the Series 2005-A COPs were issued.

**Variable Rate Funding Portion** means all the portion, if any, of the Stated Funding Amount to be funded in a particular Funding equal to the total of the Scheduled Payments set forth for Variable Rate Service Charges.

**Variable Rate Service Charge Class** means all Scheduled Payments that have related Service Charges determined by a variable rate methodology.

### **SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS**

There are two separate and distinct Service Contracts. One is called the General Retirement System Service Contract 2006, between Detroit General Retirement System Service Corporation (the **GRS Service Corporation**) and the City. The other is called the Police and Fire Retirement System Service Contract 2006, between Detroit Police and Fire Retirement System Service Corporation (the **PFRS Service Corporation**) and the City. Each Service Contract is comprised of its own two documents, called the General Terms (dated as of June 1, 2006) and the Specific Terms (dated June \_\_, 2006), which operate together as if they were combined in a single document.

Although separate and distinct, the two Service Contracts are similar in form and substance, and the summary below fits each Service Contract. The ways in which the two Service Contracts differ from each other (e.g., they have different Service Corporations as a party and different Funding Amounts) are not affected by the generality of the summary below. This summary should be read in the context of describing either one of the two Service Contracts, and not in the context of describing both of them collectively. Thus, for example, the term "the Service Corporation" when used in the summary below means the GRS Service Corporation if the summary is read in the context of describing its Service Contract, or otherwise means the PFRS Service Corporation if the summary is read in the context of describing its Service Contract.

The two Service Contracts mentioned and summarized in this Appendix A are called the "2006 Service Contracts" in the forepart of this Offering Circular. They should be distinguished from two different service contracts which are called the "2005 Service Contracts" in the forepart of this Offering Circular. All references to a "Service Contract" or "Service Contracts" in this Appendix A are always to such 2006 Service Contracts and never to such 2005 Service Contracts.

#### **Service and Funding Arrangements**

##### **Provision of Services**

The services of the Service Corporation consist of further relieving the financial burden of the 2005 Subject UAAL to the City in the current and in future years by assisting the City in realizing financial benefits that would have been available on the effective date of the 2005 Service Contracts if the City could have then utilized a 30-year period for payment of its scheduled 2005 COP Service Payments rather than a 13-year period under the 2005 PFRS Service Contract and a 20-year period under the 2005 GRS Service Contract, corresponding to the amortization periods then in effect for amortization of PFRS UAAL and GRS UAAL respectively. Given that each such amortization period has since been extended to 30 years, the Service Corporation agrees in the Service Contract to provide its services through taking the following actions: (a) the Service Corporation shall fund the Stated Funding Amount on the Closing Date (the **Initial Funding**), (b) the Service Corporation shall fund any Hedge Termination Payable in whole or in part as requested of the City and approved by the City Council, and (c) the Service Corporation shall fund payment of some or all Service Payments as requested by the City and approved by City Council (funding pursuant to this clause (c) or the preceding clause (b), an **Additional Funding**). An Additional Funding shall be accomplished under one or more other service contracts, not under the Service Contract. An Additional Funding may include such things in the nature of Costs of Issuance, Prepaid Service Charges and Underwriters' Discount as authorized or permitted by the approval of the City Council of the Additional Funding.

"**Funding**" as used above means the provision of money through the issuance of Certificates and does not mean or imply any further authorization of the City to make any Contract Payment other than Contract Payments in connection with any Additional Funding.

Payment Obligation

The City agrees to make Contract Payments to the Service Corporation in return for the present and future services of the Service Corporation as and when Contract Payments become due and payable. The obligations of the City under the Service Contract, including its obligation to make Contract Payments, are contractual obligations of the City, enforceable in the same manner as any other contractual obligation of the City, and are not general obligations of the City to which the City has pledged its full faith and credit.

Funding Obligation

The obligation of the Service Corporation to provide the Initial Funding or any Additional Funding is subject to the receipt by the Service Corporation of proceeds sufficient for the Funding from the sale of Certificates. The Service Corporation shall use its best efforts to cause the consummation of the offering and sale by the Underwriters of Certificates to provide sufficient proceeds for the particular Funding. For the Initial Funding, the Service Corporation shall cause a portion of the proceeds of the sale of Certificates in an amount equal to the Tender Amount to be irrevocably deposited on the Closing Date in the Tender Account, an escrow account held by the Contract Administrator and invested in US Governments, and cause a portion of the proceeds of the sale of Certificates in an amount equal to the Non-Tender Amount to be irrevocably deposited on the Closing Date in the Non-Tender Escrow Account, an escrow account held by the Contract Administrator and invested in US Governments, and shall apply the balance of such proceeds to pay costs of issuance of the Certificates and other Ancillary Amounts.

**Scheduled Payments**

Scheduled Payments

The City agrees to pay the Scheduled Payments of each Funding Rate Portion to the Service Corporation on the respective Scheduled Payment Dates for such Funding Rate Portion. (Scheduled Payments do not include Hedge Payables.)

Mandatory Prepayment by Sinking Fund Installments

The City agrees to prepay Scheduled Payments of each Funding Rate Portion in specified amounts (**Sinking Fund Installments**) and on specified dates (**Sinking Fund Installment Dates**).

Optional Prepayment of Scheduled Payments

The City shall not voluntarily prepay any Scheduled Payments of a Funding Rate Portion (an **Optional Prepayment**) in whole or in part except as expressly permitted in the Service Contract. The City shall exercise its option to make any Optional Prepayment by delivering a prior written **Prepayment Notice** at least 45 days (or fewer days as acceptable to the Service Corporation) before the Optional Prepayment Date on which the City shall pay the Total Prepayment Amount to the Service Corporation in connection with such Optional Prepayment, stating: (a) the Scheduled Payments of the particular Funding Rate Portion to be prepaid in whole or in part by such Optional Prepayment and the date on which such Scheduled Payments are to be prepaid (**Optional Prepayment Date**), subject to the following:

(1) a Scheduled Payment may be selected by the City only if it is permitted by the Service Contract to be prepaid on the particular Optional Prepayment Date and

(2) a Scheduled Payment may be selected by the City for partial prepayment only in an amount of at least \$100,000 unless otherwise provided in the Service Contract;

(b) the amount of prepayment premium, if any, required by the Service Contract in connection with the prepayment of any selected Scheduled Payments (such prepayment premium, if any, together with the amount of Scheduled Payments selected to be prepaid, the **Optional Prepayment Amount**); (c) if an Optional

Prepayment Date is not a Service Charge Payment Date, the amount of Service Charges accrued on the amount of the Scheduled Payment to be prepaid from the last Service Charge Payment Date before the Optional Prepayment Date to the Optional Prepayment Date (**Accrued Service Charges**); (d) the Hedge Amount, if any, and (e) such information in tabular or other form so as to readily permit the Service Corporation to identify (i) the Scheduled Payments of the particular Funding Rate Portion selected for prepayment, (ii) the provisions of the Service Contract authorizing or permitting such prepayment, (iii) the prepayment premium, if any, required to be paid in connection with the prepayment of each such Scheduled Payment, (iv) Accrued Service Charges, if any due in connection with such prepayment, and (v) the Hedge Amount, if any, due in connection with such prepayment.

If a Hedge Amount would be due in connection with an Optional Prepayment, it is a condition precedent to the City giving an Optional Prepayment Notice that the City provide reasonable evidence satisfactory to the Service Corporation that such Hedge Amount will be paid when due and such prepayment will not cause the Service Corporation to be in default under any agreement to which it is a party in connection with the particular Funding.

The delivery by the City of a Prepayment Notice to the Service Corporation is a statement of the City's intention to pay the Total Principal Amount to the Corporation on the day before the Optional Prepayment Date stated therein (**Prepayment Receipt Day**). The City is prohibited from paying the Total Prepayment Amount to the Service Corporation on any day prior to the Prepayment Receipt Day. Its delivery of a Prepayment Notice does not obligate the City to pay the Total Prepayment Amount, and no default shall occur by its not paying the Total Prepayment Amount or by the Optional Prepayment not otherwise being effected on the Prepayment Receipt Date.

Satisfaction of Scheduled Payments by Delivery of Certificates

The City may deliver or cause to be delivered Certificates to the Service Corporation in satisfaction (whether in whole or in part) of Scheduled Payments at any time and in any denomination upon 45 day's prior notice to the Service Corporation (or fewer days as acceptable to the Service Corporation) (**Delivery Notice**) subject to the following limitations. A Scheduled Payment may be satisfied by delivery of Certificates entitled to payment from such Scheduled Payment (**Eligible Certificates**). The amount of a Scheduled Payment deemed paid shall be equal to the denominations of the particular Eligible Certificates.

No Certificate shall be delivered in payment in whole or in part of the respective Scheduled Payment (whether as payment of a Sinking Fund Installment or as other prepayment) more than 45 days before the respective due date if at the time of such delivery the City has not paid all Service Payments then and theretofore due. No Scheduled Payment shall be satisfied by the delivery of Certificates until such Certificates have been delivered to the Trustee.

If Sinking Fund Installments are to be satisfied (whether in whole or in part) by the delivery of Eligible Certificates, the City shall indicate in the respective Delivery Notice the particular Sinking Fund Installments and amounts thereof to be so satisfied. All Certificates so received by the Service Corporation in payment of Scheduled Payments shall be immediately delivered to the Trustee for cancellation.

**Service Charges**

Agreement to Pay Service Charges; Funding Costs

The City agrees to pay Service Charges to the Service Corporation on Service Charge Payment Dates sufficient to pay the Funding Costs incurred by the 2006 Funding Trust for the particular Funding. (Service Charges do not include Hedge Payables.) Funding Costs shall be determined by the particular Funding Rate Methodology (fixed or variable). Funding Costs for a Variable Rate Funding Portion shall be periodically

determined in accordance with the Variable Rate Funding Methodology, and the corresponding periodic Service Charges shall be **Variable Rate Service Charges**.

Prepaid Service Charges: Hedge Receivables

Prepaid Service Charges shall be used to meet the City's obligation to pay the first occurring Service Charges and Hedge Periodic Payables of the Service Corporation except as otherwise may be provided in the Service Contract Specific Terms. Hedge Receivables received by the Service Corporation shall be used to satisfy the City's obligation in respect of then existing Deficiencies or then current Service Charges not otherwise paid.

**Fixed Rate Funding Methodology**

The provisions summarized under this heading constitute the **Fixed Rate Funding Methodology**. The particular Service Contract Specific Terms shall state the dates (**Fixed Rate Service Charge Payment Dates**) on which the Fixed Rate Service Charges are payable. The Fixed Service Charge Rates applicable to the Fixed Rate Funding Portion shall be set forth for the respective Scheduled Payments comprising the Fixed Rate Funding Portion (**Fixed Rate Scheduled Payments**). Fixed Service Charge Rates may be different for different Scheduled Payment Dates in the Fixed Rate Funding Portion.

Fixed Rate Service Charges shall be computed as if the Fixed Rate Scheduled Payments bore interest at the respective rates at which Fixed Rate Service Charges are determined and computed on the basis of a 360-day year consisting of twelve 30-day months. On each Fixed Rate Service Charge Payment Date, the City shall pay a Fixed Rate Service Charge equal to the Fixed Rate Service Charge accrued on the respective unpaid Fixed Rate Scheduled Payments from the later of the Closing Date or the last Fixed Rate Service Charge Payment Date on which Fixed Rate Service Charges were paid in full by the City.

**Variable Rate Funding Methodology**

The provisions summarized under this heading constitute the **Variable Rate Funding Methodology**. The periodic Variable Rate Service Charge for each Scheduled Payment specified for a particular type of Service Charge Class in the Variable Rate Funding Portion (**Variable Rate Scheduled Payments**) shall be determined in accordance with the particular Variable Rate Funding Type. Each Service Contract Specific Terms shall provide for a procedure by which the Variable Rate Service Charges are determined for the particular Variable Rate Funding Type and shall further provide:

- **Variable Rate Service Charge Payment Dates:** the dates on which the Variable Rate Service Charges are payable for such Type;
- **Service Charge Determination Dates:** the dates on which the Variable Rate Service Charges of such Type are determined;
- **Service Charge Adjustment Dates:** the dates on which the Variable Rate Service Charges of such Type are adjusted; and
- **Day Count Convention:** the number of days in a month and in a year used to determine the amount of the Variable Rate Funding Service Charges of such Type.

Variable Rate Service Charges for each Variable Rate Funding Type in the Variable Rate Funding Portion shall be computed as if the Variable Rate Scheduled Payments of the particular Variable Rate Type bore interest at a rate (i) determined as of each Service Charge Determination Date for such Type and effective as of the respective Service Charge Adjustment Date for such Type and (ii) computed using the applicable Day Count Convention for such Type. On each Variable Rate Service Charge Payment Date for a particular Type the City shall pay a Variable Rate Service Charge equal to the applicable Variable Rate Funding Costs accrued

on the unpaid Variable Rate Funding Scheduled Payments of that Type from the later of the Closing Date or the last applicable Variable Rate Funding Service Charge Payment Date on which the Variable Rate Funding Service Charges of that Type were paid in full by the City.

#### **General Provisions Governing Service Payments**

##### City's Payment Times

The City shall make all Service Payments other than Contract Administrator Payments by the Payment Time on the day before the date when due. The City shall make all Contract Administrator Payments on the date when due. The City shall pay the amount of any Hedge Payable to the Service Corporation promptly upon receipt of notice thereof from the Service Corporation; provided, that the City is not required to pay such amount before the Payment Time on the day before the due date of the particular Hedge Payable.

##### Subrogation

No payment of any amount to a Certificateholder or a Hedge Counterparty made from an amount paid by an Insurer under its Credit Insurance (a **Credit Insurance Payment**) shall discharge the City's obligation to pay any Service Payment in respect of which such Credit Insurance Payment was paid (a **Related Service Payment**). An Insurer making a Credit Insurance Payment shall be subrogated to the rights of Certificateholders or a Hedge Counterparty, as the case may be, to receive the Related Service Payment and shall be entitled to exercise all rights that the Person to which it is the subrogee would have otherwise been entitled to exercise.

##### Investment

The Service Corporation shall not invest any amounts received by it under the Service Contract except as summarized under this heading. **Invest** means the transfer, disposition or other use of such amounts in expectation of gain. **Investable Funds** (being amounts representing Costs of Issuance and Prepaid Service Charges) shall be invested by the Service Corporation in Authorized Investments that mature in the amounts and at the times the related Investable Funds are needed to make the payments for which such funds were received by the Service Corporation. Investments shall be made by Funding Rate Portion but may be commingled for investment purposes so long as records are kept showing each particular Funding Rate Portion and the gain and loss attributable to it. No Investment shall be sold prior to its maturity.

All Investments shall be made directly by the Service Corporation having exclusive "control" over the related "securities entitlement" (as such terms are defined in Article 8 of the applicable Uniform Commercial Code or correlative Treasury Regulations) except that Investments may also be made through one or more investment companies registered under the Investment Companies Act of 1940, as amended, if (i) such investment company has a rating by Standard & Poor's Corporation or any national statistical ratings organization (as defined by the Securities and Exchange Act of 1934, as amended, or any successor to it) at least equal to the rating of the Authorized Investment and (ii) such registered investment company invests only in debt instruments.

Gain and loss from Investments shall be attributed to the type of Investable Funds giving rise to it. Gain shall be paid to the City when realized to the extent it is not needed to satisfy any then existing Service Contract Deficiency or satisfy any then current Service Payment. The City is responsible for all such loss and shall reimburse the Service Corporation for such loss upon its demand.

##### Binding Obligation

The Service Contract is a continuing obligation of the City and shall until the date on which all amounts due and owing thereunder are paid in full (a) be binding upon the City and its successors and (b) inure

to the benefit of and be enforceable by the Service Corporation, its successors and permitted assigns, and by Third Party Beneficiaries.

### Satisfaction of Service Payments

#### Service Payments

Service Payments consist of the following components (each a separate Component or Service Payment Component):

- Contract Administrator Payments
- Service Charges (regardless of the Funding Rate Methodology)
- Regular Scheduled Payments
- Sinking Fund Installments
- amounts in respect of Hedge Periodic Payables
- amounts in respect of Hedge Termination Payables
- Optional Prepayments
- Accrued Service Charges

#### Preservation of Parity among Service Contracts

As used in the summary under this heading:

- **all Service Contracts** means the Service Contract and the Other Service Contract (referring always to the "2006 Service Contracts" and never to the "2005 Service Contracts," as those terms are defined in the forepart of this Offering Circular);
- **each Service Contract** means the Service Contract or the Other Service Contract as the context may require;
- **each Service Corporation** means the Service Corporation or the Other Service Corporation as the context may require;
- **the Other Service Contract** means the service contract between the City and the Other Service Corporation, certain payments under which Other Service Contract are part of the Trust Estate;
- **the Other Service Corporation** means the service corporation party to the Other Service Contract (*i.e.*, if "the Service Corporation" is the GRS Service Corporation, then "the Other Service Corporation" is the PFRS Service Corporation, and *vice versa*); and
- **an amount is about to become due** on the Business Day before its due date.

All Service Payments payable under a Service Contract shall be made and each Service Corporation shall be entitled to receive such payments on a *pro rata* basis with the Service Payments under the Other Service Contract so that each Service Contract Component having a specified priority (described below) is made on a *pro rata* basis with the Service Payment Components having the same defined term under the Other Service Contract, and no Service Payment Component shall be satisfied until all Service Payment Components under all Service Contracts having the same defined term but having a greater priority under each Service Contract are first satisfied in full.

Service Payments under all Service Contracts shall be satisfied in the following order and priority (the **Service Contract Priority Sections**):

**First:** Contract Administrator Payments; then



**Second:** all theretofore due and unpaid Service Charges (regardless of the Funding Rate Methodology) and amounts in respect of Hedge Periodic Payables; then

**Third:** all then due and about to become due Service Charges and amounts in respect of Hedge Periodic Payables; then

**Fourth:** all theretofore due and unpaid Regular Scheduled Payments and Sinking Fund Installments; then

**Fifth:** all then due or about to become due Regular Scheduled Payments and Sinking Fund Installments; then

**Sixth:** all theretofore due and unpaid amounts in respect of Hedge Termination Payables; then

**Seventh:** all then due and about to become due amounts in respect of Hedge Termination Payables; then

**Eighth:** all then due and about to become due Optional Prepayment Amounts and Accrued Service Charges.

#### **Acceleration on Bankruptcy**

If the City shall (i) commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, (ii) consent to the institution of any such proceeding or the filing of any such petition or (iii) make a general assignment for the benefit of creditors, then all payments due under the Service Contract shall become immediately due and payable without presentment, demand, protest or notice of any kind.

#### **Termination or Assignment of Stated Hedges**

At the request of the City and with the prior written consent of the Insurer that has Credit Insurance in respect of the particular Stated Hedge, the Service Corporation shall terminate any Stated Hedge or assign its interest in any Stated Hedge to a Person that agrees to perform and observe all of the duties and obligations of the Hedge Counterparty to such Stated Hedge. Any such substitute Hedge Counterparty shall have at least the rating required by Act 34 of the Michigan Public Acts of 2001, as amended, as if the City were a party to the particular Stated Hedge. No such termination or substitution of a Hedge Counterparty shall take effect unless each Rating Agency that at the time has a rating of the Certificates in effect confirms its rating of the particular Certificates.

#### **Required Ratings of Hedge Counterparties**

The Service Corporation shall only enter into Hedges with Persons who have, on the date the Hedge is entered into, or whose Hedge obligations are guaranteed by a Person who has on that date, a rating of its long-term, senior secured debt at least "A-" by Standard & Poor's Corporation and at least "A3" by Moody's Investors Service.

#### **Amendment of the Service Contract**

The Service Contract may be amended only by written instrument signed by the parties thereto except that no amendment shall be valid: (a) if such amendment diminishes the rights and remedies of any Third Party Beneficiary without the prior written consent of such Third Party Beneficiary; (b) unless the Trustee of the 2006 Funding Trust that is a transferee of or successor to any rights or entitlements under the Service Contract and that received an opinion of counsel in connection with the organization of the 2006 Funding Trust to the effect that the 2006 Funding Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended, shall have received an opinion reasonably

acceptable in form and substance to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such amendment shall not result in the 2006 Funding Trust being treated as other than such a grantor trust; (c) unless the Trustee has received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such amendment shall not result in the Funding Trust Receivables failing to constitute payments in respect of indebtedness for U.S. federal income tax purposes; and (d) unless every Insurer who is not in default under its Credit Insurance at the time has consented to the amendment.

#### **Expenses Payable by the City and the Service Corporation**

The City shall pay such periodic amounts as may be necessary to provide for the general administrative expenses of the Service Corporation as authorized or permitted by the Act of Council, as and when they become due. The Service Corporation shall pay compensation due the Trustee in accordance with the Trust Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent thereunder or any amendment thereof, or in connection with the enforcement thereof. The Service Corporation also shall pay compensation, expenses and indemnification due the Contract Administrator and due the Enforcement Officer, if any, in accordance with the Contract Administration Agreement, including reasonable fees and expenses of counsel, in connection with any waiver or consent under the Service Contract or any amendment of the Contract Administration Agreement or of the Service Contract, or in connection with the enforcement of the Service Contract.

#### **Permitted Assignment.**

The Service Contract shall be binding upon the parties thereto and their respective successors and permitted assigns. No assignment by either party of its interests therein shall be valid except as follows: The Service Corporation may transfer the Scheduled Payments and Service Charges to the 2006 Funding Trust in accordance with the Service Contract. No assignment of the Service Contract or any amounts receivable thereunder shall include the right to receive Additional Service Payments, Contract Administrator Payments or Hedge Payables, except that the Service Corporation may assign or grant a security interest in amounts received by it as payment of amounts in respect of Hedge Payables to the Hedge Counterparties.

#### **Third Party Beneficiaries**

The Persons, including the Trustee and the Contract Administrator, originally entitled to Additional Service Payments or Contract Administrator Payments and their respective successors are third party beneficiaries of the Service Contract as to the City's promises to pay Additional Service Payments or Contract Administrator Payments to them. Hedge Counterparties, and their respective successors and subrogees, are third party beneficiaries of the Service Contract as to the City's promises to pay amounts in respect of Hedge Payables to the Service Corporation. Insurers are third party beneficiaries of the Service Contract. The 2006 Funding Trust is a third party beneficiary of the Corporation's promises in respect of Service Charges and Scheduled Payments. Third Party Beneficiaries have the right to enforce the respective promises made in the Service Contract as if such promises were made directly to them.

**SUMMARY OF CERTAIN PROVISIONS OF  
THE CONTRACT ADMINISTRATION AGREEMENT**

**Application of Tender Account**

The Contract Administrator shall pay the moneys held in the Tender Account to the Service Corporation's tender agent for the purchase of the tendered Series 2005-B COPs being purchased by the Service Corporation, in such amounts and at such times as necessary for the tender agent to pay the purchase price for such purchased Series 2005-B COPs to the sellers entitled thereto, and all such purchased Series 2005-B COPs shall be delivered to the 2005 Trustee for cancellation.

**Notice of Redemption of Certain Series 2005-A COPs; Application of Non-Tender Escrow Account**

On the Closing Date, on behalf of the Service Corporation, the Contract Administrator shall direct the 2005 Trustee to give notice to the registered holders of the Series 2005-A COPs to be optionally redeemed from proceeds of the Certificates of the call for redemption of such Series 2005-A COPs. The Contract Administrator shall pay the moneys held in the Non-Tender Escrow Account to the contract administrator for the Series 2005-A COPs in such amounts and at such times as necessary for such contract administrator to effectuate the optional redemption of such Series 2005-A COPs in accordance with their terms.

**Collection of Receivables**

Each of the Service Corporations, the Specified Hedge Counterparties and the 2006 Funding Trust appoints the Contract Administrator as its respective agent and attorney-in-fact to receive Service Payments.

**Appointment by 2006 Funding Trust**

The 2006 Funding Trust appoints the Contract Administrator as its agent and attorney-in-fact to take such actions and exercise such rights and remedies as to Funding Trust Receivables as the 2006 Funding Trust is or may become entitled to exercise under law and in equity to enforce the payment thereof and otherwise realize Funding Trust Receivables.

**Appointment by Each Service Corporation**

Each Service Corporation appoints the Contract Administrator as its agent and attorney-in-fact to enforce such Service Corporation's rights and remedies under the Stated Hedges, including the collection of Hedge Receivables from the Specified Hedge Counterparties under the respective Stated Hedges, and to take all such actions and exercise such rights and remedies as the respective Service Corporation is or may become entitled to exercise under the particular Stated Hedge and otherwise at law or in equity. Each Service Corporation further appoints the Contract Administrator to invest amounts received by the Contract Administrator as Costs of Issuance and Prepaid Service Charges in Authorized Investments in accordance with the Service Contract.

**Distributions of Service Payments**

On each Distribution Date, the Contract Administrator shall distribute the amount of the Service Payment Components satisfied since the last such Distribution Date to the respective Entitled Persons. If the Entitled Person is the 2006 Funding Trust, the amounts of satisfied Components shall be distributed to the 2006 Funding Trust to be applied in accordance with the Trust Agreement.

As used in this Appendix:

- references to "clause Second," "clause Third," "clause Fourth," "clause Fifth" or "clause Eighth" mean those particular clauses set forth in the Service Contract Priority Sections (see "SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE CONTRACTS - Satisfaction of Service Payments - *Preservation of Parity among Service Contracts*" above in this Appendix);

- amounts distributed to the Trustee representing satisfied Components constituting Service Charges and Accrued Service Charges described in clause **Second** shall be identified to the Trustee as *Deficit Interest Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments described in clause **Fourth** shall be identified to the Trustee as *Deficit Principal Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Sinking Fund Installments described in clause **Fourth** shall be identified to the Trustee as *Deficit Principal Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Service Charges described in clause **Third** shall be identified to the Trustee as *Interest Related Payments*;
- amounts distributed to the Trustee representing satisfied Components constituting Regular Scheduled Payments and Sinking Fund Installments described in clause **Fifth** shall be identified to the Trustee as, respectively, *Principal Related Payments* and *Sinking Fund Related Payments*; and
- amounts distributed to the Trustee representing satisfied Components constituting Optional Prepayment Amounts and Accrued Service Charges described in clause **Eighth** shall be identified to the Trustee as *Redemption Related Payments*.

If the Entitled Persons are the Specified Hedge Counterparties, the amounts of satisfied Components constituting amounts in respect of Hedge Payables shall be paid to the Specified Hedge Counterparties to whom such amounts are owing in proportion to the amounts owed to each under the respective Stated Hedges. If distributions are to be made on the same Distribution Date for two or more different priorities of Components (pursuant to clauses **First** through **Eighth**), no distribution shall be made in respect of a lower priority to the extent that each of the higher priorities is not satisfied in full.

#### **Service Corporation Covenants**

Each Service Corporation covenants with the Contract Administrator, the 2006 Funding Trust, the Specified Hedge Counterparties and the Other Corporation as follows:

- The Service Corporation shall not convey, transfer or assign Funding Trust Receivables under its Service Contract or any interest therein to any Person other than the 2006 Funding Trust as provided in the Trust Agreement;
- the Service Corporation shall not convey, transfer or assign Hedge Payables under its Service Contract or any interest therein to any Person other than the Specified Hedge Counterparties as provided in the Contract Administration Agreement; and
- the Service Corporation shall not convey, transfer or assign any Stated Hedge or any interest therein to any Person other than as provided in the Service Contract.

#### **Events of Default; Remedies**

It will be an "Event of Default" under the Contract Administration Agreement if the City: (a) fails to pay any 2006 Funding Trust Receivable as and when the same shall become due, (b) commences any proceeding or files any petition seeking relief under Title 11 of the United States Code, (c) consents to the institution of any such proceeding or the filing of any such petition or (d) makes a general assignment for the benefit of creditors.

Upon the occurrence and during the continuance of an Event of Default, the Contract Administrator may and shall, at the request of the Certificateholders representing either (i) 25% in principal amount of

Outstanding Certificates, the payments on which have not been made as a result of such Event of Default (Affected Certificates), or (ii) at least 50% in principal amount of all Outstanding Certificates, enforce the Service Contract under which the Event of Default occurred by such remedies as are available to the Contract Administrator. Any money collected or received by the Contract Administrator from pursuing such remedies shall be applied in the order of the Service Contract Priority Sections, subject to any Creditor Lien.

#### **No Duty of Inquiry**

The Contract Administrator has no duty to inquire into the performance by a Service Corporation of its obligations under its Service Contract, but if the Contract Administrator receives notice (a Default Notice) from Holders of either (i) at least 25% in principal amount of the Outstanding Affected Certificates or (ii) at least 50% in principal amount of all Outstanding Certificates, specifying the failure of the City to pay Funding Trust Receivables, then the Contract Administrator shall give notice of such failure to the City and demand that such failure be remedied. Upon receipt of any Default Notice, the Contract Administrator shall give notice to all Certificateholders and the Specified Hedge Counterparties that did not join in such Default Notice.

#### **Notice of Defaults**

Promptly upon obtaining actual knowledge of the occurrence of any Event of Default, the Contract Administrator shall give written notice of such Event of Default by mail to all Certificateholders, Specified Hedge Counterparties and Rating Agencies unless such Event of Default has been cured or waived.

Any Insurer who is not then in default under its Credit Insurance shall be entitled to receive all notices in respect of Certificates insured by it, and no notices under the prior paragraph shall be sent to the Holders of such Certificates.

#### **Limitation on Suits by Certificateholders**

No Certificateholder shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Service Contract unless:

- (a) such Holder has previously given written notice to the Contract Administrator of an Event of Default that is then continuing;
- (b) the Holders of either (i) at least 25% in principal amount of the Outstanding Affected Certificates or (ii) at least 50% in principal amount of all Outstanding Certificates have made written request to the Contract Administrator to institute proceedings in respect of such Event of Default in its own name as Contract Administrator;
- (c) such Holder or Holders have offered to the Contract Administrator satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Contract Administrator for 30 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (e) in the case of a written request from the Holders of at least 25% in principal amount of the Outstanding Affected Certificates, no direction inconsistent with such written request has been given to the Contract Administrator during such 30-day period by the Holders of a greater percentage in principal amount of the Outstanding Affected Certificates;

it being understood and intended that no one or more Holders of Certificates shall have any right in any manner to affect, disturb or prejudice the interest of the parties to the Contract Administration Agreement or the rights of any other Certificateholders, or to obtain or to seek to obtain priority or preference over any other Certificateholders or to enforce any right under any Service Contract, except in the manner therein provided, and for the equal and ratable benefit of all Entitled Persons.

### **Control by Majority**

The Holders of a majority in principal amount of the Outstanding Certificates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator to exercise any power exercisable by the Contract Administrator, provided that such direction is not in conflict with any rule of law or the Contract Administration Agreement.

Any Insurer not then in default under its Credit Insurance shall be treated as the Holder of Outstanding Certificates equal to the principal amount of Certificates insured by it for the purposes of actions thus permitted to be taken by Certificateholders and for the purpose of giving all other consents, directions and waivers that Certificateholders may give.

### **Actions by Beneficial Owners**

For the purpose of providing any consent, waiver or instruction to the Contract Administrator, the terms **Holder** and **Certificateholder** include a Person who provides the Contract Administrator an affidavit of beneficial ownership of a Certificate together with satisfactory indemnity against any loss, liability or expense to the Contract Administrator to the extent that it acts on the affidavit of beneficial ownership (including any consent, waiver or instruction given by a Person providing such affidavit and indemnity). The principal amount of Outstanding Certificates owned by a Beneficial Owner satisfying the preceding sentence shall be deemed held by such Beneficial Owner and not held by Certificateholders for the purposes of providing any consent, waiver or instruction to the Contract Administrator.

### **Concerning the Contract Administrator**

The Contract Administrator undertakes to perform such duties and only such duties as are specifically set forth in the Contract Administration Agreement, and no implied covenants or obligations shall be read into that Agreement against the Contract Administrator. In the absence of bad faith on its part, the Contract Administrator may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Contract Administrator and conforming to the requirements of the Contract Administration Agreement or the Service Contract; but in the case of any such certificates, documents, other instruments or opinions which by any provision thereof are specifically required to be furnished to the Contract Administrator, the Contract Administrator is under a duty to examine the same to determine whether or not they conform to the requirements of the Contract Administration Agreement.

If an Event of Default occurs and is continuing, the Contract Administrator shall exercise such of the rights and powers in respect of Funding Trust Receivables and use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use under the circumstances.

No provision of the Contract Administration Agreement shall be construed to relieve the Contract Administrator from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (a) the Contract Administrator shall not be liable for any error of judgment made in good faith by an authorized officer of the Contract Administrator, unless it is proved that the Contract Administrator was negligent in ascertaining the pertinent facts; (b) the Contract Administrator shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in Outstanding principal amount of the Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Contract Administrator, or exercising any trust or power conferred upon the Contract Administrator, by or under the Contract Administration Agreement; and (c) no provision of the Contract Administration Agreement shall require the Contract Administrator to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Contract Administrator may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, opinion, notice, request, consent, or other document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Contract Administrator may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Contract Administrator in good faith and in reliance thereon.

The Contract Administrator is under no obligation to exercise any of the rights or powers vested in it by the Contract Administration Agreement at the request or direction of any of the Certificateholders pursuant to that Agreement, unless such Certificateholders shall have offered to the Contract Administrator reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

#### **Compensation and Reimbursement**

The Contract Administrator is entitled to payment or reimbursement from time to time for reasonable compensation for all services rendered by it under the Contract Administration Agreement. The Contract Administrator is also entitled to indemnification for, and to be held harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of that Agreement or the exercise of its powers thereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties thereunder. The compensation of the Contract Administrator shall constitute Contract Administrator Payments, a Component of Service Payments under the Service Contracts.

The Contract Administrator shall not have any lien on any funds held by it under the Contract Administration Agreement.

#### **Enforcement of Rights**

Every provision of the Contract Administration Agreement relating to the enforcement of rights and remedies by any of the parties thereto is subject to particular provisions in the Contract Administration Agreement that would apply if, but only if, all Insurers are then in default under their respective Credit Insurance.

#### **Third Party Beneficiaries**

The covenants of each Service Corporation made in the Contract Administration Agreement are also made for the benefit of each of the Third Party Beneficiaries, each of whom may enforce the same as if it were a party thereto.

### **SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

The Trust Agreement is comprised of two documents, called the General Terms (dated as of May 1, 2005) and the Specific Terms (dated the Closing Date), which operate together as if they were combined in a single document. The parties to the Trust Agreement are the Detroit General Retirement System Service Corporation and the Detroit Police and Fire Retirement System Service Corporation (each a **Service Corporation**), severally and not jointly, and U.S. Bank National Association, as Trustee (in such capacity, the **Trustee**). The Trust Agreement establishes the Detroit Retirement Systems Funding Trust 2006 (the **2006 Funding Trust**) for the purpose of funding the optional redemption of certain Series 2005-A COPs and the purchase and cancellation of certain tendered Series 2005-B COPs.

#### **Conveyance of Funding Trust Receivables; Grant of Security Interest**

Effective the Closing Date, each Service Corporation transfers, assigns and conveys to the 2006 Funding Trust all of its right, title and interest in and to the Funding Trust Receivables under its respective Service Contract, all monies due or to become due with respect thereto and all proceeds of such Funding Trust

Receivables. Each Service Corporation intends that such sale, assignment and conveyance be an absolute transfer of such property for all purposes. However, to preserve rights if such sale, assignment and conveyance is deemed a pledge of such property, each Service Corporation also grants a security interest in such property to the 2006 Funding Trust for the benefit of the Certificateholders.

The Trust Estate consists of the Funding Trust Receivables arising under the GRS Service Contract, the Funding Trust Receivables arising under the PFRS Service Contract, and all proceeds of the foregoing.

#### **Contract Administration Agreement**

The Trustee is directed in the Trust Agreement to enter into the Contract Administration Agreement in the name and on behalf of the 2006 Funding Trust. See "Summary of Certain Provisions of the Contract Administration Agreement" in this APPENDIX A.

#### **No City Indebtedness**

The 2006 Funding Trust and the Funding Trust Receivables paid to the 2006 Funding Trust do not constitute or create any indebtedness of the City within the meaning of the limitation of The Home Rule City Act or any Michigan constitutional or other non-tax statutory or City charter limitation.

#### **Tax Treatment Agreed to by Certificateholders; Restriction on Trustee's Powers**

Except to the extent otherwise provided in the Trust Agreement, each Service Corporation has entered into the Trust Agreement, the Certificates will be issued and the 2006 Funding Trust will acquire the Funding Trust Receivables, with the intention that for federal, state and local income, business, franchise and modified value added tax purposes: (a) the 2006 Funding Trust will qualify as a grantor trust under Subpart E, Part I of Subchapter J of the Internal Revenue Code of 1986, as amended; (b) each Beneficial Owner of Certificates will be treated as the owner of an undivided *pro rata* interest in the portion of the Trust Estate attributable to such Beneficial Owner's Certificates; and (c) the Funding Trust Receivables constitute payments in respect of indebtedness. In furtherance of such intention, except to the extent otherwise provided in the Trust Agreement, the Trustee shall not have the power to vary the investment of the Beneficial Owners of the Certificates within the meaning of U.S. Treasury regulations §301.7701-4(c) or to engage in any business unless the Trustee shall have received an opinion in form and substance reasonably satisfactory to the Trustee of counsel reasonably acceptable to the Trustee to the effect that such activity will not cause the 2006 Funding Trust to fail to be treated as such a grantor trust.

Each Service Corporation and the Trustee by entering into the Trust Agreement and each Certificateholder by its acceptance of its Certificate agrees to treat the 2006 Funding Trust, the Certificates and the Funding Trust Receivables in accordance with the intention expressed in the preceding paragraph (or any alternative intention expressed in the Trust Agreement) for federal, state and local income, business, franchise and modified value added tax purposes.

#### **Authentication and Delivery of Certificates by Trustee; Disposition of Certificate Proceeds**

The 2006 Funding Trust shall issue Certificates as fully registered securities in the form prescribed by the Trust Agreement. The Trustee shall authenticate and deliver the Certificates in accordance with a written order of each Service Corporation stating the amount of Certificate proceeds to be received by the Trustee in respect of that Service Corporation and providing for the disposition of such proceeds as provided in its Service Contract (in major part into the Tender Account for application to purchase tendered Series 2005-B COPs and into the Non-Tender Escrow Account for application to optionally redeem certain Series 2005-A COPs). The Certificates evidence the entire beneficial interest in the Trust Estate.



### **Payment of Interest on Certificates**

Interest payable on any Certificate and paid on an Interest Payment Date shall be paid to the Person in whose name that Certificate (or a Predecessor Certificate) is registered at the close of business on the Regular Record Date for such Series.

Interest payable on any Certificate and not paid on an Interest Payment Date when due shall be not be paid to the registered Holder on the relevant Regular Record Date by virtue of being such Holder, but rather shall be payable as a Deficit Interest Related Payment to the Person in whose name such Certificate (or a Predecessor Certificate) is registered at the close of business on a Special Record Date for the payment of such Deficit Interest Related Payment.

If an amount is payable as all or part of a Deficit Interest Related Payment received by the Trustee, the Trustee shall establish a day for the payment of such amount to Certificateholders not less than 10 days after its receipt of such amount and establish a Special Record Date which shall be not more than 15 nor fewer than 10 days before the date set for payment of such amount. The Trustee shall mail notice of a Special Record Date to the Certificateholders at least 10 days before such Special Record Date.

Subject to the foregoing three paragraphs, each Certificate delivered under the Trust Agreement upon transfer of, in exchange for or in lieu of any other Certificate shall carry all the rights to Interest accrued and unpaid, and to accrue, which were carried by such other Certificate.

### **Registration, Exchanges and Transfers**

The Trustee shall keep at its designated corporate trust office a register for the registration of Certificates and for the registration of transfers of Certificates, subject to such reasonable regulations as the Trustee may prescribe. Upon surrender of any Certificate for transfer of the registration thereof, the Trustee shall authenticate and register in the name of the designated transferee(s) one or more new Certificates of the same tenor in any Authorized Denomination in like aggregate principal amount.

At the option of the Holder, Certificates may be exchanged for other Certificates of the same tenor in any Authorized Denomination in like aggregate principal amount, upon surrender of the Certificates to be exchanged at the designated corporate trust office of the Trustee. Whenever any Certificates are surrendered for exchange, the Trustee shall authenticate and deliver the Certificates that the Certificateholder making the exchange is entitled to receive.

All Certificates issued upon any transfer of registration or exchange of Certificates shall constitute valid evidences of beneficial interests in the Trust Estate evidencing the same beneficial interests and entitled to the same benefits under the Trust Agreement as the Certificates surrendered in such transfer or exchange.

No service charge may be made for any transfer of registration or exchange of Certificates, but the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect such transfer or exchange. The Trustee may make the payment of such tax, fee or other governmental charge and the cost of preparing each new Certificate delivered in such transfer or exchange a condition precedent to making any transfer of registration or exchange of any Certificate, to be paid by the Person requesting such transfer or exchange, unless otherwise provided in the Trust Agreement.

The Trustee shall not be required (a) to transfer or exchange any Certificate during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Certificate and ending at the close of business on the day of such mailing, or (b) to transfer or exchange any Certificate selected for redemption in whole or in part, during a period beginning at the opening of business on any Regular Record Date for such Certificates and ending at the close of business on the relevant Interest Payment Date therefor.

### Persons Deemed Owners

The Trustee may treat the Person in whose name any Certificate is registered as the owner of such Certificate, whether payments with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of the principal thereof, premium, if any, and (except as otherwise provided in the Trust Agreement) Interest thereon and for all other purposes whatsoever.

### Book-Entry Certificates; Securities Depository

While Certificates are registered in the name of a Securities Depository or its nominee, the Trustee shall not have any responsibility or obligation to any Participant or to any Beneficial Owner with respect to: (a) the accuracy of the records of the Securities Depository, its nominee or any Participant with respect to any ownership Interest in the Certificates; (b) the delivery to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository of any notice with respect to the Certificates, including any notice of redemption; or (c) the payment to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository of any amount with respect to the principal of or premium, if any, or Interest on the Certificates.

The Trustee shall pay all principal (and premium, if any) of and Interest on such Certificates only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the 2006 Funding Trust's obligations with respect to the principal (and premium, if any) of, and Interest on such Certificates to the extent of the sum or sums so paid.

Upon discontinuance of the use of the Book-Entry Only System maintained by the Securities Depository and upon receipt of notice from the Securities Depository containing sufficient information, the Trustee shall authenticate and deliver Certificates in certificated form to Beneficial Owners in exchange for the beneficial interests of such Beneficial Owners in corresponding principal amounts and in any Authorized Denomination.

Notwithstanding anything to the contrary in the Trust Agreement, so long as any Certificate is registered in the name of the Securities Depository or its nominee: (a) all payments with respect to the Principal and Interest on such Certificate and all notices of redemption and otherwise with respect to such Certificate shall be made and given, respectively, to the Securities Depository as provided in the representation letter with respect to such Certificates; (b) if less than all such Certificates of a maturity and series are to be redeemed *pro rata*, then the particular Certificates or portions of Certificates of such maturity and series to be redeemed shall be so determined by the Securities Depository; and (c) all payments with respect to Principal of such Certificate and premium, if any, and Interest on such Certificate shall be made in such manner as shall be prescribed by the Securities Depository.

### Redemption of Certificates

#### Selection of Certificates to be Redeemed

Whenever any Certificates of a series are to be redeemed, the Trustee shall select the maturity or maturities that correspond to the prepaid Scheduled Payments giving rise to such redemption. Whenever Certificates of less than all of a maturity are to be redeemed, the Trustee shall select the particular Certificates to be redeemed from the Outstanding Certificates of such maturity and series that have not previously been called for redemption in such manner as results in *pro rata* redemption among all Holders of Certificates of the maturity being redeemed. All Certificates of the same series and having the same maturity shall constitute a class for purposes of *pro rata* redemption. The Trustee shall select Certificates for redemption *pro rata* within each class. In the case of any maturity of Certificates for which Sinking Fund Installments have been established, any optional redemption of such Certificates shall be credited among such Sinking Fund Installments *pro rata* in accordance with the unpaid amounts thereof.

### Notice of Redemption

When any Certificates are to be redeemed, notice of any such redemption shall be given by the Trustee by first class mail, no fewer than 30 days and no more than 45 days before the Redemption Date to each Holder of Certificates to be redeemed at his/her last address in the Registry. All notices of redemption shall be dated and shall state: (a) the Redemption Date; (b) the Redemption Price; (c) if less than all Outstanding Certificates are to be redeemed, the identification number, maturity dates and, in the case of a partial redemption of Certificates, the respective principal amounts of the Certificates to be redeemed; (d) that on the Redemption Date the Redemption Price will become due and payable upon each such Certificate or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; (e) the place where the Certificates to be redeemed are to be surrendered for payment of the Redemption Price, which place of payment shall be the designated corporate trust office of the Trustee or other Paying Agent; and (f) the proposed redemption (except in the case of a redemption from Sinking Fund Installments) is conditioned on the Trustee having received a Redemption Related Payment on the Prepayment Receipt Day sufficient to pay the full Redemption Price of the Certificates to be redeemed.

The failure of the Holder of any Certificate to receive notice of redemption given as provided above, or any defect therein, shall not affect the sufficiency of the proceedings for the redemption of any Certificates as to which no failure or deficiency occurred.

The Trustee shall provide additional notice that provides material compliance with Securities Exchange Act Release No. 34-23856 (Dec. 3, 1985) as the same may be amended or supplemented from time to time by the Securities and Exchange Commission or by generally accepted practice of corporate trustees. No failure to give such additional notice or defect therein or in the manner in which given shall affect the sufficiency of the proceedings for the redemption of any Certificates.

### Certificates Payable on Redemption Date

Notice of redemption having been given as aforesaid, the Holders of the Certificates so to be redeemed shall be entitled, on the Redemption Date, to payment of an amount equal to the Redemption Price therein specified and from and after such date (unless the full amount of the Redemption Price is not distributed), the Holders of such Certificates shall cease to be entitled to any further payment in respect of Interest. Upon surrender of any such Certificate for redemption in accordance with said notice, the Holder of such Certificate shall be paid by the Trustee an amount equal to the Redemption Price. Installments of Interest with a due date on or prior to the Redemption Date shall be payable to the Holders of the Certificates as of the relevant Record Dates.

If any Certificate called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear Interest from the Redemption Date at the rate prescribed in the Certificate.

### Certificates Redeemed in Part

Any Certificate which is to be redeemed only in part may, at the option of the Holder: (a) be presented for notation thereon by the Trustee of the payment as of the Redemption Date of the redeemed portion of the principal thereof; or (b) be surrendered at the place of payment therefor (with, if the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Holder or his attorney or legal representative duly authorized in writing), and the Trustee shall authenticate and deliver to such Holder, without service charge, a new Certificate or Certificates of the same maturity and series of any Authorized Denomination or Authorized Denominations as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Certificate so surrendered.

## Payments to Certificateholders

### Deficiency Payments

On the day the Trustee receives a Deficit Interest Related Payment from the Contract Administrator, the Trustee shall establish a Special Record Date and pay the same to the Certificateholders entitled thereto in accordance with their respective Percentage Interests. On the day the Trustee receives a Deficiency Payment, other than a Deficit Interest Related Payment, from the Contract Administrator, the Trustee shall pay the same to the Certificateholders entitled thereto in accordance with their respective Percentage Interests.

### Other Payments

On each Interest Payment Date for which the Trustee has received an Interest Related Payment from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Interest by the terms of their Certificates as of the Regular Record Date in accordance with their relative Percentage Interests. On each Principal Payment Date for which the Trustee has received a Principal Related Payment from the Contract Administrator, the Trustee shall pay the same to the Certificateholders entitled to such Principal Related Payment by the terms of their Certificates in accordance with their relative Percentage Interests. On each Sinking Fund Installment Date for which the Trustee has received a Sinking Fund Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Sinking Fund Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

On each Redemption Date that is also an Interest Payment Date for which the Trustee has received a Redemption Related Payment from the Contract Administrator, the Trustee shall pay the same to Holders of Outstanding Certificates entitled to such Redemption Related Payment by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed. On each Redemption Date that is not also an Interest Payment Date for which the Trustee has received a Redemption Related Payment that includes associated Accrued Service Charges from the Contract Administrator, the Trustee shall pay the same to the Holders of Outstanding Certificates entitled to such Redemption Related Payment and Accrued Service Charges by reason of the redemption of their Certificates in accordance with their relative Percentage Interests of Certificates being redeemed.

## The Trustee

### Certain Duties and Responsibilities

The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, other instruments or opinions furnished to the Trustee and conforming to the requirements of the Trust Agreement or the Service Contract; but in the case of any such certificates, documents, other instruments or opinions which by any provision thereof or of the Trust Agreement are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine the same to determine whether or not they conform to the requirements of the Trust Agreement.

No provision of the Trust Agreement or the Service Contract shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that (a) the Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Trustee, *unless* it is proved that the Trustee was negligent in ascertaining the pertinent facts; (b) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Certificates.

relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement or the Service Contract; and (c) no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Certain Rights of Trustee

The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, opinion, notice, request, consent, order, or other document believed by it to be genuine and to have been signed or presented by the proper parties. Whenever in the administration of the Trust Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action under the Trust Agreement, the Trustee (unless other evidence is specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of the Contract Administrator. The Trustee may consult with counsel, and the written advice of such counsel is full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee thereunder in good faith and in reliance thereon.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Certificateholders pursuant to the Trust Agreement, unless such Certificateholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, opinion, notice, request, consent, order, or other document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit. The Trustee may execute any of its trusts or powers or perform any of its duties either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it.

The Trustee shall not have any lien on any funds held by it under the Trust Agreement.

Not Responsible for Recitals or Issuance of Certificates

The Trustee assumes no responsibility for the correctness of the recitals contained in the Trust Agreement, in a Service Contract or in the Certificates except the certificate of authentication on the Certificates. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title thereto or as to the security afforded thereby, or as to the validity or sufficiency of the Trust Agreement or of the Certificates.

Corporate Trustee Required: Eligibility

There shall at all times be a Trustee under the Trust Agreement which is a trust company or bank with trust powers organized under the laws of the United States of America or of any state of the United States with a combined capital and surplus of at least \$50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement if it becomes ineligible under this paragraph.

### Replacement of Trustee

No resignation or removal of the Trustee and no appointment of a successor Trustee shall be effective until the successor Trustee accepts its appointment. The Trustee may resign at any time, but such resignation shall become effective only in accordance with the preceding sentence. The Holders of a majority in principal amount of Outstanding Certificates may remove the Trustee by so notifying the Trustee and any Insurer. If the Trustee becomes ineligible, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor. The retiring Trustee or the Service Corporations may appoint a successor at any time prior to the date on which a successor Trustee takes office. If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, any Certificateholder may petition a court of competent jurisdiction for the appointment of a successor Trustee. Within one year after a successor Trustee appointed by the Service Corporations or a court of competent jurisdiction takes office, the Holders of a majority in principal amount of Outstanding Certificates may appoint a successor Trustee to replace such successor Trustee.

### Acceptance of Appointment

A successor Trustee shall deliver written acceptance of its appointment to the retiring Trustee and to each Service Corporation. Thereupon the resignation or removal of the retiring Trustee shall be effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under the Trust Agreement. The successor Trustee shall mail a notice of its succession to the Certificateholders. Upon the appointment of a successor Trustee becoming effective, the retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

### Merger, Consolidation and Succession to Business

If the Trustee consolidates, merges or converts into, or transfers all or substantially all its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee if such successor corporation is eligible under the Trust Agreement. The successor Trustee may adopt the authentication of Certificates authenticated by the predecessor Trustee and deliver such Certificates with the same effect as if the successor Trustee had authenticated such Certificates.

### ERISA

The Trustee acknowledges and agrees that, in the event that assets of the 2006 Funding Trust are deemed to be plan assets of a Certificateholder that is an employee benefit plan subject to Title I of ERISA (an **ERISA Plan**), the Trustee is a fiduciary to such ERISA Plan with respect to such ERISA Plan's undivided interests in the Trust Estate, and the Trust Agreement shall be deemed to be the management agreement between the Trustee and such ERISA Plan.

### **Supplemental Trust Agreements**

#### Supplemental Trust Agreements without Consent of Certificateholders

Without the consent of any Certificateholders, the Service Corporations and the Trustee may from time to time enter into one or more Trust Agreements supplemental to the Trust Agreement (a **Supplemental Trust Agreement**) for any of the following purposes:

- b) to correct or amplify the description of Trust Estate, or better to assure, convey and confirm unto the Trustee any of the Trust Estate or the lien of the Trust Agreement thereon, or to add to the Trust Estate subject to the lien of the Trust Agreement additional property;
- c) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of the issue, authentication and delivery of the Certificates, thereafter to be observed;
- d) to evidence a successor trustee under the Trust Agreement;

- e) to add to rights, powers and remedies of the Trustee for the benefit of the Certificateholders;
- f) to cure any ambiguity, or correct or supplement any provision in the Trust Agreement which may be inconsistent with any other provision;
- g) to provide for the issuance of Additional Certificates; or
- h) to make any other change that does not adversely affect the rights of Certificateholders.

Supplemental Trust Agreements with Consent of Certificateholders

With the consent of the Holders of not less than a majority in principal amount of the Certificates then Outstanding, the Trustee may enter into one or more Supplemental Trust Agreements for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Agreement or of modifying in any manner the rights of Certificateholders under the Trust Agreement; provided, however, that no such Supplemental Trust Agreement shall, without the consent of the Holder of each Outstanding Certificate affected thereby, change any Principal Payment Date or Interest Payment Date of any Certificate, or reduce the principal amount thereof or Sinking Fund Installment or the Interest thereon or any premium payable upon the redemption thereof, or change any place of payment where any Certificate or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the Redemption Date), or reduce the percentage in principal amount of the Outstanding Certificates, the consent of whose Holders is required for any such Supplemental Trust Agreement, or the consent of whose Holders is required for any waiver of compliance with certain provisions of the Trust Agreement or certain defaults thereunder and their consequences; or modify any provisions summarized under the above subheadings "No City Debt or Other Obligation" or "Tax Treatment Agreed to by Certificateholders; Restriction on Trustee's Powers" under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT" or certain other provisions, except to increase any percentage provided thereby or to provide that certain other provisions of the Trust Agreement cannot be modified or waived without the consent of each Holder affected thereby.

Execution of Supplemental Trust Agreements

Prior to executing, or accepting the additional trusts created by, any permitted Supplemental Trust Agreement or the modification thereby of the trusts created by the Trust Agreement, the Trustee shall be entitled to receive and be fully protected in relying upon an opinion of counsel addressed to the Trustee to the effect that the execution of such Supplemental Trust Agreement is authorized or permitted by the Trust Agreement and the Supplemental Trust Agreement will be a valid and binding agreement of each Service Corporation upon the execution and delivery thereof.

Preconditions to Effectiveness

If the Trustee received a Qualifying Opinion in connection with the formation of the 2006 Funding Trust, then no Supplemental Trust Agreement shall become effective unless and until the Trustee receives an opinion in form and substance reasonably satisfactory to it of counsel reasonably acceptable to the Trustee to the effect that such supplement will not cause the 2006 Funding Trust to fail to be treated as such a grantor trust. Each Supplemental Trust Agreement is subject to the prior written consent of any Insurer.

**Miscellaneous Provisions**

Notices to Certificateholders; Waiver

Where the Trust Agreement provides for the publication of notice to Certificateholders, such notice shall be sufficiently given (unless otherwise expressly provided in the Trust Agreement) if in writing and mailed, first-class postage prepaid, to each Certificateholder at his address as it last appears in the Registry, no

later than the latest date and no earlier than the earliest date permitted for the first publication of such notice. Where the Trust Agreement provides for notice in any manner, such notice may be waived by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance on the waiver.

Payments Due on Saturdays, Sundays and Holidays

In any case where the date fixed for payment of the Certificates shall not be a Business Day, then such payment need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such payment.



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**APPENDIX B**  
**INFORMATION CONCERNING THE CITY OF DETROIT, MICHIGAN**

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## GOVERNMENTAL STRUCTURE

Pursuant to the provisions of the Constitution of the State of Michigan (the "State"), the City is a home rule city with significant independent powers. In accordance with the City Charter (the "Charter"), the governance of the City is organized in two branches: the Executive Branch, which is headed by the Mayor, and the Legislative Branch, which is composed of the City Council and its agencies. The Charter provides that the voters of the City reserve the power to enact City ordinances by initiative and to nullify ordinances enacted by the City by referendum. However, these powers do not extend to the budget or any ordinance for the appropriation of money, and the referendum power does not extend to an emergency ordinance. The Mayor and the members of the City Council are elected every four years. During the most recent general election that was conducted on November 8, 2005, Kwame M. Kilpatrick was re-elected for a second term as Mayor, and five incumbent members were re-elected and four new members were elected to the City Council. There are no limits as to the number of terms that may be served by City elected officials. In addition, the City is the District Control Unit responsible for certain duties relating to the 36th District Court. See "GOVERNMENTAL STRUCTURE -- District Court." Following is a description of the duties and responsibilities of the branches of the City government.

### *Executive Branch*

The Mayor is the chief executive of the City and has control of and is accountable for the Executive Branch of City government. The Charter grants the Mayor broad managerial powers, including the authority to appoint all department directors and deputy directors. The Charter also delegates the responsibility for the implementation of most programs, services and activities solely to the Executive Branch.

Financial operations of the City are carried out through the appointed positions of Finance Director and Budget Director. The Finance Director oversees most financial functions of the City, including coordinating debt issuance activities, collecting and disbursing funds, investing City funds (excluding pensions), directing accounting procedures and financial reporting, purchasing goods and services, and assessing property in the City. The Budget Director is responsible for controlling and supervising the expenditure of funds and assisting the Mayor in the preparation of the City's annual budget and long-term capital agenda.

**Kwame M. Kilpatrick, Mayor**, assumed office January 1, 2002. He was re-elected Mayor on November 8, 2005 for a second four-year term commencing on January 1, 2006. Prior to his election as Mayor, he served two terms representing Detroit's 9th District in the Michigan House of Representatives, including serving as House Democratic Leader. Prior to his tenure as a State legislator, he served as a teacher, mentor and basketball coach in the Detroit Public Schools and also taught high school in Tallahassee, Florida. Mayor Kilpatrick is chair of the Democratic Leadership Council's locally elected officials' network. Mayor Kilpatrick graduated from Florida A&M University with a Bachelor of Science degree in Political Science, as well as his teacher certification. He received his Juris Doctor degree from Detroit College of Law.

**Anthony Adams, Deputy Mayor**, was appointed in January 2005. Mr. Adams has the role of Chief Operating Officer along with his other duties. Prior to his appointment, he was General Counsel for the School District of the City of Detroit (the "District") since January 2003, with responsibilities for supervising a staff of 20 and managing more than 25 outside firms to coordinate the legal defense of the District and serving as its Chief Legal Compliance Officer. Before that, he served as Chief Development Attorney for the District since July 2002, with responsibilities for coordinating all development projects and business contracts for the District, including its \$1.5 billion capital improvement program. Earlier, he had a private law practice primarily in real estate development and finance. From 1991 to 1993, Mr. Adams was of counsel to the Dykema Gossett law firm in Detroit. From 1985 to 1991, he served as an Executive Assistant to the Mayor of Detroit. He has a Bachelor of Science degree in Urban Management and Planning from the University of Cincinnati, and a Juris Doctor degree from Georgetown University Law Center.

**Roger Short, Interim Finance Director**, was appointed in February 2006. Prior to this appointment, he served the City as Budget Director for six years. His current responsibilities include providing the Mayor and the City Council with long-term and short term financial planning data, assisting in the preparation of the City's operating and capital budgets, monitoring City financial operations and supervising and controlling the expenditure of funds. Previously, Mr. Short served the City as Chief Accounting Officer/Deputy Finance Director for four years, Auditor General for ten years and in other positions. Mr. Short is a Certified Public Accountant and holds a Masters degree in Public Policy Studies and a Bachelor of Arts degree from the University of Michigan. Currently he is an adjunct instructor at the University of Phoenix and Wayne County Community College. He is a member of the Government Finance Officers Association. Mr. Short also serves on the boards of the Detroit Building Authority, Detroit Transportation Corporation, the Downtown Development Authority and the Greater Detroit Resource Recovery Authority.

**Pamela C. Scales, Budget Director**, was appointed in February 2006. Prior to her current appointment, Ms. Scales served as Deputy Budget Director. She has more than 19 years of service with the City. During her service as Deputy Budget Director, the City has received nine Distinguished Budget Awards from the Government Finance Officers Association. Ms. Scales is a faculty member of the University of Phoenix, teaching graduate and undergraduate Finance courses. She holds a Bachelor of Arts degree in Economics from the University of Michigan and a Master of Business Administration degree from the University of Detroit-Mercy. She is a member of the Government Finance Officers Association, the Michigan Municipal Finance Officers Association and the Association of Government Accountants.

**George W. Jackson, Jr., Chief Development Officer**, was appointed in March 2006. He also has served as President & CEO of the Detroit Economic Growth Corporation (DEGC) since February 2002. Previously he had been Director of Customer Marketing for DTE Energy, where he worked for 27 years. His additional prior experience includes personnel and human resources responsibilities in the U.S. Navy and teaching on the adjunct faculty at Lawrence Technological University School of Management. Mr. Jackson has a Bachelor of Science degree in Human Resource Development from Oakland University and a Master of Arts degree in Management - Business Management from Central Michigan University.

**John E. Johnson, Corporation Counsel**, was appointed in February 2006 and heads a staff of more than 90 lawyers, with responsibilities for City contracts, advising the Mayor and City Council on legal issues, supervising preparation of ordinances and resolutions, and defending and prosecuting all City lawsuits. From 1999 to 2005, he was Deputy Executive Director and Chief Operating Officer of Legal Aid & Defender Association, Inc. in Detroit. He served as Executive Director of the Detroit Branch of the National Association for the Advancement of Colored People (NAACP) from 1997 to 1999. His previous employers included Wayne County Neighborhood Legal Services, the National Consumer Law Center, and UAW Legal Services Plans. Mr. Johnson has a Bachelor of Arts degree in Political Science and Journalism from Howard University and a Juris Doctor degree from Valparaiso University School of Law.

#### ***Legislative Branch***

The City Council, composed of nine members elected at large for four-year terms, is the City's legislative body. The City Council has the power to override the Mayor's veto of City Council changes to the annual budget with a two-thirds majority of its members. The three agencies that aid the City Council in the performance of its duties are described below.

The Auditor General is appointed for a term of 10 years by a majority of City Council members and may be removed for cause by a two-thirds majority. Any person who has held the position of Auditor General is not eligible for reappointment. By Charter, the principal duty of the Auditor General is to audit the financial transactions of all City agencies. However, since 1980 the City has retained independent accounting firms to perform that function. As required by State law, audits are performed annually; they are only required every two years by the Charter. The Auditor General may investigate the administration and operation of any City agency and prepares various reports, including an annual analysis for the City Council of the Mayor's proposed budget.

The Ombudsman is appointed for a term of 10 years by a two-thirds majority of City Council members for the purpose of investigating any official act of any agency (except elected officers) which aggrieves any person.

The City Planning Commission, consisting of nine members appointed by the City Council for three-year terms, advises the City Council on such matters as the annual capital agenda, certain development or renewal projects and proposals for the demolition, disposition or relinquishment of, or encroachment upon, public real property or public interests in real property.

***District Court***

The 36th District Court is responsible for adjudicating certain legal matters that arise within the City, including State felony arraignments and preliminary examinations, State misdemeanor and City ordinance violations, civil litigation for claims of \$25,000 or less, and landlord / tenant disputes. The City is responsible for all funding of the 36th District Court in excess of fines collected by the Court, except for judicial salaries, which are funded by the State.

***Principal Governmental Services and Work Force***

The following table sets forth the major services provided to City residents and businesses, the governmental unit responsible for providing that service, and the revenue source of City-provided services as indicated in the proposed Executive Budget for the fiscal year ending June 30, 2007. The City's budget contains both operating revenues and expenditures, and capital sources and expenditures.

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**Table 1 -- Services Provided: Governmental Unit and Revenue Sources**

**Services Provided and Funded by the City in Whole or in Part**

	<u>Responsibility</u>	<u>Percent Supported by:</u>				
		<u>General Fund(1)</u>	<u>Self-Supported(2)</u>	<u>State Grants(3)</u>	<u>Federal Grants(3)</u>	<u>Other Sources(4)</u>
Police and fire .....	City	79.0%	14.7%	1.1%	1.0%	4.2%
Sanitation and streets .....	City	59.1	8.3	31.5	-	1.1
Parks and recreation .....	City	75.2	8.5	0.9	-	15.4
Water and Sewer (5)(6).....	City	-	100.0	-	-	-
Court .....	City/State	43.0	53.5	3.5	-	-
<b>Transportation:</b>						
Port (7) .....	City/County/State	25.0	-	50.0	-	25.0
Bus (6) .....	City	-	67.3	26.8	-	5.9
City Airport (6) .....	City	-	100.0	-	-	-
<b>Planning and</b>						
Development (8) .....	City	-	12.5	-	85.8	1.7
Health .....	City	17.9	10.1	24.7	47.3	-
Public Lighting (9) .....	City	23.5	67.5	5.0	-	4.0
Parking (6) .....	City	-	100.0	-	-	-

**Services Provided and Totally Funded Other than by the City**

Education .....	School District of the City of Detroit
Detroit/Wayne County Metropolitan Airport .....	County
Housing (10) .....	Independent
Hospital .....	Private
Welfare .....	State

**SOURCE:** Budget Department. Totals may not add up to 100% due to rounding. See "Fiscal 2007 Budget" under "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund" herein for further discussion of the Fiscal Year 2007 Executive Budget.

- (1) Represents the net tax cost to the City.
- (2) Includes revenues derived from sale of services to other City departments, self-supporting agencies and outside users.
- (3) Includes mass transportation, health and other grant revenues.
- (4) Includes both bond proceeds and Federal project note borrowings.
- (5) Provides water supply and sewage disposal services for the southeastern Michigan region. Accounted for separately in two enterprise funds.
- (6) Accounted for in an enterprise fund.
- (7) Although the Port facilities are privately owned, the Detroit/Wayne County Port Authority's budget is funded by City, Wayne County and State contributions.
- (8) Department revenues exceed appropriations resulting in net contributions to the General Fund
- (9) Provides power through a City-owned public utility for City-owned buildings, streets, certain other governmental units and some private customers. Revenues are derived from the sale of power to these governmental units and private customers.
- (10) See "FINANCIAL OPERATIONS-Other Funds of the City-Enterprise Funds" herein. Starting in fiscal 2004, the Detroit Housing Commission ("DHC") became an autonomous enterprise separate from the City. Therefore, the proposed Fiscal Year 2007 Executive Budget does not include funding for the DHC.

The following table sets forth the City's budgeted employee positions for fiscal 2003 through 2007, according to those positions that are tax-supported and those positions that are supported by other revenues.

**Table 2 – City of Detroit Budgeted Employee Positions**

	Fiscal Year Ended or Ending June 30,									
	2003		2004		2005		2006		2007	
	Number	%	Number	%	Number	%	Number	%	Number	%
Tax-supported:										
General City.....	8,104	40%	7,929	40%	7,448	40%	6,139	39%	5,467	37%
Police and fire.....	5,694	28	5,704	29	5,695	30	4,508	29	4,422	30
Library .....	475	2	476	2	485	3	465	3	465	3
Total tax supported .....	14,273	70	14,109	72	13,628	73	11,112	71	10,354	69
Revenue supported:										
Transportation.....	1,838	9%	1,838	9%	1,716	9%	1,534	10%	1,534	10%
Water .....	2,411	12	2,097	11	2,097	11	1,916	12	1,900	13
Sewage.....	1,477	7	1,301	7	1,302	7	1,189	8	1,176	8
Housing (1).....	442	2	357	2	-	-	-	-	-	-
Total revenue supported....	6,168	30	5,593	28	5,115	27	4,639	29	4,610	31
Total.....	20,441	100%	19,702	100%	18,743	100%	15,751	100%	14,964	100%

SOURCE: City's Budgets for fiscal 2003 through 2005 and Amended Budget for fiscal 2006. Fiscal 2007 data reflect the proposed Executive Budget for fiscal 2007. Totals may not add up to 100% due to rounding. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund" herein.

(1) Housing, through the DHC, is no longer a City Department. Its separation was finalized through judicial action in fiscal 2004.

The following table sets forth the departmental budgeted appropriations as a percentage of total General Fund appropriations for fiscal 2003 through 2007.

**Table 3 – Departmental Appropriations**

	Fiscal Year Ended or Ending June 30,				
	2003	2004	2005	2006	2007
Police.....	20%	23%	25%	22%	23%
Fire .....	9	10	11	10	10
Public works (sanitation and streets).....	12	11	11	10	10
Public lighting.....	4	4	4	4	4
Health .....	5	5	5	5	5
Recreation.....	3	3	3	2	1
Planning and development .....	4	4	3	3	3
Other departments .....	25	24	22	16	21
Non-departmental:					
Enterprise fund contributions .....	5	4	4	5	-
Other (1).....	12	11	13	23	23
General agency budget (millions) .....	\$1,816.0	\$1,877.3	\$1,935.1	\$1,764.9	\$1,812.9

SOURCE: City's Budgets for fiscal 2003 through 2005, Amended Budget for fiscal 2006 and proposed Executive Budget for fiscal 2007. Totals may not add up to 100% due to rounding. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund" herein.

(1) Includes contributions to the Transportation Fund.

### **Related City Entities**

Other entities have been established by the City, in certain cases with the County of Wayne (the "County") and with the City of Highland Park, or by the State, principally for the purpose of providing capital financing (normally through the sale of bonds or through special tax levies) for various improvements, services or major construction projects. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES - Tax Supported and Revenue Debt" and "-Overlapping Debt." Below is a description of certain entities and their functions.

**Detroit Brownfield Redevelopment Authority ("DBRA").** The DBRA was created by a City Council resolution and approved by the Mayor in April 1998, under the provisions of Act 381, Public Acts of Michigan, 1996. The DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted or functionally obsolete property. This is the first year of substantial financial activity for this authority.

**Detroit Public Library ("DPL").** The DPL is a statutory body created by the State. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an *ad valorem* tax of 3.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. City Council is responsible for approving DPL's annual budget.

**Downtown Development Authority ("DDA").** The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an *ad valorem* tax of 1.0 mill on real and personal property in the downtown development district, a levy on the increased assessed value of the tax increment district, and issuance of revenue and tax increment bonds.

**Economic Development Corporation ("EDC").** The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

**Detroit Housing Commission ("DHC").** The DHC was established in 1933 under the authority of the Housing Facilities Act, Act 18, Public Acts of Michigan, 1933 (Ex. Sess.), Section 2 of the act provided that any city or incorporated village with population of over 500,000 was authorized "to purchase, acquire, construct, maintain, operate, improve, extend, and/or repair housing facilities and to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, and/or welfare." The DHC is an autonomous enterprise separate from the City.

**Local Development Finance Authority ("LDFA").** The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. Incremental portions of the City and the County property taxes funded LDFA.

**Charles H. Wright Museum of African American History ("MAAH").** The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

**School District of the City of Detroit ("District").** The District is a statutory body created by the State and functions under the provisions of the Michigan School Code. Funding is provided by an *ad valorem* tax of 13.19 mills (homestead properties) and 31.19 mills (non-homestead) on real and personal property in the City and a "foundation allowance" provided by the State.



**Tax Increment Finance Authority ("TIFA").** The TIFA was created to acquire property and provide financing for residential and commercial development programs through issuance of long-term debt secured by tax increment financing.

**Detroit Transportation Corporation ("DTC").** The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

**Greater Detroit Resource Recovery Authority ("GDRRA").** The GDRRA was established by the Cities of Detroit and Highland Park for the acquisition, construction and operation of a waste-to-energy facility. The financing was provided by the issuance of revenue bonds.

#### *Other Governmental Entities*

Services are provided to residents and businesses of the City by other governmental entities such as the County, the School District of the City of Detroit, Wayne County Community College and the Wayne County Regional Educational Service Agency. All of these entities are funded through their own taxing powers and other sources independent of the City.

### **FINANCIAL PROCEDURES**

#### *Accounting System*

The City's fiscal year begins on July 1 and ends on June 30. The City uses a computer software financial management system which provides general ledger, purchasing, accounts payable, accounts receivable, fixed assets and project accounting applications. These core financial applications are integrated with third-party software providers for budget preparation, work order and inventory applications to provide a complete financial reporting system.

The City uses a legacy human resources/payroll application for employee compensation. Preliminary funding has been approved to begin planning the replacement of the legacy system with computer software human resources/payroll modules. The complete integration of these applications with the core financial applications is expected to be completed in late 2007.

The City's financial statements are prepared based substantially upon the financial information contained in the financial management system. The City's basic financial statements and entity-wide financial statements for fiscal 2005 were audited by independent accountants hired by the Auditor General's Office, and are the most recent audited City financial statements available.

#### *Accounting Methods*

The City's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Except for the City's Enterprise Funds and Pension Funds (which are accounted for on the accrual basis), the City's funds and accounts (General, Special Revenues and Debt Service Funds) are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual, *i.e.*, measurable and available to finance expenditures of the current fiscal year. Accrued municipal income taxes are estimated by the City as collected (*i.e.*, withheld) by employers but not yet remitted to the City. Estimated refunds for income tax returns received and in process, on which payment has not yet been made, are recorded as a reduction of revenues. The City establishes reserves against certain of the revenues so recognized, to reflect its judgment of collectibility.

The City records expenditures when goods and services are received and encumbers the amounts required by purchase orders and contracts at the time the purchase orders and contracts are issued. The encumbrances are liquidated when the goods and services are received. While the City is not required to carry

unliquidated encumbrances past the end of the fiscal year, it sets aside, within each respective fund balance, an amount equal to the unliquidated encumbrances that it plans to carry forward. In the succeeding fiscal year, the budget is increased by an amount sufficient to cover the unliquidated encumbrances and those encumbrances are reinstated. Unliquidated appropriations represent amounts appropriated for encumbrances and for other commitments not liquidated by year-end and carried forward to the succeeding year's budget. Any remaining balance constitutes an unappropriated surplus (see "Budget Stabilization Fund" below). Any unappropriated deficit is funded in the succeeding fiscal year.

The Capital Projects Funds account for all funds used for the construction, acquisition and renovation of capital facilities. The City maintains 12 sub-funds within the Capital Projects Funds, which account for all capital improvements (other than water supply and sewage disposal facilities) including those financed by the City's general obligation bond issues, gifts, governmental grants, transfers from other funds and special assessments. The City maintains detailed accounting records by individual projects within these funds. Revenues and expenditures are recorded in specific cost centers which list the sources of revenue and type of expenditure. Uncollected estimated revenues and unexpended appropriations are brought forward until completion of a capital project. Revenues must be used on the specific capital projects for which they were designated.

Included as APPENDIX C is the comprehensive annual financial report ("CAFR") of the City for the fiscal year ended June 30, 2005, which includes the audited financial statements of the City for that fiscal year.

**Cash Management**

A cash flow forecast is prepared annually to assist in formulating cash management strategy and is revised as necessary. The City maintains one bank account for General Fund receipts and disbursements, excluding general obligation bond proceeds, which are kept in a separate account. Capital Projects Funds moneys are also maintained in separate accounts.

All funds are invested in accordance with State law. The City may invest in direct obligations of the U.S., obligations of an agency or instrumentality of the U.S., certain grades of commercial paper, bankers acceptances of U.S. banks, certificates of deposit, savings accounts or depository receipts of savings and loan associations or member banks of the Federal Deposit Insurance Corporation, and certain municipal bonds.

The City's investment policy is to provide for effective cash management. The goal of the City's investment policy is to maintain and protect invested principal while striving to maximize total return on the portfolio consistent with limitations pursuant to guidelines set forth in Act 20, Public Acts of Michigan, 1943, as amended ("Act 20"). The City has not experienced material investment-related losses in any City-managed funds. As of April 1, 2006, the composition of the City's investment portfolio was as follows:

**Table 4 – Composition of General Fund Investment Portfolio  
April 1, 2006**

Pooled investment funds (1) .....	57.30%
U.S. Government securities .....	42.70
Total .....	<u>100.00%</u>

(1) Consists only of permitted investments.

In accordance with Act 20, no investments may have a maturity longer than 10 years from the date of investment. As of April 1, 2006, the longest investment of the City's General Fund had a maturity of August 15, 2011.

**Table 5 – General Fund Investments (1)**

Average monthly investment balance, Fiscal Year 2006.....	\$149,503,164
Investment earnings, Fiscal Year 2005.....	\$ 3,353,721
Investment earnings, Fiscal Year 2004.....	\$ 1,467,561

(1) Includes an average monthly balance of approximately \$70 million which is considered restricted.

***Budget Process***

The general content and process of developing the City's annual budget are prescribed by the Charter. The City's annual budget constitutes a financial plan for the next fiscal year which is required to set forth estimated revenues from all sources and all appropriations, including proposed capital appropriations. Any deficit during the preceding year is entered into the budget for the next fiscal year as an appropriation in accordance with the Charter. The total of proposed expenditures cannot exceed the total of estimated revenues so that the budget as submitted is a balanced budget.

The adoption of the budget provides for: (1) appropriations of specified amounts from funds indicated, (2) a specified levy of the property tax and (3) provision for the issuance of bonds specified in the capital agenda. The budget document, as adopted, becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriation for every function of each City department is fixed, and expenditures may not exceed the original appropriation without City Council approval. If, during the fiscal year, the Mayor advises the City Council that there are available for appropriation revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations up to the amount of the excess. In the case of revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. The Mayor is under no obligation to spend an entire appropriation. Also, at any time, upon written request by the Mayor, the City Council may transfer all or part of any unencumbered appropriation balance among programs, services or activities within an agency or from one agency to another.

Prior to the December submission of budget requests to the Budget Director, seven departments are required to attend a public meeting where input is received on programs and objectives for the coming fiscal year are addressed. These departments include Police, Fire, Public Works, Public Lighting, Health, Recreation, and Water and Sewerage. The initial budget proposal, which includes all department estimates of revenues and expenditures for the next fiscal year, is submitted to the Mayor by the Budget Department on or before the preceding February 22. The Mayor may revise the budget prior to submitting it to the City Council on or before April 12, the date for budget submission to the City Council established by City ordinance.

Prior to approval of the budget, the City Council holds hearings with various department and agency heads and also holds a public hearing. In addition, the Auditor General prepares an analysis of the proposed budget for the City Council. The City Council may amend the budget as presented by the Mayor on or before May 24. The Mayor may veto any City Council amendment, but must do so by the third business day after May 27. Any Mayoral veto of City Council amendments to the budget may be overridden by the City Council by a two-thirds vote of the members serving; provided, however, that the Council must act on or before the third calendar day or the second business day (whichever will provide the greater number of business days) following the maximum return date of the budget by the Mayor.

***Budget Stabilization Fund***

In 1978, the State Legislature authorized municipalities to establish budget stabilization funds for the purpose of providing a method to stabilize financial operations. Prior to that time, municipalities were required to allocate any budget surplus to the following fiscal year. Accordingly, in 1979, the City by ordinance established the Budget Stabilization Fund to cover General Fund deficits; to restore a reduction in the number of employees (under certain circumstances) and to cover expenses arising because of a natural disaster.

In accordance with a City ordinance, one-half of any unappropriated General Fund surplus, up to the lesser of either 15% of the City's most recent General Fund budget or 15% of the average of the City's five most recent General Fund budgets, is transferred to the Budget Stabilization Fund in each fiscal year that a surplus is experienced, with the balance being available for other appropriations in the following fiscal year. The Budget Stabilization Fund had a balance of \$8.5 million as of June 30, 2003, which was used to reduce the City's General Fund deficit in fiscal 2004, and the Budget Stabilization Fund has had a zero balance since that time. See "FINANCIAL OPERATIONS – Overview" and "– Recent Budget Results of the General Fund."

## FINANCIAL OPERATIONS

### *Overview*

This section contains a detailed description of various important financial matters. See especially "FINANCIAL OPERATIONS – Recent Budget Results of the General Fund" and "– Other Funds of the City."

### *Revenues and Expenditures of the General Fund*

The following tables set forth a comparison of revenues, expenditures and other financing sources and uses of the General Fund by major classification.

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**Table 6 - Revenues and Expenditures of the General Fund**

	Fiscal Year Ended June 30,				
	2001	2002	2003	2004	2005
<b>REVENUES:</b>	(in millions)				
Taxes, assessments, interest and penalties:					
Property taxes .....	\$ 152.8	\$ 169.7	\$ 166.3	\$ 184.8	\$ 179.0
Municipal income tax .....	341.0	323.5	310.9	290.6	282.5
Utility users tax .....	54.3	52.1	55.3	50.5	52.9
Wagering taxes .....	85.8	109.4	111.3	116.1	138.0
Other taxes .....	12.5	13.4	13.5	12.0	11.0
Assessments, interest and penalties on taxes .....	8.0	10.8	9.3	14.0	11.5
Total taxes, assessments, interest and penalties .....	<u>654.4</u>	<u>678.9</u>	<u>666.6</u>	<u>668.0</u>	<u>674.9</u>
Total licenses, permits and inspection charges .....	10.1	9.2	8.4	9.4	11.1
Shared taxes:					
State revenue sharing .....	333.3	333.8	319.1	286.5	282.9
Other shared taxes .....	0.5	0.5	0.5	0.5	0.6
Total shared taxes .....	<u>333.8</u>	<u>334.3</u>	<u>319.6</u>	<u>287.0</u>	<u>283.5</u>
Grants:					
State equity grant .....	3.6	3.6	2.1	1.0	1.1
Other grants .....	73.7	70.7	63.9	78.6	66.4
Total grants .....	<u>77.3</u>	<u>74.3</u>	<u>66.0</u>	<u>79.6</u>	<u>67.5</u>
Sales and charges for services .....	185.9	198.0	171.1	176.0	178.1
Other revenues .....	<u>107.4</u>	<u>175.8</u>	<u>148.2</u>	<u>155.0</u>	<u>141.9</u>
Total revenues .....	<u>1,368.9</u>	<u>1,470.5</u>	<u>1,379.9</u>	<u>1,375.0</u>	<u>1,357.0</u>
<b>OTHER FINANCING SOURCES:</b>					
Debt proceeds-General Obligation Limited Tax .....	-	50.3	56.0	209.9	248.4
Transfer from Community Development Block Grants .....	16.6	21.4	-	-	-
Transfer from Major & Local Street Funds .....	41.3	44.8	48.9	56.2	33.1
Transfer from Capital Projects Funds .....	-	0.8	-	-	-
Transfer from Trust and Agency Funds .....	0.3	-	-	-	-
Transfer from Component Units .....	32.2	-	-	-	-
Total Other Financing Sources .....	<u>90.4</u>	<u>117.3</u>	<u>104.9</u>	<u>266.1</u>	<u>281.5</u>
Special Item-Casino Development Revenue* .....	-	-	63.8	38.3	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES .....</b>	<b><u>\$1,459.3</u></b>	<b><u>\$1,587.8</u></b>	<b><u>\$1,548.6</u></b>	<b><u>\$1,679.4</u></b>	<b><u>\$1,638.5</u></b>

\* Nonrecurring

	Fiscal Year Ended June 30,				
	2001	2002	2003	2004	2005
<b>EXPENDITURES:</b>					
Executive agencies:					
Public Works .....	\$ 203.5	\$ 226.9	\$ 188.0	\$ 168.1	\$ 185.2
Fire.....	155.4	151.2	161.2	182.2	202.2
Health.....	89.0	97.9	102.2	88.9	87.9
Police .....	382.5	362.5	362.4	462.6	454.6
Public Lighting .....	70.8	64.4	61.9	61.4	69.1
Recreation.....	48.1	53.9	59.3	53.6	67.5
All other .....	231.8	254.4	237.2	274.5	193.6
Total executive agencies.....	1,181.1	1,211.2	1,172.2	1,291.3	1,260.1
Legislative agencies.....	14.3	16.3	16.0	18.1	21.3
Judicial agencies.....	44.8	47.0	47.7	45.4	45.5
Non-departmental(1).....	82.6	167.0	227.8	222.8	165.6
Total expenditures.....	1,322.8	1,441.5	1,463.7	1,577.6	1,492.5
<b>OTHER FINANCING USES:</b>					
Transfer to Community Dev. Block Grant Fund .....	-	-	1.3	-	-
Transfer to Construction Code Fund .....	6.4	3.0	6.0	4.0	0.5
Transfer to Detroit Building Authority.....	0.5	0.5	0.4	0.3	1.0
Transfer to Human Services Fund .....	4.5	4.0	6.5	5.7	4.3
Transfer to Federal Employment & Training Funds.....	0.1	-	-	-	-
Transfer to Targeted Business Development Fund .....	-	-	-	-	2.5
Transfer to Debt Service Funds .....	46.0	40.3	44.2	51.3	38.8
Transfer to Capital Projects Funds .....	6.6	1.7	-	-	-
Transfer to Airport Fund (2).....	1.9	3.6	2.5	2.8	2.6
Transfer to Housing Fund.....	-	2.1	1.3	-	-
Transfer to Transportation Fund (2).....	74.2	79.3	75.5	74.3	77.4
Transfer to Municipal Parking Fund (2).....	-	-	-	-	9.6
Transfer to Component Units .....	25.7	-	-	-	-
Payment to Refunded Debt Escrow (3) .....	-	49.4	-	41.4	96.8
Total Other Financing Uses.....	165.9	183.9	137.7	179.8	233.5
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES .....</b>	<b>\$1,488.7</b>	<b>\$1,625.4</b>	<b>\$1,601.4</b>	<b>\$1,757.4</b>	<b>\$1,726.0</b>

SOURCE: Derived by the Finance Department from audited financial statements. Totals may not add up exactly due to rounding.

(1) Non-departmental includes items such as payment of damage claims, self-insurance fund contributions and other expenses that are not allocated on a departmental basis.

(2) The City has made transfers to certain enterprise funds for operating purposes. See "FINANCIAL OPERATIONS - Other Funds of the City - Enterprise Funds."

(3) Reflects refunding of certain limited tax obligations. See "FINANCIAL OPERATIONS - General Fund Revenue Categories."

**Fund Balance of the General Fund**

An analysis of changes in Fund Balance of the General Fund for fiscal 2001 through 2005 is as follows:

**Table 7 - General Fund Balance**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Fund balance at beginning of year previously reported before restatement.....	\$ 217.1	\$ 218.1	\$ 206.2	\$ 140.3	\$ 69.2
Fund balance restatement <sup>1</sup> .....	<u>32.9</u>	<u>19.7</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at beginning of year, as restated .....	250.0	237.8	206.2	140.3	69.2
Revenues and other financing sources .....	1,459.3	1,587.8	1,548.6	1,679.5	1,638.5
Expenditures and other financing uses .....	(1,488.7)	(1,625.4)	(1,601.4)	(1,757.4)	(1,726.0)
Increase (decrease) in reserve for other assets .....	<u>(2.5)</u>	<u>6.0</u>	<u>(13.1)</u>	<u>6.9</u>	<u>(15.4)</u>
Fund balance at end of year .....	<u>\$ 218.1</u>	<u>\$ 206.2</u>	<u>\$ 140.3</u>	<u>\$ 69.2</u>	<u>\$ (33.6)</u>

SOURCE: Derived by the Finance Department from audited financial statements.

<sup>1</sup> The General Fund has been restated to reflect the adoption of Governmental Accounting Standards Board ("GASB") Interpretation Number 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

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**Components of Fund Balance**

An analysis of the components of Fund Balance of the General Fund for fiscal 2001 through 2005 is as follows:

**Table 8 - Components of General Fund Balance**

	Fiscal Year Ended June 30,				
	2001	2002	2003	2004	2005
	(in millions)				
<b>Reserved Fund balance:</b>					
Reserved for Encumbrances.....	\$ 98.0	\$ 59.2	\$ 96.8	\$ 48.9	\$ 35.3
Reserved for the Budget Stabilization Fund.....	34.1	7.7	8.5	-	-
Reserved for Risk Management Operations.....	44.8	51.8	50.5	35.9	29.2
Reserved for BC/BS Insured Program (1).....	-	-	21.7	-	-
Reserved for Motor Vehicle Operations .....	-	-	-	39.3	23.4
Reserved for Inventory.....	36.7	42.8	29.7	36.5	21.2
Reserved for Short-Term Loans and Advances to Other Funds .....	6.0	2.2	2.2	3.6	12.7
<b>Total Reserved Fund balance.....</b>	<b>219.6</b>	<b>163.7</b>	<b>209.4</b>	<b>164.2</b>	<b>121.8</b>
<b>Unreserved Fund balance:</b>					
<b>Designated:</b>					
For Accrued Compensated Absences.....	-	17.5	-	-	-
For BC/BS Insured Program .....	24.8	23.4	-	-	-
<b>Total Designated Fund Balance .....</b>	<b>24.8</b>	<b>40.9</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undesignated:</b>					
<b>Total Undesignated Fund Balance.....</b>	<b>(26.4)</b>	<b>1.6</b>	<b>(69.1)</b>	<b>(95.0)</b>	<b>(155.4)</b>
<b>Total Unreserved Fund Balance (Deficit) .....</b>	<b>(1.6)</b>	<b>42.5</b>	<b>(69.1)</b>	<b>(95.0)</b>	<b>(155.4)</b>
<b>Total Fund Balance</b>	<b>\$218.1</b>	<b>\$206.2</b>	<b>\$140.3</b>	<b>\$69.2</b>	<b>\$( 33.6)</b>

SOURCE: Derived by the Finance Department from audited financial statements.

(1) The Blue Cross/Blue Shield Reserve component of the General Fund decreased from \$21.7 million at June 30, 2003 to \$-0- at June 30, 2004 as the result of a settlement agreement with the City's Retirement Systems, with \$15.7 transferred to the Employee Benefit Fund (a fiduciary fund), and the remaining \$6.0 million used to defray health care costs during fiscal 2004.

**General Fund Revenue Categories**

The City's General Fund derives revenues from various sources. The following table shows the percentage that various sources of General Fund revenues have contributed to total General Fund revenues for fiscal 2001 through 2005.

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**Table 9 - Major General Fund Revenue and Other Financing Sources**

	<u>Fiscal Year Ended June 30.</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<u>(Percentage of Total)</u>				
Property taxes .....	11.2%	11.5%	12.1%	13.4%	13.2%
Municipal income tax .....	24.9	22.0	22.5	21.1	20.8
Utility users tax .....	4.0	3.5	4.0	3.7	3.9
Wagering taxes.....	6.3	7.4	8.1	8.4	10.2
State shared revenues.....	24.3	22.7	23.1	20.8	20.8
State equity grant .....	0.3	0.2	0.2	0.1	0.1
Sales and charges for services.....	13.6	13.5	12.4	12.8	13.1
Other revenue, grants and financing sources (1).....	<u>15.4</u>	<u>19.2</u>	<u>17.6</u>	<u>19.7</u>	<u>17.9</u>
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SOURCE: Derived by the Finance Department from audited financial statements.

(1) See "FINANCIAL OPERATIONS – General Fund Revenue Categories – Other Revenue, Grants and Other Financing Sources" for a discussion of the sources of revenue included in this category.

The following is a description of the major General Fund revenue sources of the City.

Property Taxes

The City reports revenue from real and personal property taxes when measurable and available. Available is defined as "due and receivable within the current period, and collected within the current period or expected to be collected within sixty days thereafter."

The City's Taxable Value (defined in "ASSESSED VALUATION AND PROPERTY TAXES – Property Valuation and Tax Rate" below) has increased an average of 4.0% during each of the last five fiscal years ending June 30, 2007. The City contracted with a nationally recognized collection agency to collect certain real property tax delinquencies existing prior to March 1, 2004. The contract expires in fiscal 2006 and will not be renewed. Beginning March 1, 2004, the County began collection of the City's delinquent real property taxes. Act 246, Public Acts of Michigan, 2003, effective December 29, 2003, allows for the Treasurer of a city with a first class school district to return (transfer) all uncollected delinquent taxes levied on real property after December 31, 2004 to the county Treasurer on the March 1<sup>st</sup> immediately following the year in which the taxes are levied. On March 1, 2004, the City transferred to the County Treasurer the uncollected 2003 real property taxes. In June 2004, the City began receiving annual payments from the County for the General Fund and the Debt Service Fund which represent 2003 and later real property taxes that had been turned over to the County as delinquent. Taxes which remain uncollected are ultimately charged to the City as an offset against future payments and are reserved in accordance with City management estimates. See "ASSESSED VALUATION AND PROPERTY TAXES – Tax Levies and Collections." Since 1994, the State Legislature has enacted various statutes pertaining to assessments and assessment procedures. These changes have restricted the rate of growth on Taxable Value of property throughout the State. See "ASSESSED VALUATION AND PROPERTY TAXES." During fiscal 2001, the State Tax Commission issued new valuation multipliers that may be used by local assessors to value personal property, including certain contested utility personal property assessments in the City. See "ASSESSED VALUATION AND PROPERTY TAXES – Personal Property Tax Assessments and Appeals."

Municipal Income Taxes

The City levies an annual income tax, pursuant to State enabling legislation. The maximum rate consists of a tax of 2.5% on income earned and received (investment income included) by residents of the City,

1.2% on corporate income earned in the City and 1.25% on income earned in the City by non-residents. The City has contracted with an outside collection firm to collect certain income tax delinquencies. The contract expires in fiscal 2006 and will not be renewed. See "ASSESSED VALUATION AND PROPERTY TAXES - Tax Levies and Collections."

Effective January 12, 1999, Act 500, Public Acts of Michigan, 1998 ("Act 500"), required a reduction in both resident and non-resident City income tax rates. The City's resident income tax rate of 3% was required to be reduced by 0.1% on each July 1, beginning July 1, 1999, until reaching 2%. The non-resident income tax rate was required to be reduced to maintain it at one-half of the resident income tax rate. Act 500 permits this statutory rate reduction schedule to be suspended under certain circumstances if at least three of the following four conditions exist: (1) funds have been withdrawn from the City's Budget Stabilization Fund for two or more consecutive fiscal years or the City's Budget Stabilization Fund balance falls to zero; (2) the City's inflation adjusted income tax revenue growth rate over the prior year is 0.95% or less; (3) the City's tax base growth rate is 80% or less of the State-wide tax base growth rate over a two-year period; or (4) the City's unemployment rate is 10% or higher. If three of these four conditions exist, the next scheduled rate reduction will be suspended until the following July 1, and the suspension may be extended if these conditions continue. Accordingly, the full implementation of the rate reduction may be delayed past July 1, 2008.

Act 500 also reduced the population threshold for levying local income taxes at rates in excess of 2% from 1,000,000 to 750,000. In addition, the then current Mayor proposed to City Council a phase-out of the corporate income tax over a similar 10-year period at the end of calendar 1999. The reduction of 0.2% became effective on January 1, 2000, with subsequent reductions on each January 1 following the scheduled July 1 reduction in the individual income tax rate, until the City's corporate income tax is eliminated by January 1, 2009, or such later date as may be applicable. Under City ordinance, the income tax rate reduction for corporations is also suspended whenever a suspension is granted by the State for resident and non-resident rates. Because of two successive one-year suspensions of the 0.1% resident income tax rate reduction granted to the City by the State pursuant to Act 500, the City corporate income tax rate for fiscal 2004 and 2005 remained the same at 1.2%. The scheduled reduction for fiscal 2005 was frozen and did not take effect. The City income tax rate for fiscal 2005 and 2006 is 2.5% for residents and 1.25% for non-residents. In December, 2005, the City received a third suspension of its income tax rate reduction, effective for the period July 1, 2006 through June 30, 2007.

#### Utility Users Tax

The Utility Users Tax is a .5% excise tax on utility bills within the City, and may be levied only by cities with a population in excess of 750,000. The City recognizes Utility Users Tax revenues collected during the fiscal year and accrues cash received within 60 days of the fiscal year end, which is related to utility usage during the fiscal year. Act 197, Public Acts of Michigan, 2005, provides that all Utility Users Tax revenues shall be used to hire and retain police officers.

#### Wagering Taxes

There currently are three casino licensees operating casinos in the City. As permitted by Act 69, Public Acts of Michigan, 1997, in November 1997 the City's voters approved the imposition of a local tax of 9.9% on adjusted gross receipts from casino operations ("AGR") in the City. Also pursuant to Act 69, the City has imposed a municipal service fee of 1.25% of AGR, or \$4 million per licensee, whichever is greater, to pay for the provision of municipal services. Act 306, Public Acts of Michigan, 2004, effective September 2, 2004, imposed an additional wagering tax of 6% of AGR, which is allocated one-third to the City and two-thirds to the State. Thus, the City currently collects a total of 11.9% on AGR as the wagering taxes in addition to such municipal service fee.

As a result of the taxes and fees described above, the City collected revenues from gaming facilities of \$85.8 million in fiscal 2001, \$109.4 million in fiscal 2002, \$111.3 million in fiscal 2003, \$116.1 in fiscal 2004 and \$138.0 in fiscal 2005. Effective January 1, 2006, pursuant to an agreement with the three casinos in the

City, an additional payment to the City of 1% of each casino's AGR was imposed on the casinos. Also pursuant to the same agreement and effective January 1, 2006, an additional payment to the City of 1% of AGR was imposed on casinos that achieve at least \$400 million in annual AGR. The City's Amended Fiscal Year 2006 Budget anticipated total revenues of \$153 million from gaming facilities, which is expected to be realized.

Certain litigation which challenged the system by which the City had granted three casino licenses continued over several years, delaying both the finalization of the permanent casino development agreements and the construction of three permanent casinos and related hotel facilities in the City. The litigation was finally resolved in 2005, and two of the three casinos have now commenced such construction. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments."

Following a settlement with the State reached in 2002, the Sault Ste. Marie Tribe of Chippewa Indians sought U.S. Congressional approval of a casino, resort and convention center in Romulus, Michigan, approximately 20 miles from downtown Detroit (the "Romulus Casino"). Legislative efforts to secure federal approval of a casino license for the Tribe have been pursued, but no action has been taken in the Congress. The potential effect, if any, of competition from the Romulus Casino on the City's existing gaming facilities, and the resulting effect on the City's revenues from gaming facilities, are unknown.

In the November 2004 election, Michigan voters approved a constitutional amendment which requires approval of any form of gaming, other than Indian tribal gaming and gaming in up to three casinos in the City, by a majority of State voters as well as a majority of voters in the city or township where the gaming will take place.

#### State Revenue Sharing

The City receives State revenue sharing payments from the State under the State Constitution and the State Revenue Sharing Act of 1971, as amended (the "Revenue Sharing Act"). State revenue sharing payments are State-shared revenues that can be used by a local unit of government for any purpose it deems appropriate. As permitted by State law, the City has secured certain debt obligations with a pledge of its revenue sharing payments (sometimes called "Distributable Aid"). As of May 2, 2006, the City had approximately \$36.76 million of such secured debt outstanding, the maximum aggregate annual debt service on which is approximately \$13.6 million. The City also has certain contingent obligations and expects to issue additional debt obligations in the future, including short-term debt for cash flow purposes, which will be secured by Distributable Aid both on a parity or subordinate basis. See "FINANCIAL OPERATIONS - Other Funds of the City" and "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES."

The City's receipts under the State revenue sharing program are based upon components as shown in the table below. Of the components, only the sales tax distribution is mandated by the State Constitution. The other components are authorized by legislative action and distribution is subject to annual State appropriation by the State Legislature, and may be reduced or delayed by Executive Order during any fiscal year in which the Governor, with the approval of the Legislature's appropriation committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based. See "FINANCIAL OPERATIONS - Recent Budget Results of the General Fund."

The table below shows State revenue sharing distributions received by the City during fiscal 2001 through 2005.

**Table 10 - State Revenue Sharing**

	<u>Fiscal Year Ended June 30,</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions)				
Revenue sharing					
Sales tax-constitutional.....	\$ 61.2	\$ 61.8	\$ 62.9	\$ 62.7	\$ 63.7
Sales tax-statutory .....	<u>270.7</u>	<u>270.2</u>	<u>255.0</u>	<u>223.8</u>	<u>219.2</u>
Total State revenue sharing .....	<u>\$331.9</u>	<u>\$332.0</u>	<u>\$317.9</u>	<u>\$286.5</u>	<u>\$282.9</u>

SOURCE: Derived by the Finance Department from audited financial statements.

The State's ability to make revenue sharing payments to the City in the amounts and at the times anticipated in the City's budgets could be affected by the State's financial condition and its ability to finance any temporary cash flow deficiencies. The distribution of sales tax revenues to the City may also be affected by changes in the City's population after 2007. It is also possible that future legislative changes could reduce revenue sharing distributed to the City.

State Equity Grant

The Detroit Main Library received substantially reduced funding in fiscal 2005, compared to prior years, from a State equity grant program which is phasing out. The Detroit Main Library received \$0.8 million from such program in fiscal 2005, compared to grant amounts of \$7.8 million, \$8.3 million, \$7.7 million and \$6.6 million received in fiscal 2001, 2002, 2003 and 2004, respectively.

Sales and Charges for Services

Receipts for sales and charges for services include such items as maintenance and construction charges, electrical fees, recreation fees, property tax collection fees and personal service fees. Actual receipts decreased from \$185.9 million in fiscal 2001 to \$178.1 million in fiscal 2005.

Other Revenue, Grants and Other Financing Sources

Other revenue and other financing sources generally consist of fines, inspection fees, interest on investments, real estate rentals, sales of property and transfers.

General Fund expenditures include the federal share of the cost of services for personnel employed in various General Fund agencies. The Community Development Block Grants and a small amount under the Job Training Partnership Act fund the federal share.

The grants listed under "Other Grants" (which are usually for health-related activities or community development projects) are generally received on a drawdown basis. Increases or decreases in expenditures would not have a direct effect on fund balances, since revenues would likewise be increased or decreased. The annual budget contains the full amount of an expected grant even though total expenditures may not be realized.

The following table compares budgeted and actual revenues and expenditures for certain major General Fund categories for fiscal 2003 through 2005. Also included are the budget amounts for fiscal 2006 and 2007.

Table 11 - Comparison of Major Budget Classifications-General Fund

Category	2003		2004		2005		2006		2007	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget (1)	Actual	Budget (1)	Budget (2)
Revenues										
Property tax	\$ 174.7	\$ 166.3	\$ 188.2	\$ 184.8	\$ 215.7	\$ 179.0	188.2	\$ 179.0	188.2	\$ 168.8
Municipal income tax	323.5	310.9	300.4	290.6	319.0	282.5	275.1	282.5	275.1	271.4
State revenue sharing	332.0	319.1	310.8	286.5	286.1	282.9	283.5	282.9	283.5	282.6
Utility Users Tax	54.7	55.3	54.6	50.5	55.0	52.9	49.7	52.9	49.7	56.0
Wagering taxes	105.0	111.3	110.0	116.1	117.6	138.0	153.0	138.0	153.0	178.2
State equity grant	2.5	2.1	0.2	0.2	1.2	1.1	0.8	1.1	0.8	0.0
Total	\$ 992.4	\$ 965.0	\$ 964.2	\$ 928.7	\$ 994.6	\$ 936.4	\$ 950.3	\$ 936.4	\$ 950.3	\$ 957.0
Total General Fund Revenues	\$ 1,419.4	\$ 1,379.9	\$ 1,497.8	\$ 1,375.1	\$ 1,587.5	\$ 1,357.0	\$ 1,400.4	\$ 1,357.0	\$ 1,400.4	\$ 1,435.1
% of Total General Fund	69.9%	69.9%	64.4%	67.5%	62.7%	69.0%	67.9%	69.0%	67.9%	66.7%
Expenditures										
Police	\$ 349.5	\$ 362.4	\$ 418.0	\$ 462.6	\$ 475.2	454.6	\$ 337.1	454.6	\$ 337.1	\$ 394.8
Department of Public Works	203.3	188.0	171.6	168.1	183.4	185.2	125.4	185.2	125.4	112.8
Fire	147.2	161.2	182.7	182.2	207.4	202.2	162.9	202.2	162.9	170.8
Public Lighting	66.1	61.9	64.7	64.5	65.9	69.1	67.5	69.1	67.5	66.5
Recreation	73.1	59.3	51.6	53.6	50.0	67.5	32.7	67.5	32.7	18.5
Total	\$ 839.2	\$ 832.8	\$ 888.6	\$ 931.0	\$ 981.9	\$ 978.6	\$ 725.6	\$ 978.6	\$ 725.6	\$ 763.4
Total General Fund Revenues	\$ 1,419.4	\$ 1,463.6	\$ 1,497.8	\$ 1,577.6	\$ 1,587.5	\$ 1,492.5	\$ 1,400.4	\$ 1,492.5	\$ 1,400.4	\$ 1,435.1
% of Total General Fund	59.1%	56.9%	59.3%	59.0%	61.9%	65.6%	51.8%	65.6%	51.8%	53.2%

SOURCE: Budget Department and Finance Department.

(1) City's Budget as adopted. The City's Budget is revised from time to time to reflect carry-forward amounts, as well as amendments during the course of the year. Property Taxes budget was amended in fiscal 2005 to reflect the revenues from the County as current instead of delinquent property tax revenues.

(2) City's Fiscal Year 2007 Executive Budget.

### ***Recent Budget Results of the General Fund***

The General Fund results for fiscal 2003, 2004 and 2005 and the General Fund Budget for fiscal 2006 are discussed below. The proposed Fiscal Year 2007 Executive Budget submitted by the Mayor for City Council consideration on April 12, 2006 also is discussed below.

#### **Fiscal Year 2003**

The Fiscal Year 2003 Budget of \$1.4 billion represented a 5.9% decrease over the Fiscal Year 2002 budget. The Budget was based on conservative revenue estimates due to a downturn in the economy, continuation of the cap on State Revenue Sharing (the City's largest revenue source) and controlled spending assumptions. Detroit's State Revenue Sharing payment, including the Library's share, set by statute at \$333.9 million, was cut with the passage of Act 679, Public Acts of Michigan, 2002, to \$322.2 million and was further reduced by passage of Act 168 to \$319.1 million.

Income tax was budgeted at \$323.5 million, a less than 1% decrease from fiscal 2002 projections. This was due to an anticipated stabilization in the economy and the 0.1% decrease in the income tax rate. The actual income tax collected was \$310.9 million.

Property tax was budgeted at \$174.7 million, an increase of 11.02% over the fiscal 2002 estimates. This was based on a 4.4% increase on the *ad valorem* roll and assumed a 5.1% overall increase when industrial facilities and neighborhood enterprise zone rolls were included. The actual property tax receipts were \$166.3 million.

The wagering taxes were budgeted at \$105.0 million, which was 9.6% higher than the fiscal 2002 projections. Actual wagering taxes receipts for fiscal 2003 amounted to \$111.3 million, a 1.6% increase over fiscal 2002 results. The City also received an additional payment from the casinos aggregating \$63.8 million in fiscal 2003 related to the renegotiation of the location (no longer on the riverfront) and hotel size of the permanent casino facilities (each reduced to 400, instead of 800, rooms).

The Fiscal Year 2003 Budget did not include provisions for a wage adjustment with the City's bargaining units. In general, vacant positions were eliminated from the Budget, reflecting 549 fewer budgeted positions than for fiscal 2002. The Airport budget reflected a reduction of 17 positions due to the loss of an air carrier. The Police Department budget reflected a net reduction of 121 uniform positions, primarily due to loss in grant funding. The Library Department lost 61 positions due to reduction in State funding.

The Fiscal Year 2003 Budget again included contributions to some enterprise funds. The Airport subsidy was \$2.4 million, a \$360,000 increase over fiscal 2002, also due to the loss of a major carrier. The subsidy to the Detroit Department of Transportation ("DDOT") was \$4.6 million less, at \$69.4 million, than in fiscal 2002, due primarily to an increase in fares of 25 cents. The Detroit People Mover subsidy also decreased by \$568,000, to \$10.8 million.

The City's Housing Fund accounted for the public housing function administered through the Detroit Housing Commission ("DHC"). In June 2003, the Michigan Supreme Court unanimously affirmed the opinion of the Michigan Court of Appeals in ruling that the 1996 amendments to the Michigan Housing Facilities Act severed by operation of law the City's employment relationship with personnel assigned to and employed by the DHC, to be effective July 1, 2003. This confirmed DHC's status as a separate and autonomous entity without need for legislative action by the Detroit City Council.

Two post-year end events contributed \$55 million of the \$69 million deficit: a write-off of \$18 million of accounts receivable owed by the DHC, which was then an enterprise fund of the City, and an additional \$37 million contribution (representing a \$35 million judgment plus \$2 million in interest) to the Police and Fire Retirement System Funds as a result of a lawsuit. The City filed a deficit elimination plan with the State and took action in fiscal 2004 to eliminate the deficit.

### Fiscal Year 2004

The Fiscal Year 2004 Budget of \$1.5 billion represented a 5.5% increase over the Fiscal Year 2003 Budget. The Fiscal Year 2004 Budget was based on assumptions of continuing slow growth in the local economy, cuts in State Revenue Sharing and controlled spending. The City's total revenue sharing payments for fiscal 2004 were expected to amount to \$290.3 million. This was a \$43.6 million or 13.1% reduction from the prescribed amount pursuant to the 1998 Amendments. Actual payments received for fiscal 2004 were \$286.5 million.

Income tax collections for fiscal 2004 were budgeted at \$300.4 million, representing a 7.1% decrease from the prior year, reflecting once again the economic challenges in the City's and State's economies, as well as the 0.1% reduction in the income tax rate. In December 2003, the City requested and received approval from the State to suspend its income tax rate reduction for a one-year period concluding July 1, 2005. Actual income taxes received for fiscal 2004 were \$290.6 million.

Property tax was budgeted at \$188.2 million, a 7.7% increase over fiscal 2003. The City contracted with an outside collection firm to collect delinquent property taxes owed for years prior to fiscal 2003, income taxes and water/sewerage bills. Although actual collections were less than expected, property tax collections for fiscal 2004 amounted to \$184.8 million, which included the payment of \$37.4 million received from the County upon the transfer of fiscal 2003 delinquent real property taxes to the County for collection.

The wagering taxes were budgeted for a small increase of \$5 million or 4.8% over the Fiscal Year 2003 Budget. Actual wagering taxes collections for fiscal 2004 were \$116.1 million, a \$4.8 million (4.3%) increase from actual collections in fiscal 2003. The City also received a nonrecurring additional payment from the casinos aggregating \$38.3 million in fiscal 2004 related to the renegotiation of the location (no longer on the riverfront) and hotel size of the permanent casino facilities (each reduced to 400, instead of 800, rooms).

While budget expenditures were reduced in a number of major categories, there were some significant adjustments related to personnel costs. The Fiscal Year 2004 Budget included a proposed wage increase of 5% for uniformed employees, a 2% increase for civilian employees and special pay adjustments for certain employee categories. Employee benefits experienced a significant increase due to higher health insurance costs and pension contributions for both uniform and civilian employees. Offsetting these increases was the overall reduction of 138 General Fund budgeted positions.

The Fiscal Year 2004 Budget again included contributions to some enterprise funds. The Airport subsidy was \$2.8 million, a \$258,000 increase over fiscal 2003, reflecting increased personnel costs. The subsidy to the DDOT remained at \$68.2 million. The Detroit People Mover subsidy decreased by \$0.5 million to \$10.3 million.

The Fiscal Year 2004 Budget contained a number of management initiatives. A Program Management Office was established to assist the City administration in managing large projects as well as restructuring City operations in order to improve efficiency and effectiveness of City services. The Grants Acquisition Office was established to help coordinate and improve the City's efforts in identifying, applying for and securing grants.

For fiscal 2004, the City administration withdrew \$8.5 million from its Budget Stabilization Fund, reducing its balance to zero, sold \$61 million in Fiscal Stabilization Bonds and reported a budget deficit of \$95 million. This fiscal 2004 deficit amount was \$26 million larger than the deficit reported in fiscal 2003. The deficit increase was a result of revenue shortfalls in income tax, utility users' tax and state revenue sharing collections, in addition to unexpected increases in pension and employee benefits, and unbudgeted expenses related to the 800-megahertz communication system. The City filed a deficit elimination plan with the State and took action in fiscal 2005 to eliminate the deficit.

### Fiscal Year 2005

The Fiscal Year 2005 Budget of \$1.6 billion reflected the continuing slow growth in the local economy, cuts in State revenue sharing and controlled spending assumptions. The City's total revenue sharing payments for fiscal 2005 were budgeted at \$286.1 million, actual payments totaled \$282.9 million. The Fiscal Year 2005 Budget included a \$61.1 million financing to fund a payment to the Risk Management Fund and an \$80.1 million benefit from the issuance of pension certificates of participation during fiscal 2005.

Income tax collections for fiscal 2005 were budgeted at \$319 million, a 6.2% increase over the prior fiscal year. This increase was due to a one-year suspension of the 0.1% rate reduction permitted under Act 500, Public Acts of Michigan, 1998 ("Act 500"), if the City met three out of four conditions set forth in such Act for the year. However, income tax collections continued to decline and yielded \$282.5 million for fiscal 2005.

Property tax revenues were budgeted at \$215.7 million, an increase of 14.6% over fiscal 2004. This increase was due primarily to the transfer of delinquent real property taxes to the County. See "FINANCIAL OPERATIONS - General Fund Revenue Categories: Property Taxes." Fiscal 2005 Taxable Value increased by 6.3% on the *ad valorem* roll and decreased 5.9% on the industrial facilities and neighborhood enterprise zone tax rolls. Actual property tax receipts totaled \$179.0 million. The Fiscal Year 2005 Budget included an additional \$3.5 million from a personal property tax audit. The audit was the result of a two-year grant program funded by the State. The outcome of the program was an increase in personal property taxable valuations beginning with the 2005 tax year.

The wagering taxes were budgeted at \$117.6 million, a \$7.6 million increase over the prior fiscal year, but yielded approximately \$138.0 million in fiscal 2005. This significantly increased wagering taxes revenue was primarily due to tax rate increases enacted in Act 306, Public Acts of Michigan, 2004, from which the City received a 2% increase in its wagering taxes rate, bringing the City's total wagering taxes rate to 11.9%.

Based on a comparative study by consultants hired by the City, which recommended increases in various user fees charged by the City, the Fiscal Year 2005 Budget included an increase of \$4 million in user fees.

On the expenditure side, the Fiscal Year 2005 Budget reflected a reduction of 997 positions, including 377 layoffs, elimination of 263 vacant positions, and 357 DHC positions no longer reported in the City's budget. The Fiscal Year 2005 Budget included a pay raise of 2% for civilian employees and 5% for uniform employees. Pension and health care costs increased. Contractual services, operating supplies and capital equipment were reduced by a total of \$14.2 million (9.6%) from the prior fiscal year. The Fiscal Year 2005 Budget included contributions to certain Enterprise Funds. The Airport subsidy was \$2.5 million, a reduction of \$200,000 from fiscal 2004. The Buildings and Safety Engineering Department subsidy of \$1.9 million was eliminated. The DDOT subsidy was \$71.2 million, an increase of \$3.4 million.

The Fiscal Year 2005 Budget also included many new initiatives. The Department of Administrative Hearings was established to strengthen code enforcement efforts by assessing and collecting civil fines and costs for blight violations. This Budget implemented a reduction of 57% in City employee take-home vehicles through a new policy that provided vehicles to employees on an economic and business basis rather than as a fringe benefit. Professional facility managers conducted a review of City-wide leases with a view toward consolidation and renegotiation.

In response to the recognition of a projected deficit for fiscal 2005, additional mid-year layoffs of 686 employees were implemented in March 2005, as well as the elimination of 237 vacant positions. Additional cuts in salary expenses were instituted beginning with a 10% reduction in salary for mayoral appointees and non-union employees. The 10% salary reduction for non-union employees was put into effect beginning July 1, 2005. Vendors were asked to take a 10% reduction in contractual costs, with limited success. Other



expenditure reductions were made, including overtime costs, the elimination of non-essential purchases and restrictions on travel. In addition, \$71 million from the sale of bonds was applied to fund capital expenditures accrued in fiscal 2004 and 2005 on the 800-megahertz communication system. The City estimated for Fiscal Year 2006 Budget purposes that it would finish fiscal 2005 with a General Fund deficit of approximately \$101.7 million. The actual fiscal 2005 deficit was \$155.4 million, or \$60.4 million higher than the deficit reported in fiscal 2004. This deficit was a result of revenue shortfalls principally in property tax, income tax, sales and charges for services and sale of real property offset somewhat by increase in wagering taxes. The City addressed these shortfalls by reducing expenditures by \$91.4 million (net of grant receipts and expenditures). The City filed a deficit elimination plan with the State and took action in fiscal 2006 to eliminate the deficit.

#### Fiscal Year 2006

On May 24, 2005, City Council adopted a balanced budget for fiscal 2006 that built upon significant cuts in existing City departments, broad-based expenditure reductions and provisions for an anticipated carryover of undesignated General Fund deficit from fiscal 2005 estimated at \$101.7 million, which was required to be funded by an appropriation in the Fiscal Year 2006 Budget. The actual carryover 2005 deficit was \$155.4 million.

The Fiscal Year 2006 Budget of \$1.4 billion represents a 11.79% decrease from the Fiscal Year 2005 Budget. The Fiscal Year 2006 Budget assumed continued slow growth in the local economy, lower estimated tax revenues and continued controlled spending assumptions. The City budgeted \$283.5 million in revenue sharing payments, based on the State projected payments. The City currently estimates that revenue sharing payments will total \$280.8 million.

Income tax collections for fiscal 2006 were budgeted at \$275.1 million, an 11.5% decrease from the prior fiscal year. This decrease reflects actual fiscal 2005 income tax collections and the continued decline in the local economy and employment. The City was again granted by the State a one-year suspension of the 0.1% income tax rate reduction permitted under Act 500. The City estimates that income tax collections will total \$273.5 million in fiscal 2006. The City will continue to petition the State to suspend additional income tax reductions in future years as allowed. Under City ordinance, the income tax rate reduction for corporations is also suspended whenever a suspension is granted for resident and non-resident rates. Also included in the fiscal 2006 income tax revenue estimate is a reduction of the personal exemption from \$750 to \$600 that was approved by City Council.

General Property taxes were budgeted at \$188.2 million, a decrease of 12.7% from fiscal 2005 due to a reduction in estimated delinquent tax collections. Taxable valuation estimates have increased by 5.0% on the *ad valorem* tax roll, decreased by 11.5% on the industrial facilities roll and increased by 19.3% on the neighborhood enterprise zone tax roll. The Fiscal Year 2006 Budget includes delinquent tax collections from the County and from an outside collection firm. Actual property tax collections for fiscal 2006 are now estimated at \$185.1 million.

The wagering taxes were budgeted at \$153 million, a \$35 million increase over the prior fiscal year's budgeted amount. The budgeted increase was due to a State increase in the wagering taxes rate of 2% as of September 1, 2004, and the City's receipt of 1% of all AGR plus an additional 1% of AGR of individual casinos reaching \$400 million in annual AGR, commencing January 1, 2006, pursuant to agreements between the City and the three casinos in the City. See "FINANCIAL OPERATIONS - General Fund Revenue Categories - Wagering Taxes" above. Two of the three casinos are expected to reach \$400 million of AGR by November or December 2006. The City estimates that the wagering taxes for fiscal 2006 will total \$157.1 million.

The Fiscal Year 2006 Budget included plans for sweeping reductions of expenditures. A total of 2,992 budgeted positions, including 686 mid-fiscal 2005 layoffs, were eliminated in the Fiscal Year 2006

Budget in addition to a proposed 10% reduction in salary costs for non-uniformed employees. The 10% salary reduction was to be achieved for the City's unionized civilian employees by requiring days off without pay. While the non-union reduction was achieved, the City was unable to reach agreements with its unions for that portion of the reduction. No wage increases were included in the Fiscal Year 2006 Budget for either civilian or uniformed employees.

A study of health care benefits was performed by a nationally recognized consulting firm, which identified cost savings in the areas of hospitalization, dental and vision benefits. The renegotiation of employee health care benefits was expected to generate significant cost savings of \$47 million. The City's unions have not approved salary and health care reductions and an agreement has not yet been reached with all of them. In January, the City administration determined that because the proposals were not approved, further reductions to the City's work force were required to realize the necessary savings and it implemented an additional 414 layoffs to help meet this savings goal.

The Fiscal Year 2006 Budget continued reductions in take-home vehicles; a total of 62 general assigned vehicles were eliminated, as well as 100 police general assigned vehicles. All eliminated vehicles were sold at auction. In addition, no appropriations were recommended in the General Fund for vehicle fleet replacement.

Also included in the Fiscal Year 2006 Budget was business process redesign involving a new centralized mailroom to achieve savings in postage costs across the City, centralization of document production and the elimination of bulk refuse collection during slow winter months based on a best practices study. On January 31, 2006, the City eliminated all bulk pick up, resulting in an annual savings of \$20 million.

The Fiscal Year 2006 Budget anticipated the reduction of the subsidy for the Detroit Zoological Institute. On March 1, 2006, the City Council approved an operating agreement transferring Detroit Zoological Institute operations to the Detroit Zoological Society, eliminating an estimated \$5 million annual net cost to the City. The City also transferred operations of the Detroit Historical Museum to the Detroit Historical Society, eliminating another \$1.6 million annual subsidy.

The Fiscal Year 2006 Budget included contributions to certain Enterprise Funds. The DDOT subsidy was \$83.5 million, an increase of \$4.1 million from the fiscal 2005 budgeted amount. Also included was a \$2.6 million subsidy for the Detroit City Airport.

Five of the 10 Neighborhood City Halls under the Mayor's Office and other expenses of the Mayor's Office were eliminated in fiscal 2006 for a reduction of \$2.4 million. An additional \$2.1 million was reduced from the fiscal 2006 budgets for certain of the City's planning and development agencies.

Additional reductions in fiscal 2006 expenditures were adopted by City Council for the Police and Fire Departments. The City Council approved a \$22.9 million (10%) reduction in wage costs for uniformed police and fire personnel. These wage reductions required approval of the police and fire unions and are further subject to arbitration under the State compulsory arbitration act. In addition to the foregoing, the City Council approved reduced funding of \$53.7 million in the Police Department budget and \$15.1 million in the Fire Department budget, which does not require approval by the police or fire unions.

In June 2005, the Mayor proposed amendments to the Fiscal Year 2006 Budget to restore \$23.4 million in cuts to the Police and Fire Departments. This \$23.4 million cut would have resulted in the layoff of 182 police officers and 73 firefighters. To maintain a balanced budget, the restoration of funding for the Police and Fire Department cuts were provided from a reduction to the payment to the Risk Management Fund of \$12.5 million. In addition, the Utility Users Tax revenue was increased by \$6.3 million. The State passed legislation in October 2005 that eliminated the staffing requirements for officers which would have required a reduction in the Utility Users Tax rate if required staffing levels were not maintained. The General

Fund subsidy of \$2.6 million to the Detroit City Airport was eliminated, as well as \$2 million for 36th District Court operations at the same time.

On June 27, 2005, City Council approved the Mayor's proposed amendments. The amendment also restored funding of \$540,000 for the Department of Homeland Security that was initially cut in the Adopted 2006 budget.

At the end of August 2005 the Mayor and the Chief of Police presented a plan to reorganize the Police Department. The plan recommended 150 layoffs. In addition, the Mayor and the Fire Commissioner presented a plan for the Fire Department that resulted in 75 layoffs. The Fire Department layoffs were delayed by the Firefighters' Union which obtained an injunction to prevent implementation. Ultimately, the City laid off 61 firefighters.

Both reorganization plans proposed by the Mayor called for fewer layoffs than the City Council had contemplated when it passed the Fiscal Year 2006 Budget, resulting in a funding shortfall for both the Police and Fire Departments, which the Mayor addressed along with other negative variances by a series of budget amendments and several initiatives that impacted a significant number of the General Fund departments, excluding the Police and Fire Departments. The most significant was the closing of nine Recreation facilities with about 150 accompanying layoffs. A second significant item reduced the General Fund subsidy to the DDOT by \$8 million. This is the same amount that the City Council provided in additional funding to the DDOT during its budget deliberations.

The Fiscal Year 2006 Budget contained salary and health related concessions from employee unions which have failed to receive union approval. As a result, in July 2005 the City issued layoff notices to 209 employees, representing an annualized savings of \$8.3 million. Because of this failure to reach agreement, the City will incur \$17.5 million in unbudgeted costs by the end of fiscal 2006. In addition, the health care concessions are not expected to be approved by fiscal year-end, which will cost the City an additional \$42 million. The adopted Fiscal Year 2006 Budget also contained an increase of \$15 million for pension funding obligations, which will be eliminated by the fiscal 2006 year-end as a result of the transaction described in the next paragraph.

The governing boards of the City's two pension systems voted on February 8 and March 30, 2006 to extend the amortization periods for funding their respective unfunded actuarial accrued liabilities ("UAAL") to 30 years (instead of 20 and 12 years, respectively). As a result, the City will replace certain scheduled contractual payment obligations that it incurred to provide funding for UAAL of the pension systems with new contractual obligations payable over a longer period to match their extended amortization periods. The transaction will result in a fiscal 2006 benefit to the General Fund of approximately \$20 million.

To further address the above fiscal challenges, the City administration implemented \$23.5 million of budget initiatives including additional departmental cuts and other initiatives. The Municipal Parking Department, an enterprise fund of the City, sold its Greektown Parking Garage to the Greektown Casino owners. The net proceeds to the General Fund from this sale, after providing for the retirement of related bond obligations, were approximately \$28 million. The City is currently exploring other opportunities to divest itself of non-core assets.

The City has experienced a reduction in risk management expenditures as a result of changes in risk management practices resulting in the ability to reduce transfers to the Risk Management Fund by \$30 million.

As a result of the reduction in City staff, the City is in the process of selling excess inventory and expects to realize \$10 million from such sales.

The City's grant-funded departments have identified \$2 million in General Fund costs that are eligible for reimbursement from grant dollars. Utilizing a matching grant from the State and a consulting firm with

expertise in the personal property tax area, the City engaged in a two year study to identify unreported personal property in order to collect the related personal property taxes. Another major initiative is the City's decision to proceed through a "fact-finding" process relating to employee pay. This process, which is provided for in State law, will allow the City to impose on its civilian unions the City's last best offer of a 10% pay cut. While the City strongly feels it will be successful, this process will take several months, as a result it is estimated that it cannot be implemented until after the end of fiscal 2006.

The City now estimates that it will complete fiscal 2006 with a deficit of \$63.0 million which it has budgeted for elimination in fiscal 2007. This represents a reduction of over \$90 million from the fiscal 2005 deficit of \$155.4 million. The City continues to pursue expenditure controls, property sales, collection of delinquent taxes, revenue securitization and other initiatives in order to reduce this deficit further.

#### Fiscal 2007 Budget

On April 12, 2006, the Mayor submitted a balanced Fiscal Year 2007 Executive Budget for consideration by the City Council that included a provision for an estimated \$63 million deficit carryover from fiscal 2006. The City administration believes that Fiscal Year 2007 Executive Budget is based upon management's conservative revenue and expenditure assumptions.

The proposed Fiscal Year 2007 Executive Budget of \$1.4 billion is essentially unchanged in the total from the Fiscal Year 2006 Budget. The City's total revenue sharing payments are budgeted at \$282.6 million, a decrease of \$0.3 million versus fiscal 2005 revenue sharing receipts of \$282.9 million.

Income tax collections for fiscal 2007 are budgeted at \$271.4 million, a \$3.6 million decrease from the amount budgeted for fiscal 2006 and a decrease of \$2.1 million from estimated fiscal 2006 income tax receipts. Fiscal 2007 collections assume the continuing suspension by the State of a statutory 0.1% income tax rate reduction as permitted under Act 500.

General Property Tax receipts are budgeted at \$168.5 million, a decrease of \$19.5 million from the amount budgeted in fiscal 2006. This reflects taxable valuation growth offset by the implementation of the Mayor's initiative to change the way refuse collection and disposal is funded. Under this initiative, the City will cease collecting three mills of its property taxes which are dedicated to refuse collection and instead begin charging a fee for service of \$300 annually per home with provisions for hardships and senior discounts. Billing is expected to occur on a quarterly basis and any delinquent accounts will be added to the property tax bill and become a lien on real property. The City estimates that \$67.2 million will be generated by the fee, \$40 million more than had been collected from the three mills.

The wagering taxes receipts are budgeted at \$178.3 million versus a Fiscal Year 2006 Budget amount of \$153.0 million reflecting a full year of collections of the additional 1% under the City's agreements with the three casinos in the City, as well as additional revenues based on an increase in casino gross receipts.

Significant savings are anticipated in the Fiscal Year 2007 Executive Budget from three initiatives. First, the administration expects to impose days off without pay on union employees in July pursuant to provisions in State law which allow it to impose its last best offer after fact finding and the lapse of a 60-day "cooling off" period, which will lapse in July 2006. This initiative is budgeted to save \$11.0 million. Second, the City has budgeted \$58 million in savings through changes in health care design, employee contribution increases and reduction in administrative fees and rates. These plan changes will be imposed pursuant to the provisions of State law. Third, approximately \$20 million in savings are expected to result from the City's replacing certain scheduled contractual payment obligations that it incurred to provide funding for unfunded accrued actuarial liabilities of its pension systems with new contractual obligations payable over a longer period to match the recent extensions of the amortization periods for funding the systems' UAAL.

Other budget items include an additional 77 layoffs to take place on July 1, 2006 and the expenditure of \$20 million to replace vehicles throughout the fleet. The Detroit Historical Society will be granted an operational subsidy of \$500,000 and the Detroit Zoological Society will receive \$900,000 for insurance and security pursuant to its operating agreement with the City. The Charles H. Wright Museum of African American History will receive a \$1.4 million subsidy increased from \$1.0 million. Public Lighting will save a net \$8 million in reduced fuel costs by implementing a VAR (Volt Ampere Reactive) program, which will reduce fuel utilization. The DDOT subsidy will be reduced by \$7.1 million and revenues increase by \$2.7 million through the imposition of a \$0.75 fare for disabled riders. The Greater Detroit Resource Recovery Authority ("GDRRA") tipping fee of \$85.5 million reflects a \$5.2 million increase including \$2.8 million toward reducing a prior year deficit. The budget includes no subsidy for the airport.

Another of the Mayor's initiatives is the establishment of the General Services Department through the transfer of 629 positions from various agencies including DPW, Recreation, Public Lighting, Health, Civic Center and Elections. The department consolidates fleet management, skilled trades, security, building and grounds maintenance, and inventory management. This consolidation is expected to save \$4.5 million through such things as coordinated purchasing and inventory management.

The City believes that the annualized effect of cuts it has already implemented combined with initiatives proposed in the Fiscal Year 2007 Budget will bring its financial operations into structural balance.

On May 24, 2006 the City Council, by a 6-3 vote, approved a balanced Fiscal Year 2007 Budget with certain amendments to the Fiscal Year 2007 Executive Budget. The resulting Fiscal Year 2007 Budget, as amended, is currently in effect. The principal amendment restored quarterly bulk trash pick-up at an estimated \$9 million cost to the City. This additional expenditure was offset by increasing the estimate of wagering taxes receipts by \$4 million, reducing deposits to the Targeted Business Fund by \$5 million and increasing user charges in the Police Department and the Department of Public Works by \$1.5 million. The City Council also reduced the Mayor's proposed \$0.75 bus fare for disabled riders to \$0.50, and offset that change by adding a \$0.50 bus fare for seniors. Together with other minor changes, the City Council's amendments increased the total Fiscal Year 2007 Executive Budget by less than 1%.

#### *Other Funds of the City*

##### Debt Service Funds

The City, by State law, must provide a separate fund for debt retirement moneys. Debt service on unlimited tax general obligation bonds is funded from *ad valorem* property taxes levied without limitation as to rate or amount specifically for that purpose. Debt service on limited tax general obligation bonds is funded from property taxes levied within constitutional, statutory and Charter limitations or other unrestricted moneys of the City. All City property taxes are collected by the Treasurer and deposited in the appropriate funds according to the proper distribution percentage.

##### Enterprise Funds

The City currently has five enterprise funds. The revenues of the enterprise funds are not available to pay principal of and interest on bonds other than those issued by or on behalf of a particular enterprise operation. Individual financial statements for the enterprise funds described below have not been included in this Official Statement. The fiscal 2005 CAFR of the City (which contains audited financial results for the enterprise funds) is available on the City's web site.

The Sewage Disposal and Water Supply Systems, which serve a significant portion of southeastern Michigan, have an aggregate of approximately \$4.7 billion in outstanding revenue bonds (net revenue pledge). The General Fund bears no liability for funding any expenses not covered by self-generated revenues for these systems and has never made a subsidy payment to the Sewage Disposal or Water Supply Systems.

The City's Parking System is intended to be, but during fiscal 2003 and 2004 was not, self-sufficient. The City is legally responsible for payment of operation and maintenance expenses of the system, and the General Fund is reimbursed for payment of such expenses from funds generated from the system, if available. System revenues were inadequate to make such reimbursement in full in fiscal 2003 and 2004; and as a result, the City was not in compliance with its continuing bond covenant to maintain parking system rates at a level sufficient to pay or reimburse the City for payment of Parking System operating, maintenance and repair expenses, but was complying with the related remedial bond covenant. The City is now in compliance with all of its bond covenants.

Other enterprise funds which have received General Fund support are DDOT and Detroit City Airport. The Transportation Fund accounts for the operation of the DDOT that operates the bus-oriented mass transit system, and receives a substantial portion of its operating revenues from regional allocation of federal and State moneys and from self-generated revenues. However, as a result of a continuing gap between operating revenues and rising expenses, the fund has received General Fund subsidies. The following table indicates the amount of General Fund subsidy since fiscal 2001.

**Table 12 - Transportation Fund Subsidies**

<u>Fiscal Year</u> <u>ended June 30,</u>	<u>Subsidy</u> <u>(in millions)</u>
2001	\$74.2
2002	\$79.4
2003	\$75.5
2004	\$74.3
2005	\$77.4

SOURCE: Finance Department.

The City's Airport Fund accounts for the operations of Detroit City Airport. The Airport is capable of accommodating commercial jet carrier service although no commercial airline currently provides passenger service. The Airport has not been self-sufficient and has required General Fund subsidies ranging between \$1 million and \$2.5 million per year. The Mayor has proposed no operating subsidy for the Airport in his Fiscal 2007 Executive Budget.

*Component Units of the City*

In addition, the General Fund provides significant financial support to two discretely presented component units: the GDRRA and the Detroit Transportation Corporation ("DTC"). The GDRRA receives moneys from the General Fund through tipping fees paid for disposal of waste collected by the City. The City's obligation to pay such tipping fees is a full faith and credit, limited tax, general obligation of the City. It is also secured by Distributable Aid. See "FINANCIAL PROCEDURES - Other Funds of the City." The GDRRA is responsible for disposal of essentially all residential solid waste and a small fraction of commercial waste collected in the City.

Since 1991, the GDRRA waste incineration facility (the "Facility") has been operating in conformance with its operating permits. Previous to that time, however, the Facility experienced certain operational problems during the start up and testing phase. The Facility was originally scheduled to be complete and fully operational in 1989. Additional pollution control equipment was financed from proceeds of revenue bonds issued by the EDC, and the outstanding balance was refinanced in the first quarter of fiscal 2002. The retrofit was completed in 1996 and the Facility is operating well within all permit restrictions.

The GDRRA has approximately \$145.5 million of bonds outstanding as of May 2, 2006, which were issued to refund bonds originally issued to finance construction of the Facility. The GDRRA is responsible for

making payments to the EDC for debt service on \$49.8 million of bonds outstanding as of May 2, 2006, which were issued to refund bonds originally issued to finance additional pollution control equipment.

The Facility essentially covers operating expenses through the sale of steam and electricity and from revenue sources other than the City. The City's tipping fee payments have been, and are expected to remain, approximately equal to the debt service requirements on the outstanding GDRRA bonds and the GDRRA-related EDC bonds. The operations and performance of the Facility are guaranteed in certain respects by the lessee of the Facility; however, the City assumes the risk of environmental law changes and of insufficient quantity of, and in certain circumstances the composition of, waste. Approximately half of the expenses of the GDRRA are currently being supported from revenue sources other than the City. The gross future tipping fees to be paid by the City are expected to be stable and, if the GDRRA's revenues remain stable, approximately equal to debt service on the GDRRA bonds.

While the City has no reason to believe that the Facility will not operate as designed in the future, additional restrictions could be imposed by regulatory agencies and those restrictions could adversely impact financial operations of the Facility. Under certain extraordinary circumstances (such as the Facility being permanently closed or destroyed beyond repair), the GDRRA (and therefore the City) could be subject to special annual payment obligations. While such an event is thought to be very remote, the amount of such annual payments that are secured by the City's State revenue sharing payments could be as high as approximately \$10.2 million at an assumed annual interest rate of 18%. The Facility is currently operating as expected.

In 1986, the City, through the DTC, took over responsibility for the Downtown People Mover. Construction of the project was funded primarily through a combination of federal and State transportation moneys. At this time, the project is not self-supporting and approximately \$6.2 million was budgeted for fiscal 2006 to support its operations.

#### Other Funds

The following table lists the other funds of the City and their revenues and expenditures for fiscal 2005. For audited basic financial information as of and for the fiscal year ended June 30, 2005, see APPENDIX B.

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**Table 13 - Revenues and Expenditures of Other Funds**  
**Fiscal Year Ended June 30, 2005**

<u>Funds</u>	<u>Revenues/ Expenditures</u> (\$ in millions)	<u>Purpose</u>	<u>Major Funding Sources</u> (\$ in millions)
<b>Special Revenue Funds</b>			
Community Development Block Grant	64.9 / 55.5	Economic Development	Federal Government - 59.8
Construction Code Fund	24.5 / 35.4	Building Permit and Inspections	User Fees - 23.9
Detroit Building Authority	2.2 / 2.0	Special Maintenance	Other Income - 2.2
Drug Law Enforcement	4.2 / 2.7	Narcotics Law Enforcement	Fines and Forfeitures - 3.7
Empowerment Zone	11.5 / 11.5	Economic Development	Federal Government - 11.5
Detroit Workforce Development Department	73.8 / 73.8	Work Force Development	Federal Government - 73.8
Targeted Business Development	- / -	Casino Agreements	Casinos - 30.0
Major and Local Streets	75.3 / 46.3	Infrastructure Improvements	Gas and Weight Tax - 63.5
Human Services	77.5 / 81.8	Social Welfare Programs	Federal Government - 74.3
Supportive housing and homeless initiatives	5.8 / 5.8	Help of the Homeless	Federal Government - 5.8
Capital projects (including Urban Renewal)	60.4 / 160.1	Capital Projects	Other Revenues - 26.1
<b>Fiduciary Funds</b>			
Pension Funds	2,346.3 / 848.1	Employee Retirement and Benefits	City Contributions - 1,743.6 Plan Member Contributions - 54.1

SOURCE: Derived by Finance Department from audited fiscal 2005 financial statements.

#### *Risk Management*

The City is self-insured with respect to property damage, liability risks and workers' compensation claims. The City assumes the risk for loss exposures, using generally accepted standards with regard to self-assumption of risk. Provisions are made for assumed losses by a combination of annual budgetary appropriations and liquid reserve funds. Insurance has been obtained for catastrophic loss exposures when insurance has been a feasible alternative. Contract liability losses and tort and negligence liability losses are covered by a combination of a Public Liability Reserve Fund and a Risk Management Fund. The City issued self-insurance bonds in fiscal 2003 and 2004 to make loss payments.

The following schedule indicates the amounts paid from appropriations for the fiscal years ended June 30, 2001 through 2005. The schedule reflects both General Fund and Transportation Fund payments. As discussed under "FINANCIAL OPERATIONS - Other Funds of the City - Enterprise Funds," the General Fund has typically made substantial transfers to the Transportation Fund, in part to cover liability claims payable from that fund.



**Table 14 - Liability Claims Paid**

**Fiscal Year Ended June 30,**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Damage and liability claims .....	\$22,984,376	\$26,079,282	\$31,902,082	\$31,471,943	\$47,292,944
Vehicle claims .....	5,973,490	8,235,563	8,784,362	27,963,846	8,696,371
Worker compensation claims ...	<u>21,363,664</u>	<u>17,876,181</u>	<u>14,695,446</u>	<u>16,042,338</u>	<u>12,657,646</u>
Total.....	<u>\$50,321,530</u>	<u>\$52,191,026</u>	<u>\$55,381,890</u>	<u>\$75,478,127</u>	<u>\$68,646,961</u>

SOURCE: Finance Department.

**ASSESSED VALUATION AND PROPERTY TAXES**

*Property Valuation and Tax Rate*

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature, by statute, has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize *ad valorem* taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1995, taxable property has two valuations—State Equalized Valuation ("SEV") and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b) the property's current SEV. Therefore, the Taxable Value of property is likely to differ from the same property's SEV.

This constitutional amendment and the implementing legislation based the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the City Assessor. Any property owner may appeal the assessment to the City Assessor, the Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the City Assessor is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. The City Assessor establishes assessments initially. City assessments are then equalized to the 50% levels as determined by the County's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value of real estate for the purpose of levying *ad valorem* property taxes, because of its indirect measure of total true cash value contained in the City, its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits. Property that is exempt from property taxes, e.g., churches, government property and public schools, is not included in the SEV and Taxable Value. Property granted tax abatements under Act 198, Public Acts of Michigan, 1974, as amended ("Act 198"), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax-abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the Official Statement except as noted. The assessments of, and the tax levies on abated properties are not reflected in Table 17, "Tax Rates and Levies," below.

### **Industrial Facilities Tax**

Act 198 provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of *ad valorem* property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. New plants and equipment that received an abatement certificate prior to January 1, 1994 are taxed at one-half the total mills levied by all taxing units, other than mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993. For new facility tax abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as *ad valorem* property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility tax abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. *Ad valorem* property taxes on land are not reduced in any way since land is specifically excluded under Act 198.

### **Payment and Lien**

Property taxes are due on July 1 of the fiscal year and are payable in full without penalty either on or before August 31 or, at the taxpayer's option, one-half may be paid on or before August 15, with the other half paid on or before January 15. For taxes levied prior to December 31, 2002, the City collected its own delinquent property taxes. Pursuant to Act 246, Public Acts of Michigan, 2003, the City began returning uncollected delinquent property taxes levied after December 31, 2002 to the County for collection on each March 1. The City receives full funding for such taxes from the County's delinquent tax revolving fund. If such delinquent real property taxes remain uncollected after three years from the date on which such taxes become delinquent, the County may charge the respective amount of such taxes back to the City. Thus, delinquent real property taxes for tax year 2003 will be collected in accordance with Act 123, Public Acts of Michigan, 1999, which may result in foreclosure if not paid by March 31, 2006. Tangible personal property may also be seized and sold to satisfy a personal property tax lien.

As shown in Table 17, "Tax Levies and Collections" below, the rate of current collections to the adjusted levy has increased from 87.60% in fiscal 2001 to 95.01% in fiscal 2005 primarily as a result of the change in tax collections described above. The City has taken steps designed to improve collections, including a more aggressive foreclosure policy and the implementation of a program that offers negotiated payment plans to delinquent taxpayers. Additionally, the City may attach personal property of real property owners to satisfy real property delinquencies of such owners.

### **Personal Property Tax Assessments and Appeals**

Since the 1960s, Michigan personal property tax assessments have been based, among other things, on the use of one or more depreciation schedules formulated by the State Tax Commission. The schedule used against the taxpayer-reported cost depends upon the assessor's view of the appropriate depreciation table to adopt for valuation of the affected personal property. The State Tax Tribunal revised its depreciation schedules beginning with the 2000 tax year. The revisions had the effect of reducing personal property tax revenues in some jurisdictions. The revisions were effective beginning with City's fiscal year ended June 30, 2001.

**Valuations**

The following table shows SEV and Taxable Valuations for the most recent five fiscal years. Because the State has applied an equalization factor of 1.0x for each of these years, SEV is equal to the valuations as determined by City assessing officials.

**Table 15 – State Equalized Valuations and Taxable Valuations**

Fiscal Year	State Equalized Valuation			% Annual Change	Taxable Valuation(1)	
	Real Property	Personal Property	Total		Total Valuation	% Annual Change
2003	\$10,298,344,200	\$1,749,983,210	\$12,048,327,410	9.8%	\$7,976,048,523	4.4%
2004	\$10,668,533,845	\$1,391,662,381	\$12,060,196,226	0.1%	\$7,844,209,593	-1.7%
2005	\$11,267,123,205	\$1,563,037,762	\$12,830,160,967	6.4%	\$8,435,770,261	7.5%
2006	\$11,757,967,595	\$1,654,260,635	\$13,412,228,230	4.5%	\$8,872,251,228	5.2%
2007	\$11,799,821,408	\$1,637,281,517	\$13,437,102,925	0.2%	\$9,280,134,952	4.6%

SOURCE: Finance Department, Assessments Division.

(1) Limited by State law. See "ASSESSED VALUATION AND PROPERTY TAXES - Property Valuation and Tax Rate."

**Valuation by Type of Property**

**Table 16 – Components of State Equalized Valuation**

	Fiscal Year Ended or Ending June 30,				
	2002	2003	2004	2005	2006
<b>By Use (Real Property only)</b>					
Residential .....	65.6%	65.8%	65.6%	64.5%	72.7%
Commercial.....	24.3%	24.1%	21.9%	22.0%	19.4%
Industrial.....	10.1%	10.1%	12.5%	13.5%	7.9%
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>By Class (Total State Equalized Valuation)</b>					
Real property .....	85.0%	85.5%	88.5%	87.9%	87.8%
Personal property .....	15.0%	14.5%	11.5%	12.1%	12.2%
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

SOURCE: Finance Department, Assessments Division.

**Tax Rates and Levies**

The following table shows the tax rates and levies in the City for City, School and County purposes for the last five fiscal years.

Table 17 - Tax Rates and Levies

TAXING ENTITY: CITY OF DETROIT	Fiscal 2007		Fiscal 2006		Fiscal 2005		Fiscal 2004		Fiscal 2003	
	Millage	Levy	Millage	Levy	Millage	Levy	Millage	Levy	Millage	Levy
General Fund	19.952	\$ 181,184,272	19.952	\$ 174,576,611	19.962	\$ 166,399,036	19.962	\$ 156,586,112	19.962	\$ 159,217,881
Debt Service	8.3951	76,235,970	7.0753	61,907,673	7.4796	62,348,373	7.9245	62,161,439	7.9217	63,183,864
Garbage Levy	-	-	2.9928	26,186,492	2.9943	24,959,855	2.9943	23,487,917	2.9943	23,882,682
Library	4.6307	42,051,424	4.6307	40,517,839	3.6331	30,284,758	3.6331	28,498,798	3.6331	28,977,782
Total City	32.9778	\$ 299,471,666	34.6508	\$ 303,188,615	34.069	\$ 283,992,022	34.5139	\$ 270,734,265	34.5111	\$ 275,262,208
<b>SCHOOLS</b>										
Debt Service	NA	NA	13.000	\$ 113,747,792	13.000	\$ 108,365,267	13.000	\$ 101,974,725	12.990	\$ 103,608,870
Judgement	NA	NA	0.070	563,505	0.000	0.000	0.800	6,275,368	0.200	1,595,210
Non-Homestead Tax	NA	NA	17.554	146,323,120	18.000	150,044,216	18.000	141,195,773	18.000	143,568,873
Total Schools	NA	NA	30.624	267,951,299	31.000	\$ 258,409,484	31.800	\$ 249,445,865	31.19	\$ 248,772,953
<b>STATE EDUCATION TAX</b>	6.000	54,486,048	6.000	52,498,981	6.000	50,014,739	6.000	47,065,258	6.000	47,856,291
<b>WAYNE COUNTY</b>										
General Fund	NA	NA	4.7552	\$ 41,607,192	6.6380	\$ 55,332,973	6.6380	\$ 52,069,863	6.6380	\$ 52,945,010
Regional Educational Service	NA	NA	0	0	0	0	0	0	0	0
Operational Agency	NA	NA	3.4643	30,312,037	3.4643	28,877,677	3.4643	27,174,695	3.4643	27,631,425
Community College	NA	NA	2.4769	21,672,454	2.4844	20,709,436	2.4862	19,502,274	2.4862	19,830,052
Wayne County Parks	NA	NA	0.2459	2,151,583	0.2459	2,049,771	0.2459	1,928,891	0.2459	1,961,310
Huron-Clinton Metro Authority	NA	NA	0.2146	1,877,714	0.2154	1,795,529	0.2161	1,695,134	0.2170	1,730,803
Public Safety	NA	NA	0.9381	8,208,216	0.9381	7,819,804	0.9381	7,358,653	0.9381	7,482,331
Total Wayne County	NA	NA	12.0950	\$ 105,829,196	13.9861	\$ 116,585,190	13.9886	\$ 109,729,510	13.9895	\$ 111,580,931
Total Levy	NA	NA		\$ 729,468,091		\$ 709,001,434		\$ 676,974,898		\$ 683,472,384
Total Homestead Rate	NA	NA		55,6036		67,0551		68,303		67,691
Total non-Homestead Rate	NA	NA		73,1572		85,0551		86,303		85,691

SOURCE: Finance Department, Assessments Division and Wayne County Treasurer's Office.

***Tax Levies and Collections***

The following table shows tax collections of current taxes during each fiscal year and collections of current and delinquent taxes, penalties and interest for City operating, refuse collection and disposal, debt service and library purposes for each of the past five fiscal years.

**Table 18 – Tax Levies and Collections–Fiscal Years 2001 to 2005**

Fiscal Year Ended June 30,	Adjusted Tax Levy(1)	Collections of Current Levy During Year		Total Collections Through Fiscal Year Ended June 30, 2005	
		Amount (all dollars in thousands)	Ratio to Adj. Levy	Amount	Ratio to Adj. Levy
2001 .....	\$249,917	\$218,915	87.60%	\$237,892	95.19%
2002 .....	\$238,517	\$212,435	89.06%	\$225,277	94.45%
2003 .....	\$241,183	\$207,628	86.09%	\$218,474	90.58%
2004 .....	\$241,824	\$231,696	95.81%	\$231,696	95.81%
2005 .....	\$250,556	\$238,059	95.01%	\$238,059	95.01%

SOURCE: Finance Department, Treasury Division.

(1) The levy is adjusted from the original levy for cancellations and assessment adjustments.

In an effort to increase its realization of tax revenues, the City entered into a three-year contract with an outside collection firm to collect its delinquent property taxes, and income taxes. The contract expires in fiscal 2006 and will not be renewed. The same firm also collects City water and sewer receivables. The collection of City real property taxes was transferred to the County in fiscal 2003 for collection of fiscal 2003 and future taxes. See "FINANCIAL OPERATIONS – General Fund Revenue Categories: Property Taxes."

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**Largest Taxpayers**

Listed below are the ten largest property taxpayers in the City and their Taxable Valuations.

**Table 19 – Ten Largest Taxpayers  
Fiscal Year Ended June 30, 2005**

	<b>Taxable Valuation</b>		
	<b>Real Estate</b>	<b>Personal Property</b>	<b>Total</b>
DaimlerChrysler AG (1).....	\$ 128,767,660	\$ 610,099,600	\$ 738,867,260
DTE Energy.....	51,269,238	308,229,060	359,498,298
General Motors Corporation (1) .....	49,134,783	129,078,070	178,212,853
Michigan Consolidated Gas.....	1,655,473	145,681,702	147,337,175
Riverfront Holdings Inc.....	123,150,856	-	123,150,856
American Axle & Manufacturing.....	16,901,259	75,052,600	91,953,859
One Detroit Center.....	53,207,221	108,030	53,315,251
Cingular Wireless .....	-	47,738,424	47,738,424
Kewadin Greektown Casino.....	28,426,871	11,949,480	40,376,351
Detroit Entertainment LLC.....	16,854,374	20,290,190	37,144,564
<b>Total.....</b>	<b>\$ 469,367,735</b>	<b>\$ 1,348,227,156</b>	<b>\$ 1,817,594,891</b>
<b>Total City Taxable Valuation .....</b>	<b>\$6,828,590,407</b>	<b>\$ 1,507,199,386</b>	<b>\$ 8,335,789,793</b>
<b>Ten Largest Taxpayers as a % of Total City</b>			
Taxable Valuation .....	6.87%	89.45%	21.80%

SOURCE: Derived by the Finance Department from audited financial statements.

(1) Includes Rehabilitation Districts.

**Tax-Exempt Property**

A significant amount of real property (such as government facilities, schools, churches and hospitals) located within the City is exempt from taxation. In addition to tax-exempt real property, much personal property is also exempt, including household property, licensed motor vehicles, manufacturing tools held for use, mechanic's tools, pollution control facilities, property stored while in transit and business inventory, as well as the property of publicly owned and tax-exempt private institutions. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures and equipment.

**INDEBTEDNESS OF THE CITY AND RELATED ENTITIES**

**Legal Debt Margin**

Article VII, Section 21 of the State Constitution establishes the authority, subject to constitutional and statutory prohibitions, for municipalities to incur debt for public purposes. In accordance with the authority granted to the State Legislature, Act 279, Public Acts of Michigan, 1909, as amended ("Act 279" or the "Home Rule City Act") was enacted. Pursuant to the power conferred by Act 279, the electorate of the City adopted the Charter. The Charter provides that the City may borrow money for any purpose within the scope of its power, may issue bonds or other evidence of indebtedness therefor, and may, when permitted by law, pledge the full faith, credit and resources of the City for the payment of those obligations. Act 279 limits the debt a city may have outstanding at any time by providing that the net indebtedness incurred for all public purposes may

not exceed the greater of 10% of the assessed value of all the real and personal property in the City or 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities. The definition of assessed value for the debt limit computation under Act 279 includes certain assessed value equivalents not otherwise included in assessed valuation.

Pursuant to Act 279, significant exclusions to the debt limitations have been permitted for the following purposes: special assessment bonds and motor vehicle highway fund bonds, even though they are a general obligation of the City; revenue bonds payable from revenues only, whether or not secured by a mortgage; bonds, contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage, refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; bonds issued to acquire housing for which certain rent subsidies will be received by the City or an agency thereof; bonds issued to refund money advanced or paid for certain special assessments; and self-insurance bonds.

The maximum amount of general obligation debt (both unlimited tax and limited tax) the City may have outstanding at any time is limited by State law. The limit is set at 10% of the City's SEV (adjusted for certain assessed value equivalents) or 15% if that portion which exceeds 10% is used solely for construction or renovations of hospital facilities. However, certain general obligation debt (including the GDRRA and Self-Insurance Bonds debt) is excluded from this limit. The limit and the outstanding general obligation debt subject to the limit are shown in the following table:

**Table 20 – Legal Debt Margin Subject to State Limitation  
As of May 2, 2006**

SEV Fiscal Year 2006-07 .....	\$13,437,102,925	
Add: Allowance under Act 228, Mich. Public Acts, 1975 .....	718,498,590	
Allowance under Act 198, Mich. Public Acts, 1974 .....	291,589,256	
Allowance under Act 147, Mich. Public Acts, 1992 .....	42,671,942	
Allowance under Act 146, Mich. Public Acts, 2000 .....	<u>27,430,736</u>	
	14,517,293,449	
General Purpose Limit (10% x \$14,517,293,449) .....		\$1,451,729,345
Less Outstanding Debt:		
General Obligation Bonds .....	\$564,480,000	
Distributable State Aid Bonds .....	36,775,000	
Limited Tax Bonds .....	205,445,000	
Detroit Building Authority (District Court Madison Center Bonds) .....	<u>8,322,163</u>	<u>815,002,163</u>
General Debt Margin .....		636,727,182
Additional Hospital Limit (5% x \$14,152,525,671) .....		<u>707,626,284</u>
Total Legal Debt Margin (General and Hospital) .....		<u>\$1,344,353,466</u>

SOURCE: Finance Department.

***Capital Financing Policies***

**Unlimited Tax Bonds**

In accordance with the State Constitution, unlimited tax general obligation bonds must be voter-approved before issuance. General Fund departments have traditionally relied on unlimited tax general obligation bonds of the City for capital programs. In accordance with State law, the City is obligated to levy and collect taxes without regard to any constitutional, statutory or Charter tax rate

limitations for payment of such obligations. The City has followed a policy of scheduling bond referenda to coincide with regularly scheduled elections. The City has issued and expects to continue to issue unlimited tax general obligation bonds annually as described in "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES—Prospective Indebtedness" below. The following table shows the City's authorized but unissued unlimited tax general obligation debt for capital programs as of May 2, 2006.

**Table 21 – Authorized but Unissued Debt  
As of May 2, 2006**

<u>General Obligation (Unlimited Tax) Bonds</u>	<u>Date of Voter Approval</u>	<u>Remaining Authorization</u>
Sewer Construction (1)	08/02/1960	\$24,000,000
Public Safety	11/02/2004	99,025,000
Municipal Facilities	11/07/2000	3,120,000
Neighborhood/Economic Development	11/07/2000	3,105,000
Neighborhood/Economic Development	11/02/2004	19,000,000
Public Lighting	11/07/2000	5,135,000
Public Lighting	11/02/2004	22,000,000
Recreation, Zoo, and Cultural	11/07/2000	12,395,000
Recreation, Zoo, and Cultural	11/02/2004	22,000,000
Detroit Institute of Arts	11/07/2000	150,000
Detroit Historical Museum	11/06/2001	17,200,000
MAAH	04/29/2003	500,000
Transportation	11/02/2004	22,000,000
		<u>\$249,630,000</u>

SOURCE: Finance Department.

(1) Not expected to be issued.

Limited Tax Bonds

The City may issue limited tax general obligation bonds or other obligations without the vote of the electors. However, taxes may not be levied in excess of constitutional, statutory or Charter limitations for the payment thereof. Such bonds are payable from general non-restricted moneys of the City. Certain of such limited tax obligations are secured with a first lien on specific revenues such as Distributable Aid. The City has utilized limited tax obligations to finance vehicle purchases, general capital improvements, deficit elimination and the City's Risk Management Fund. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES – Tax Supported and Revenue Debt" below.

Revenue Bonds

There are generally no voter approval requirements for the issuance of revenue bonds. The City issues revenue bonds to finance and refinance various capital projects for water supply, sewage disposal and convention facilities and, through the City of Detroit Building Authority, parking facilities. Additional revenue bonds may be issued for these systems provided certain specific additional bonds tests are met under applicable bond documents.



Other Capital Financing Sources

The City also receives State and federal funds which finance certain construction and capital projects. These include State Gas and Motor Vehicle Registration for street improvements, federal Community Development Block Grant revenues largely for continuing urban renewal projects and funds through the State and federal government for transportation purposes. In addition, the City periodically receives capital grants as a result of certain tax supported and revenue debt.

The following table sets forth the outstanding direct tax-supported and revenue indebtedness of the City.

**Table 22 – Statement of Direct Tax-Supported and Revenue Indebtedness**  
**May 2, 2006**

<b>Tax Supported Debt:</b>		
Unlimited Tax		
General Obligation Bonds (general purpose)	\$ 564,480,000	
Distributable State Aid General Obligation Bonds	<u>36,755,000</u>	\$ 601,235,000
Limited Tax		
Self-Insurance Bonds	146,595,000	
General Obligation Bonds (limited tax)	205,445,000	
Greater Detroit Resource Recovery Authority Bonds	145,485,000	
Detroit Building Authority Bonds (Madison Center)	8,322,163	
Economic Development Corporation (Resource Recovery)	<u>49,805,000</u>	<u>555,652,163</u>
Total tax supported debt		\$1,156,887,163
<b>Revenue and Other Debt:</b>		
Water Supply System Bonds	\$ 1,967,020,000	
Sewage Disposal System Bonds	2,698,719,306	
Detroit Building Authority Bonds (Parking & Arena System)	54,230,000	
Federal Section 108 Loans (1)	26,515,000	
Convention Facility Revenue Bonds (Cobo Hall Expansion)	114,183,138	
DDA Tax Increment Bonds	155,293,198	
LDFA Tax Increment Bonds (Chrysler Project)	<u>82,840,000</u>	
Total revenue and other projects		<u>5,098,800,642</u>
<b>Gross Direct Debt</b>		<b>6,255,687,805</b>
Deductions		
Revenue and Other Debt	5,098,800,642	
Greater Detroit Resource Recovery Authority		
Bonds-Reserve Account Balance (1)	<u>26,251,172</u>	
Total Deductions		<u>5,125,051,814</u>
<b>Net Direct Debt</b>		<b><u>\$1,130,635,991</u></b>

SOURCE: Finance Department.

(1) As of April 3, 2006.

**Overlapping Debt**

Property in the City is taxed for a proportionate share of outstanding general obligation debt of overlapping governmental entities including the School District of the City of Detroit, Wayne County, Regional Educational Service Agency, Wayne County Community College and the Detroit-Wayne Joint Building Authority. The table below shows the City's share of outstanding tax-supported overlapping debt as of May 31, 2006. See "GOVERNMENTAL STRUCTURE – Other Governmental Entities."

**Table 23 – City’s Share of Overlapping Debt  
As of May 31, 2006**

<u>Issuer</u>	<u>Outstanding Debt</u>	<u>Detroit’s Share</u>	
		<u>Percentage</u>	<u>Amount</u>
School District of the City of Detroit.....	\$1,409,709,975	100.00%	\$1,409,709,975
Wayne County (1) .....	105,142,320	18.37	19,314,644
Wayne County Community College.....	59,165,000	29.06	17,193,349
Net Overlapping Debt.....			<u>\$1,466,217,968</u>

SOURCE: Municipal Advisory Council of Michigan.

(1) This debt is a general obligation of the County but is payable from assessments against municipalities in the County, other than the City, as well as from the County General Fund.

**Summary of Debt Statement**

The following table shows the City’s net direct as of May 2, 2006 and overlapping debt as of May 31, 2006.

**Table 24 – Direct and Overlapping Debt**

Direct debt:		
Gross principal amount.....	\$6,255,687,805	
Less amount payable from other sources .....	<u>5,125,051,814</u>	
Net direct debt .....		\$1,130,635,991
Overlapping debt:		
Net overlapping debt .....		<u>1,466,217,968</u>
Net direct and overlapping debt.....		<u>\$2,596,853,959</u>

SOURCE: Finance Department and Municipal Advisory Council of Michigan.

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**Table 25 - General Obligation Cumulative Principal Amortization  
As of May 2, 2006**

Fiscal Year Ending June 30,	<u>Unlimited Tax GO</u>		<u>Limited Tax GO</u>		<u>Total GO Debt</u>	
	<u>Principal (\$)</u>	<u>Percent</u>	<u>Principal (\$)</u>	<u>Percent</u>	<u>Principal (\$)</u>	<u>Percent</u>
		<u>Retired</u>		<u>Retired</u>		<u>Retired</u>
2007	34,330,000	5.71%	95,007,163	17.10%	129,337,163	11.18%
2008	38,230,000	12.07%	99,970,000	35.09%	138,200,000	23.13%
2009	42,515,000	19.14%	135,380,000	59.45%	177,895,000	38.50%
2010	44,825,000	26.60%	31,015,000	65.04%	75,840,000	45.06%
2011	44,345,000	33.97%	32,365,000	70.86%	76,710,000	51.69%
2012	41,920,000	40.94%	33,850,000	76.95%	75,770,000	58.24%
2013	41,350,000	47.82%	35,360,000	83.32%	76,710,000	64.87%
2014	35,130,000	53.66%	18,420,000	86.63%	53,550,000	69.50%
2015	32,700,000	59.10%	5,695,000	87.66%	38,395,000	72.82%
2016	29,435,000	64.00%	5,925,000	88.72%	35,360,000	75.87%
2017	30,950,000	69.15%	6,195,000	89.84%	37,145,000	79.08%
2018	31,370,000	74.36%	6,475,000	91.00%	37,845,000	82.36%
2019	30,960,000	79.51%	6,800,000	92.23%	37,760,000	85.62%
2020	31,830,000	84.81%	7,130,000	93.51%	38,960,000	88.99%
2021	32,700,000	90.25%	7,865,000	94.92%	40,565,000	92.49%
2022	24,400,000	94.30%	6,570,000	96.11%	30,970,000	95.17%
2023	16,570,000	97.06%	6,840,000	97.34%	23,410,000	97.19%
2024	12,675,000	99.17%	7,210,000	98.64%	19,885,000	98.91%
2025	<u>5,000,000</u>	100.00%	<u>7,580,000</u>	100.00%	<u>12,580,000</u>	100.00%
	<u>\$601,235,000</u>		<u>\$555,652,163</u>		<u>\$1,156,887,163</u>	

SOURCE: Finance Department.

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Table 26 - Total Outstanding Debt Service Requirement Schedule

Fiscal Year Ending June 30	General Obligation Bonds				Revenue and Other Bonds <sup>(1)</sup>				Total Revenue and Other Bonds
	Unlimited Tax	Interest	Principal	Total	Unlimited Tax	Interest	Principal	Total	
2007	\$ 34,350,000	\$ 30,555,102	\$ 95,007,165	\$ 121,912,929	\$ 110,594,128	\$ 705,671,915	\$ 346,325,333	\$ 239,891,991	\$ 239,891,991
2008	38,250,000	28,804,747	99,970,000	121,812,585	120,565,000	218,994,071	339,369,071	258,565,000	258,565,000
2009	44,315,000	26,851,071	135,380,000	151,549,700	126,052,471	213,322,549	339,405,029	303,947,471	303,947,471
2010	44,825,000	24,676,381	31,015,000	41,698,881	131,388,483	207,816,638	338,203,141	207,126,483	207,126,483
2011	44,345,000	22,459,252	32,365,000	41,594,389	127,626,694	208,437,938	331,054,632	204,336,694	204,336,694
2012	41,920,000	20,331,984	33,850,000	41,689,943	128,637,224	209,818,399	330,445,425	204,397,224	204,397,224
2013	41,350,000	18,236,250	35,360,000	41,580,816	131,240,242	194,241,657	325,481,879	207,650,242	207,650,242
2014	34,130,000	16,109,301	18,480,000	23,951,173	131,075,954	193,930,743	325,026,697	184,625,954	184,625,954
2015	32,700,000	14,505,916	5,695,000	9,562,021	135,839,826	189,215,725	325,055,551	174,334,926	174,334,926
2016	29,835,000	12,614,069	5,995,000	9,335,287	134,664,562	179,575,459	314,540,021	170,324,562	170,324,562
2017	30,950,000	11,688,308	6,195,000	9,339,894	140,144,392	174,189,721	314,334,014	177,289,292	177,289,292
2018	31,370,000	9,533,170	6,475,000	9,340,920	145,804,899	168,444,389	314,249,288	183,649,899	183,649,899
2019	30,960,000	7,888,679	6,800,000	9,322,326	150,461,533	165,834,865	313,296,596	189,221,533	189,221,533
2020	31,830,000	6,313,866	7,130,000	9,322,926	154,728,035	156,192,572	310,920,607	193,688,035	193,688,035
2021	31,700,000	4,695,891	7,895,000	9,712,470	159,175,788	151,101,357	310,567,145	199,740,788	199,740,788
2022	34,400,000	3,047,191	6,570,000	9,015,873	166,194,137	13,846,498	305,040,635	197,164,137	197,164,137
2023	16,570,000	1,743,073	6,840,000	7,949,018	174,225,495	129,753,543	303,978,838	197,655,495	197,655,495
2024	14,675,000	897,855	7,210,000	7,968,318	181,054,111	121,379,574	303,433,685	200,939,111	200,939,111
2025	5,000,000	250,000	7,580,000	7,968,645	189,148,770	113,856,172	303,005,942	201,729,770	201,729,770
2026					197,860,000	102,868,594	300,858,594	197,860,000	197,860,000
2027					207,325,000	91,094,621	300,379,621	207,325,000	207,325,000
2028					217,465,000	81,011,964	308,476,964	217,465,000	217,465,000
2029					222,340,000	73,311,886	304,551,886	222,340,000	222,340,000
2030					230,423,000	62,469,445	292,894,443	230,423,000	230,423,000
2031					239,030,000	52,667,436	292,297,436	239,030,000	239,030,000
2032					249,685,000	41,625,687	291,510,687	249,685,000	249,685,000
2033					260,330,000	31,632,074	292,552,074	260,330,000	260,330,000
2034					306,495,000	20,536,180	227,011,180	206,495,000	206,495,000
2035					216,820,000	10,533,970	227,173,970	216,820,000	216,820,000
					\$301,255,000	\$300,362,378	\$551,652,168	\$682,141,124	\$4,287,853,643
								\$3,914,204,438	\$6,144,722,908

(1) Includes debt service for the Water and Sewerage Systems and for the Detroit Building Authority (Parking System), DDA, LDFA, Cobo Hall revenue debt. Includes SRF debt calculated at the amount approved and not at the actual amount borrowed.  
 (2) The Water and Sewerage system revenue bond debt service is presented in a manner consistent with the respective bond ordinances.

Table 27 – Per Capita Debt and Debt Ratios

As of June 30,	Population Estimate <sup>(1)</sup>	Net Direct Debt			Net Direct and Overlapping Debt		
		Net Amount (000)	Per Capita Net Amount	Ratio to True Cash Value <sup>(2)</sup>	Total (000)	Per Capita	Ratio to True Cash Value <sup>(2)</sup>
2001	933,827	\$ 983,080	\$1,005	4.8%	\$1,427,995	\$1,529	7.3%
2002	921,759	962,133	1,044	4.4	1,452,048	1,575	6.6
2003	911,402	909,624	998	3.8	2,717,110	2,981	11.3
2004	900,198	1,104,034	1,226	4.6	2,625,218	2,916	10.9
2005	900,198	1,209,104	1,343	4.8	1,253,998	1,393	4.9

SOURCE: Finance Department.

- (1) Population estimates are from the U.S. Department of Commerce, Bureau of Census, Current Population Reports. The 2004 population estimate is the latest available from the U.S. Census Bureau.
- (2) By law, SEV represents 50% of True Cash Value. True Cash Value used is based on the SEV set on December 31 of the fiscal year which determines property taxes levied in the following year, and is referred to as the following year's SEV. See "ASSESSED VALUATION AND PROPERTY TAXES."

**Short-Term Indebtedness**

Under the provisions of State law, a municipality, by resolution of its governing body and without a vote of its electors, but subject to the prior approval of the Michigan Department of Treasury or an exception therefrom, may borrow money and issue its notes in anticipation of the collection of the taxes and certain other revenues for its current fiscal year or its next succeeding fiscal year. In addition, a municipality, by resolution of its governing body and without a vote of its electors, may borrow money and issue its notes in anticipation of the receipt of payments under the provisions of the State Revenue Sharing Act for its current fiscal year or its next succeeding fiscal year. Tax anticipation notes and revenue sharing anticipation notes issued under this Act are limited tax general obligations of a municipality. The City did not issue short-term debt in fiscal 2000 through 2004. In fiscal 2005 the City issued \$54,445,000 of revenue sharing anticipation notes secured by Distributable Aid for cash flow purposes. In fiscal 2006, the City expects to issue approximately \$47 million in revenue sharing anticipation notes secured by Distributable Aid and \$82 million in tax anticipation notes secured by property tax receipts for cash flow purposes.

**Prospective Indebtedness**

**Unlimited and Limited Tax Obligations.** The City expects to issue unlimited tax general obligation bonds in future years to finance its continuing capital improvement program. The City currently plans an annual unlimited tax bonding program averaging approximately \$50 million. The City also expects to issue approximately \$40 million of limited tax bonds in fiscal 2007. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES—Capital Financing Policies" and "—Legal Debt Margin."

**Revenue Obligations.** The City intends to issue revenue bonds periodically to finance improvements to self-supporting systems, including its Water Supply System and its Sewage Disposal System.

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## EMPLOYEE BARGAINING UNITS

The City budgeted 15,750 employees (including part-time and seasonal employees) for fiscal 2006. Approximately 10% of these employees are non-union, and the remaining 90% are represented by one of the City's 49 bargaining units. The largest bargaining units are: The American Federation of State, County and Municipal Employees ("AFSCME"); the Detroit Police Officers Association ("DPOA"); the Detroit Fire Fighters Association ("DFFA"); the Teamsters; and the Amalgamated Transit Union ("ATU"). The collective bargaining agreements for AFSCME and the other non-uniform unions and nearly all other City bargaining units expired on June 30, 2005, and the City has been engaged in negotiations toward successor contracts. The City is seeking to reduce its labor costs, particularly in the area of health care, and has reached agreement with two of its unions on a successor three-year agreement. The City has recently engaged in a non-binding fact finding proceeding with AFSCME, its largest union. Historically, the City's other non-uniform (*i.e.*, not police or fire) unions have followed the AFSCME contract, with only minor variations.

The City's most recent agreement with DPOA expired on June 30, 2004. As the parties did not reach a new agreement, the City and DPOA are in the final stages of an Act 312 binding arbitration proceeding for a successor agreement. Meanwhile, they continue to operate in accordance with the expired DPOA agreement. (Act 312, Public Acts of Michigan, 1969 ("Act 312"), provides for compulsory arbitration of labor disputes in municipal police and fire departments when negotiations reach an impasse, since the options of a strike or lockout are forbidden with respect to such workers essential to public safety.)

Historically, the DFFA agreements provide for automatic parity of DFFA with DPOA with respect to wages and benefits. Accordingly, although there has been no effective DFFA agreement since June 30, 2001, DFFA members continue to receive the same wage and health care and pension benefits as in the DPOA agreement that expired June 30, 2004. The City and DFFA also are in an Act 312 mandatory binding arbitration proceeding for a successor agreement. The Lieutenants and Sergeants Association ("LSA") agreement expires June 30, 2006.

The City has no reason to believe that its outstanding labor negotiations will result in any interruption of service from the unionized work force.

## RETIREMENT SYSTEMS

### *In General*

The City has two retirement systems. The General Retirement System ("GRS") covers all employees other than policemen and firemen, who are covered by the Police and Fire Retirement System ("PFRS"). Each system is governed by its own Retirement Board ("GRS Board" and "PFRS Board," respectively), which invests and administers the system's assets as trust funds solely for the benefit of its participants, retirees and their beneficiaries. The assets of each Retirement System are separate and distinct from assets of the City, are outside the City's control and are not available to pay any obligation or expense of the City.

Each Retirement System receives an annual actuarial report from its consulting actuary as of each June 30, providing actuarial valuations of its vested benefits, prior service costs and UAAL. Each Retirement Board uses those actuarial valuations, together with certain actuarial assumptions, to determine the annual contribution amounts requested from the City to fulfill its constitutional and statutory pension funding obligations. As part of their regular, periodic review of the actuarial assumptions used to administer their respective Retirement Systems, the GRS Board and the PFRS Board may receive recommendations from time to time to increase or decrease the interest rate and to change other actuarial assumptions.

The most recent annual actuarial reports available for the Retirement Systems are as of June 30, 2005. As of June 30, 2005, the two Systems had combined total net assets held for benefits of approximately \$6.98 billion and covered 14,619 active employees and 19,772 retirees and their beneficiaries. According to

the actuarial study of Gabriel, Roeder, Smith and Company ("Actuary") the GRS and PFRS also had estimated combined UAAL of \$147.55 million as of June 30, 2005.

Actuarial studies are done annually by the Actuary, and the Charter provides that the assumptions used to value the liabilities of both Systems are to be studied in depth every five years. Actuarial assumptions were revised following the 1997-2002 in-depth experience study. Both Systems use the entry age normal actuarial cost methodology to determine age and service liabilities, vested liabilities, casualty liabilities and normal cost. As of the June 30, 2005 actuarial reports, the following significant assumptions are utilized in calculating the present value of vested benefits and the actuarially determined prior service cost: (1) the future investment return rate is assumed to be 7.9% per annum for the GRS and 7.8% per annum for the PFRS; (2) the GRS assumes that total active member payroll expense will increase 4% annually, while the PFRS assumes that payroll expense will increase 4.8% annually; and (3) the GRS UAAL and the PFRS UAAL both are amortized over a period of 30 years. Both Systems amortize their respective UAAL to produce contribution amounts (principal and interest) which are a level percentage of payroll contributions.

The GRS Board has historically established or changed the amortization period for the funding of GRS UAAL by resolution from time to time. On February 8, 2006, the GRS Board adopted a resolution establishing a 30-year amortization period for funding GRS UAAL. The City Council adopted an ordinance which became effective on February 8, 2006, establishing a 30-year amortization period for funding PFRS UAAL. In an appeal over whether the City or the PFRS Board has authority to determine the appropriate amortization period for funding PFRS UAAL, the Michigan Court of Appeals ruled in the PFRS Board's favor on February 28, 2006, granting a declaratory judgment that the PFRS Board has the authority under applicable law to set the amortization period for the PFRS. On March 30, 2006, the PFRS Board adopted a resolution establishing a 30-year amortization period for funding PFRS UAAL. On April 11, 2006, the City applied for leave to appeal the Michigan Court of Appeals decision to the Michigan Supreme Court, which has not yet ruled on the application. See "Recent Pension Litigation" below.

The mortality table for both Systems is 90% of the 1983 Group Annuity Mortality Table (adopted June 30, 1998 for the PFRS, and June 30, 2003 for the GRS), and the probabilities of retirement and separation from service (including death in service and disability) were revised (based on the 1997-2002 in-depth experience study) for the June 30, 2003 valuations for both Systems. Valuation assets recognize investment returns above or below the actuarial assumed rate over a three-year period.

The following table sets forth the contributions of the City to the GRS and the PFRS for fiscal 2001 through 2005.

**Table 28 – Annual City Contributions to Retirement Systems**

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005<sup>1</sup></b>
<b>GRS</b>	\$68,139,535	\$67,791,488	\$72,859,246	\$95,876,076	\$781,483,426
<b>PFRS</b>	14,443,382	8,449,645	66,843,029	69,475,202	682,431,785

<sup>1</sup> The City's increased contributions to the GRS and PFRS in fiscal 2005 as compared to fiscal 2004 resulted from its funding nearly all of the existing UAAL of both the GRS and the PFRS on June 2, 2005. See "Payment Obligations under Retirement System Service Contracts" below.

SOURCE: Finance Department

The following table sets forth the actuarial valuation results for the GRS and the PFRS for the 2001 through 2005 actuarial valuations by the City's consulting actuary.

**Table 29 – Summary of Retirement System Actuarial Valuation Results**

	Actuarial Valuation Date – June 30,				
	2001	2002	2003	2004	2005
<b>General Retirement System:</b>					
Number of Active Employees	12,744	12,639	12,833	11,791	9,820
Number of Retirees and Beneficiaries	11,450	11,363	11,322	11,311	11,396
Number of Deferred Vested Beneficiaries	1,635	1,439	1,424	1,442	1,109
Accrued Actuarial Liabilities (Millions)	\$3,179.6	\$3,276.6/\$3,250.5 <sup>3</sup>	\$3,270.6	\$3,383.9	\$3,347.4
Available for Benefits (Millions)	2,912.1	2,761.2	2,537.7	2,470.2	3,222.4
Assets as % of Accrued Actuarial Liabilities	91.6%	84.3%/84.9% <sup>3</sup>	77.6%	73.0%	96.3% <sup>1</sup>
<b>City Contributions (% of Payroll)</b>					
- Applicable Fiscal Year <sup>2</sup>	2003	2004	2005	2006	2007
- Normal Cost	9.2%	9.2%/8.7% <sup>3</sup>	8.8%	9.0%	9.3%
- UAAL Amortization Amount	5.1%	9.8%/9.3% <sup>3</sup>	13.9%	14.2%/11.1% <sup>4</sup>	1.8%
- Total % of Payroll City Contribution	14.3%	19.1%/18.1% <sup>3</sup>	22.7%	23.2%/20.1% <sup>4</sup>	11.1%
<b>Police and Fire Retirement System:</b>					
Number of Active Employees	5,585	5,382	5,257	5,060	4,799
Number of Retirees and Beneficiaries	8,166	8,179	8,277	8,328	8,376
Number of Deferred Vested Beneficiaries	41	35	35	32	24
Accrued Actuarial Liabilities (Millions)	\$3,463.2	\$3,523.4/\$3,632.0 <sup>3</sup>	\$3,721.6	\$3,857.5	\$3,780.4
Available for Benefits (Millions)	3,900.0	3,635.1	3,205.5	3,074.5	3,757.9
Assets as % of Accrued Actuarial Liabilities	112.6%	103.2%/100.1% <sup>3</sup>	86.1%	79.7%	99.4% <sup>1</sup>
<b>City Contributions (% of Payroll)</b>					
- Applicable Fiscal Year <sup>2</sup>	2003	2004	2005	2006	2007
- Normal Cost	27.2%	27.7%/23.4% <sup>3</sup>	24.8%	24.8%	25.0%
- UAAL Amortization Amount	(14.2%)	(3.9%)/(0.1% <sup>3</sup> )	19.1%	29.6%/15.9% <sup>4</sup>	0.5%
- Total % of Payroll City Contribution	13.0%	23.8%/23.3% <sup>3</sup>	43.9%	54.4%/40.7% <sup>4</sup>	25.5%

<sup>1</sup> The increase in Assets as a % of Accrued Actuarial Liabilities as of June 30, 2005 compared to June 30, 2004 resulted from the City's funding nearly all of the existing UAAL on June 2, 2005. See "Payment Obligations under Retirement System Service Contracts" below.

<sup>2</sup> City contribution percentages calculated and published in each annual actuarial valuation apply to the second following fiscal year.

<sup>3</sup> Due to a change in actuarial assumptions during the fiscal year, the first and second numbers represent the values under the prior assumptions and the new assumptions, respectively.

<sup>4</sup> Due to a change in UAAL amortization periods, the first and second numbers represent the contribution rates assuming the previously-effective amortization periods of 20/13 years for GRS/PFRS and the newly-adopted 30-year amortization periods, respectively.

SOURCE: Derived by Finance Department from annual actuarial reports.



### *Payment Obligations under Retirement System Service Contracts*

The City is a party to two Service Contracts, dated May 25, 2005 and June \_\_, 2006, with the Detroit General Retirement System Service Corporation, and two other Service Contracts, dated May 25, 2005 and June \_\_, 2006, with the Detroit Police and Fire Retirement System Service Corporation. Those two Service Contracts dated May 25, 2005 are called the "2005 Service Contracts" below, and those two Service Contracts dated June \_\_, 2006 are called the "2006 Service Contracts" below. The GRS and the PFRS are not parties to any of the Service Contracts.

Pursuant to Ordinance No. 05-05 of the City (the "Funding Ordinance"), the City entered into the 2005 Service Contracts as a means to fulfill its State constitutional and statutory obligations to provide funding for an approximately \$1.37 billion portion of outstanding unfunded accrued actuarial liabilities (the "2005 Subject UAAL") of the City's two retirement systems, the GRS and the PFRS. On June 2, 2005, a funding trust created by the two Service Corporations issued and sold Certificates of Participation Series 2005-A and 2005-B ("Series 2005-A COPs" and "Series 2005-B COPs," respectively, and collectively "2005 COPs"), evidencing undivided proportionate interests in the rights to receive certain payments ("2005 Scheduled Payments" and "2005 Service Charges," and collectively "2005 COP Service Payments") to be made by the City under the 2005 Service Contracts. A portion of the proceeds of the 2005 COPs was irrevocably paid to the GRS and the PFRS, fully funding the 2005 Subject UAAL on June 2, 2005.

The periods for payment of the City's scheduled 2005 COP Service Payments under the 2005 Service Contracts were limited to 13 and 20 years in regard to the PFRS and GRS, respectively, the amortization periods then in effect for PFRS UAAL and GRS UAAL. Pursuant to the Funding Ordinance and an authorizing resolution of the City Council adopted on April 26, 2006, the City will enter into the 2006 Service Contracts, as anticipated and authorized in the Funding Ordinance, as a means of enabling the City to utilize a now permitted longer payment period for the obligations it incurred to fulfill its constitutional and statutory obligations to provide such funding for the 2005 Subject UAAL. A new funding trust to be created by the two Service Corporations will issue and sell Certificates of Participation Series 2006-A and 2006-B ("Series 2006-A Certificates" and "Series 2006-B Certificates," respectively, and collectively "Series 2006 Certificates"), evidencing undivided proportionate interests in the rights to receive certain payments ("2006 Scheduled Payments" and "2006 Service Charges," and collectively "2006 Certificate Service Payments") to be made by the City under the 2006 Service Contracts. A portion of the proceeds of the 2006 Certificates will be used to optionally redeem certain outstanding Series 2005-A COPs and to purchase and cancel certain outstanding Series 2005-B COPs, thereby extinguishing the City's obligations to pay the 2005 COP Service Payments related to the 2005 COPs thus redeemed or purchased and canceled. The Series 2005-B COPs to be purchased will be procured by a tender offer conducted by the Service Corporations.

Upon issuance of the 2006 Certificates and such optional redemption of certain Series 2005-A COPs and such purchase and cancellation of Series 2005-B COPs which are tendered by their holders to the Service Corporations, some 2005 COPs will still remain outstanding concurrently with the 2006 Certificates. The 2005 COPs and the 2006 Certificates are wholly independent of each other. The City's contractual payment obligations underlying the 2006 Certificates are totally separate and distinct from its contractual payment obligations underlying the 2005 COPs. Holders of 2006 Certificates will have no rights or interests in the City's payment obligations under the 2005 Service Contracts, and holders of 2005 COPs will have no rights or interests in the City's payment obligations under the 2006 Service Contracts.

The following table sets forth the combined annual amounts of 2005 Scheduled Payments and 2005 Service Charges (*i.e.*, 2005 COP Service Payments) that the City that will be obligated to pay under the 2005 Service Contracts, and the combined annual amounts of 2006 Scheduled Payments and 2006 Service Charges (*i.e.*, 2006 Certificate Service Payments) that the City that will be obligated to pay under the 2006 Service Contracts, upon the issuance of the 2006 Certificates and the optional redemption of the Series 2005-A COPs to be redeemed from proceeds of the 2006 Certificates and the purchase and cancellation of the tendered Series 2005-B COPs to be purchased from proceeds of the 2006 Certificates.

**Table 30 -- 2005 COP Service Payments and 2006 Certificate Service Payments**

Twelve months ending June 15,	2005 COP Service Payments	2006 Certificate Service Payments <sup>1</sup>	Total <sup>1</sup>
2007	\$25,762,441	\$49,230,928	\$74,993,368
2008	25,762,441	54,224,061	79,986,501
2009	25,762,441	58,833,035	84,595,476
2010	30,512,441	58,833,035	89,345,476
2011	36,512,526	58,833,035	95,345,561
2012	41,950,067	58,833,035	100,783,103
2013	47,428,624	58,833,035	106,261,659
2014	52,928,206	58,833,035	111,761,241
2015	55,205,504	58,833,035	114,038,540
2016	57,345,528	58,833,035	116,178,564
2017	59,582,125	58,833,035	118,415,160
2018	61,915,480	58,833,035	120,748,515
2019	45,501,634	73,462,035	118,963,670
2020	47,237,920	71,726,673	118,964,593
2021	49,053,745	69,910,650	118,964,395
2022	50,931,865	68,032,181	118,964,046
2023	52,894,682	66,069,858	118,964,540
2024	54,938,837	64,026,079	118,964,915
2025	57,065,475	61,898,674	118,964,149
2026	—	118,965,224	118,965,224
2027	—	118,966,122	118,966,122
2028	—	118,966,739	118,966,739
2029	—	118,968,394	118,968,394
2030	—	118,973,878	118,973,878
2031	—	118,980,496	118,980,496
2032	—	118,988,301	118,988,301
2033	—	118,995,906	118,995,906
2034	—	119,009,735	119,009,735
2035	—	119,009,749	119,009,749
<b>Totals</b>	<b>\$878,291,981</b>	<b>\$2,356,736,036</b>	<b>\$3,235,028,017</b>

<sup>1</sup> Series 2006-B COPs' interest calculated at fixed swap rates.

**Recent Pension Litigation**

In May 2005, the Wayne County Circuit Court granted summary disposition in the City's favor in a lawsuit with the PFRS Board over whether that Board or the City has authority to determine the appropriate amortization period for funding PFRS UAAL. On February 28, 2006, the Michigan Court of Appeals reversed the lower court decision and granted the PFRS Board a declaratory judgment that it has the authority under applicable law to set the amortization period for the PFRS. On April 11, 2006, the City applied for leave to appeal that decision to the Michigan Supreme Court, which has not yet ruled on the application. After the lower court decision and before the Michigan Court of Appeals decision, the City Council adopted an ordinance which became effective on February 8, 2006, establishing a 30-year amortization period for funding PFRS UAAL. On March 30, 2006, the PFRS Board adopted a resolution also establishing a 30-year amortization period for funding PFRS UAAL. Thus, a 30-year amortization period is currently in effect for funding PFRS UAAL, supported by a duly adopted PFRS Board resolution and a duly adopted City ordinance.

The City has a pending application seeking leave to appeal to the Michigan Supreme Court from a recent Michigan Court of Appeals decision that arose from an Act 312 arbitration involving the City and one

of its employee unions, the Detroit Police Officers Association ("DPOA"). The arbitration ruling, in 2003, required changing the composition of the PFRS Board by replacing two of its 11 members and adding a twelfth. Before those changes, the prescribed PFRS Board composition had been six union representatives and five City representatives. The City argued in the arbitration proceeding that the police and fire unions used their majority status on the 11-member PFRS Board to obtain benefits that could not be gained through the standard collective bargaining process. The changes under the arbitration decision resulted in a PFRS Board equally divided between City and union representatives, as required of jointly managed boards under the federal Taft-Hartley Act. Though the arbitration involved only the DPOA, the contract governing the Detroit Police Lieutenants and Sergeants Association expressly adopted the conditions of the DPOA agreement, to maintain parity with it. However, the two other unions whose members also are participants in the PFRS have contracts with other language. The City filed this suit to seat a 12-member PFRS Board that would be binding on all four unions whose members are participants in the PFRS. The trial court granted the defendants' motion for summary disposition, concluding that it would deny due process to the two unions that did not participate in the Act 312 arbitration to bind them by it. The City appealed, and the Michigan Court of Appeals affirmed the lower court decision that application of the arbitration ruling to the two non-participating unions would be a violation of their constitutional right to due process of law because their contracts did not require parity with the DPOA agreement. The City has applied for leave to appeal that decision to the Michigan Supreme Court, which has not yet ruled on the application.

The PFRS Board filed a lawsuit in August 2005 seeking payment of \$53 million for the City's unpaid contribution obligation to the PFRS due June 30, 2005. The PFRS Board has since adopted a resolution approving the City's proposed settlement terms, and the lawsuit has been inactive by mutual agreement of the parties pending completion of the settlement. Under the approved settlement terms, the balance of the June 30, 2005 required City contributions to the PFRS will be paid with interest at 7.8% per annum no later than June 30, 2006, and the required City contributions to the PFRS due June 30, 2006 will be paid with interest at 7.8% per annum no later than June 30, 2007.

## CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION

### *General*

Detroit is located in Southeastern Michigan and is the nation's 11th largest city. It is the central city of a metropolitan area that has a population of over four million people. Detroit is the largest city in Michigan and comprises almost one-half of Wayne County's population. Established in 1701 and incorporated in 1815, Detroit encompasses an area of 138 square miles. Like many other older, major cities in the Northeast, Detroit has experienced a significant decline in population since 1950, and an erosion of its economic base. Since the mid-1970s, the City, as well as private interests, have made substantial investments which have led to additional economic diversification and development during the last several years. The City is a major manufacturing center for the United States, and a regional center of finance, commerce and tourism. The City is located in a regional economy that, although diversifying, remains susceptible to swings in the national economy due to its concentration of employment in the durable goods industries, particularly the automobile industry.

Economically, Detroit relates primarily to the Tri-County area of Wayne, Oakland and Macomb counties. Officially, however, it is a part of a Primary Metropolitan Statistical Area (the "Detroit PMSA") that includes the Tri-County area, plus Monroe, Livingston, Lapeer and St. Clair counties.

### *Population*

The City's population count (established by U.S. Census) determines its legislative apportionment in Congress and in the State Legislature, and has a direct impact on Federal and State programs allocated in whole or in part on a *per capita* basis. While population growth in the Detroit PMSA significantly outpaced the national rate in the 1950s, the region's total population expanded more slowly in the 1960s and contracted (reflecting a significant net out-migration) in the 1970s and 1980s. Net population losses in the region were

primarily concentrated in the City. The remainder of the Detroit PMSA continued to experience population growth throughout the 1970s and 1980s. Originally consisting of the Tri-County Area, the region considered the metropolitan area was expanded geographically for U.S. statistical purposes, as population and industry dispersed; to add Lapeer, Livingston and St. Clair counties in 1973 and Monroe County in 1983.

Between 1950 and 2000, the City experienced substantial changes in the characteristics of its population, with differing migration patterns resulting in a net decline of 49% of its total population during the 50-year period. Detroit's share of total State and metropolitan area population also fell significantly.

**Table 31 – Population Trends, 1950-2000**

Year	City of Detroit		Wayne County		Detroit PMSA <sup>(1)</sup>		U.S.
	Population	% Change	Population	% Change	Population	% Change	% Change
1950	1,849,568	-	2,435,235	-	3,169,649	-	-
1960	1,670,144	-9.70%	2,666,297	9.49%	4,050,840	27.80%	18.50%
1970	1,511,482	-9.50	2,666,751	0.02	4,549,869	12.32	13.40
1980	1,203,339	-20.39	2,337,891	-12.33	4,488,072	-1.36	11.40
1990	1,027,974	-14.57	2,111,687	-9.68	4,382,299	-2.36	10.20
2000	951,270	-7.46	2,061,162	-2.39	4,441,551	1.35	13.20

SOURCE: U.S. Department of Commerce, Bureau of the Census.

(1) Consists of Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair and Wayne counties in Michigan.

**Table 32 – Distribution of Population by Age, 2000**

Age in Years	Population	% of Total
Under 5 .....	76,232	8.0%
5 to 9 .....	93,882	9.9
10 to 14 .....	83,361	8.8
15 to 19 .....	68,707	7.2
20 to 24 .....	65,654	6.9
25 to 34 .....	144,323	15.2
35 to 44 .....	136,695	14.4
45 to 54 .....	115,971	12.2
55 to 59 .....	38,045	4.0
60 to 64 .....	29,344	3.1
65 to 74 .....	52,863	5.6
75 to 84 .....	35,213	3.7
85 years and over .....	10,980	1.2
Total .....	951,270	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Table 33 – Households by Type, 1970-2000

Type of Household	1970		1980		1990		2000	
	No. of Households	% of Total	No. of Households	% of Total	No. of Households	% of Total	No. of Households	% of Total
	(number of households in thousands)							
Family	370.0	74.3%	289.3	66.7%	244.3	65.3%	218.5	64.9%
Married-couple	286.8	57.6	173.2	40.0	109.8	29.4	89.7	26.7
Single male head	16.4	3.3	18.4	4.2	21.2	5.7	22.4	6.6
Single female head	66.8	13.4	97.7	22.5	113.2	30.3	106.4	31.6
Non-family	127.8	25.7	144.2	33.3	129.7	34.7	117.9	35.1
Living alone	<u>N.A.</u>	<u>N.A.</u>	<u>125.3</u>	<u>28.9</u>	<u>111.3</u>	<u>29.8</u>	<u>99.9</u>	<u>29.7</u>
Total households	<u>497.8</u>	<u>100%</u>	<u>433.5</u>	<u>100%</u>	<u>374.1</u>	<u>100%</u>	<u>336.4</u>	<u>100%</u>

SOURCE: U.S. Department of Commerce, Bureau of the Census.

NOTE: N.A. = Not Available. Family households consist of two or more related persons. Data may not add up to totals due to rounding.

*Employment and Economic Base*

The economy of the City is influenced by trends in the durable goods industry and in particular the domestic automobile industry. Over the past two decades, all three major automotive companies have, at times, experienced financial problems adversely affecting the economy of the Detroit area. General Motors and DaimlerChrysler represent over 11% of the City's Taxable Valuation and are major employers in the City. Among the complex factors affecting the automotive industry are: national consumer spending patterns (related, among other things, to consumer confidence and perception, disposable income, credit availability and interest rates); the value of the U.S. dollar relative to foreign currencies; foreign trade restrictions; federal and state regulatory policies with respect to auto imports, safety, fuel efficiency and pollution emissions; the availability and price of gasoline; and organizational demand for fleet or specialized vehicles.

The following table sets forth certain information on total employment by industry group for the Detroit PMSA and the U.S. The region has in the past consistently maintained a greater percentage of persons employed in the manufacturing sector of the economy than the nation as a whole, which reflected the area's dependence on the automotive industry. The high percentage, however, has shown a decline in recent years such that the PMSA employment breakdown now is more similar to national statistics.

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**Table 34 – Annual Average Wage and Salary Employment  
by Place of Work (Non-Agricultural)**

Industry Group	Detroit-Warren-Livonia MSA							
	2002		2003		2004		2005	
	(000s)	%	(000s)	%	(000s)	%	(000s)	%
Natural Resources & Mining	90	4.3	85	4.1	86	4.2	85	4.1
Construction	12	0.6	11	0.5	11	0.5	11	0.5
Manufacturing	329	15.6	309	14.9	298	14.4	285	13.9
Trade, Transportation & Utilities	396	18.8	388	18.6	383	18.6	380	18.5
Information	38	1.8	37	1.8	36	1.8	35	1.7
Financial Activities	117	5.6	119	5.7	117	5.7	118	5.7
Professional and Business Service	368	17.5	364	17.5	358	17.3	372	18.1
Educational & Health Services	250	11.9	253	12.1	256	12.4	264	12.8
Leisure & Hospitality	178	8.4	181	8.7	182	8.8	182	8.8
Other Services	96	4.6	97	4.6	99	4.8	91	4.4
Government	232	11.0	238	11.4	237	11.5	234.0	11.4
<b>Totals</b>	<b>2,104</b>	<b>100.0</b>	<b>2,083</b>	<b>100.0</b>	<b>2,062</b>	<b>100</b>	<b>2,057</b>	<b>100</b>

Industry Group	U.S.							
	2002		2003		2004		2005	
	(000s)	%	(000s)	%	(000s)	%	(000s)	%
Natural Resources & Mining	583	0.4	572	0.4	591	0.4	625	0.5
Construction	6,716	5.2	6,735	5.2	6,976	5.3	7,277	5.5
Manufacturing	15,259	11.7	14,510	11.2	14,315	10.9	14,232	10.7
Trade, Transportation & Utilities	25,497	19.6	25,287	19.5	25,533	19.4	25,909	19.4
Information	3,395	2.6	3,188	2.5	3,118	2.4	3,066	2.3
Financial Activities	7,847	6.0	7,977	6.1	8,031	6.1	8,141	6.1
Professional and Business Service	15,997	12.3	15,985	12.3	16,395	12.5	16,882	12.6
Educational & Health Services	16,199	12.4	16,588	12.8	16,953	12.9	17,342	13.0
Leisure & Hospitality	11,986	9.2	12,173	9.4	12,493	9.5	12,802	9.6
Other Services	5,372	4.1	5,401	4.2	5,309	4.0	5,386	4.0
Government	21,513	16.5	21,583	16.6	21,621	16.5	21,803	16.3
<b>Totals</b>	<b>130,364</b>	<b>100</b>	<b>129,999</b>	<b>100</b>	<b>131,335</b>	<b>100</b>	<b>133,465</b>	<b>100</b>

Notes: Totals may not add due to rounding.

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information for Detroit-Warren-Livonia MSA; U.S. Department of Labor, Bureau of Labor Statistics for U.S.

The following table shows the annual average unemployment rates for the City, the Detroit-Warren-Livonia CBSA, and the U.S. from 2001 to 2005.

**Table 35 – Civilian Unemployment Rates, 2001 to 2005**

	<u>City of Detroit</u>	<u>Detroit- Warren-Livonia CBSA</u>	<u>U.S.</u>
2001 .....	9.8%	5.4%	4.8%
2002 .....	11.9%	6.4%	5.8%
2003 .....	14.6%	7.2%	6.0%
2004 .....	14.0%	7.1%	5.5%
2005 .....	14.1%	7.2%	4.9%

SOURCE: Michigan Department of Labor & Economic Growth; U.S. Department of Labor, Bureau of Labor Statistics.

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit-Warren-Livonia MSA for calendar years 2001 through 2005.

**Table 36 – Manufacturing Wage and Salary Employment**

<u>Industry Group:</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Thousands)				
Durable goods industries .....	305.1	280.8	262.6	253.0	244.6
Non-durable goods industries .....	50.8	48.6	46.8	44.7	44.2
Total manufacturing employment .....	355.9	329.4	309.4	297.7	288.8

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information.

**Construction**

The following data shows trends in construction permits in the City.

**Table 37 – Trends in Construction Permits, 2001 to 2005**

	<u>Value (in millions)</u>			
	<u>New Construction</u>		<u>Alterations/Additions</u>	
	<u>Residential</u>	<u>Non-Residential</u>	<u>Residential</u>	<u>Non-Residential</u>
2001 .....	\$ 34.3	\$ 336.6	\$ 122.9	\$ 575.3
2002 .....	\$ 10.6	\$ 385.8	\$ 75.9	\$ 622.2
2003 .....	\$ 55.2	\$ 339.8	\$ 86.9	\$ 467.4
2004 .....	\$ 71.0	\$ 280.1	\$ 124.0	\$ 330.8
2005 .....	\$ 81.4	\$ 243.4	\$ 92.2	\$ 398.1

SOURCE: City of Detroit Department of Buildings and Safety Engineering.

NOTE: Residential includes single and multiple family dwellings.

**Housing Characteristics**

Trends in the housing stock of the City have a direct impact on the City's levy and collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of

all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES-Valuation by Type of Property" above).

The number of housing units in the City fell 29% between 1970 and 2000. Net losses have been concentrated in owner-occupied units, 16% of which were lost to the housing market in the 1970s, 21% of which were lost in the 1980s and 7% lost in the 1990s. Owner occupancy rates in the City declined from 60.0% in 1970 to 49% in 2000. Since 1990, the City has experienced a significant increase in the construction of new housing units. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments." Trends in the housing stock of the City have a direct impact on the City's collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES - Valuation by Type of Property" above).

**Table 38 - Housing Inventory, 1970 to 2000**

<u>Occupancy Status</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
		(in thousands)		
Owner-occupied .....	298.6	250.9	197.9	184.6
Renter-occupied .....	199.1	182.6	176.1	151.8
Vacant .....	<u>31.3</u>	<u>37.7</u>	<u>36.0</u>	<u>38.7</u>
Total housing units .....	529.0	471.2	410.0	375.1

SOURCE: U.S. Department of Commerce, Bureau of the Census.

NOTE: Data may not add up due to independent recording. Excludes seasonal housing.

**Table 39 - Housing Characteristics, 2000**

	<u>City of Detroit</u>	<u>Wayne County</u>	<u>Detroit PMSA</u>	<u>United States</u>
Percent owner-occupied .....	54.9%	66.6%	72.4%	66.2%
Rental vacancy .....	8.3%	7.2%	6.4%	6.8%
Median value of owner-occupied units .....	\$ 63,600	\$ 96,200	\$ 127,800	\$119,600
Median contract rent .....	\$ 486	\$ 428	\$ 502	\$ 602
Persons per household .....	2.77	2.64	2.58	2.59

SOURCE: U.S. Department of Commerce, Bureau of Census.

NOTE: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value, and therefore is not directly comparable to the SEV.

***Largest Employers***

Below is a listing of the largest private sector employers by company and by number of employees actually or estimated to be employed within the City at the end of calendar year 2005. The City and the School District are each major Detroit employers, employing approximately 14,619 and 20,162, respectively, as of June 30, 2005.



**Table 40 – Largest Private Employers**

June 30, 2005

<u>Company</u>	<u>Detroit Employment</u>
Detroit Medical Center .....	10,617
DaimlerChrysler AG.....	9,900
Henry Ford Health System .....	7,404
General Motors Corporation.....	6,311
St. John Health System.....	4,821
American Axle & Manufacturing Holdings Inc. ....	4,309
DTE Energy Co. ....	3,987
Compuware Corp.....	3,946
Motor City Casino .....	2,800
Blue Cross and Blue Shield of Michigan .....	2,694

SOURCE: Crain's *Book of Lists, 2006 Edition*, December 2005.

*Port of Detroit*

The Detroit/Wayne County Port Authority ("DWCPA") is a public agency responsible for promoting trade and freight transportation through the Port of Detroit (the "Port"), which provides direct water service to world markets via the Great Lakes/St. Lawrence Seaway. The Port has five privately-owned and operated full-service terminals, a liquid bulk terminal and bulk facility, and a single dock facility with capacity for 14 ocean-going vessels. In addition, more than 30 industries located on the Detroit and Rouge Rivers have their own port facilities. A variety of ship repair services are available. The Detroit area, which is the largest foreign trade zone in the United States, provides financial advantages related to federal taxes and customs duties at subzones throughout the City and region. The Port is a principal port of entry for trade with Canada via bridge, vehicular tunnel, rail tunnel and barge service. Steel and scrap steel are the principal export products of the Port, handled for the three local steel mills. General cargo constitutes a minor portion of total tonnage due to the lack of regularly scheduled shipping service. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments."

**Table 41 – Waterborne Commerce of the Port of Detroit**  
(millions of short tons of 2,000 pounds)

<u>FISCAL YEARS</u>	<u>Foreign</u>			<u>Domestic</u>	<u>Grand</u>
	<u>Canadian</u>	<u>Overseas</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
1993 .....	2.4	0.9	3.3	13.9	17.2
1994 .....	4.5	1.5	6.0	12.7	18.7
1995 .....	2.6	1.0	3.7	15.2	18.9
1996 .....	4.6	1.7	6.3	12.3	18.6
1997 .....	4.8	1.3	6.1	12.0	18.1
1998 .....	5.0	1.9	6.9	12.5	19.4
1999 .....	3.5	1.1	4.6	12.3	16.9
2000 .....	4.1	1.1	5.2	12.0	17.2
2001 .....	4.3	0.4	4.7	12.3	17.0
2002 .....	3.7	0.7	4.4	12.9	17.3
2003 .....	3.5	0.4	3.9	10.4	14.3

SOURCE: Detroit/Wayne County Port Authority.

### **Transportation Network**

Five major rail lines provide direct service to the Detroit area by such railroad companies as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargoes handled by the rail lines in the Detroit area include automobiles, auto parts, steel, chemicals and food products.

Air transportation service is provided to the City at the Detroit City Airport, with general aviation, cargo and scheduled passenger services, and at the Detroit Metropolitan Wayne County Airport, the nation's 10th largest international airport and the largest hub for Northwest Airlines. More than 30 other scheduled airlines provided domestic and international service with more than 1 million annual passenger enplanements and 137,000 tons of annual enplaned cargo.

This area's extensive toll-free highway system, which includes the I-94, I-75, I-96 and I-696 interstate highways and Canadian 401, provides one-day access, based on a 500-mile day, to 48% (by population) of the U.S. market and to the Province of Ontario, Canada.

### **Major Projects and Developments**

A number of major developments have been completed during the past three years, and others are in various stages of construction in the City. Most of the projects represent joint efforts between the public and private sectors. Below are brief descriptions of the major developments, including announced financing sources.

#### **Merchants Row**

Merchants Row, a \$30 million redevelopment project of eight 1910 era buildings adjacent to the corporate offices of Compuware Corporation, includes 163 loft condominiums, a 264-space parking garage and 28,400 square feet of retail and restaurant space.

#### **1001 Woodward**

This 26-story, twin office tower, adjacent to the Campus Martius project, has undergone a \$20 million renovation, along with the addition of a \$10 million 500-space parking structure.

#### **Downtown YMCA**

The YMCA of Metropolitan Detroit recently completed the construction of the 5-story Boll Family YMCA at a cost of \$35 million. The new facility houses an auditorium, two swimming pools, a health and fitness center, a wellness center and a childcare center.

#### **Woodward Millennium**

A \$37 million mixed-use development is nearing completion in the medical center area. The development will include 180 units of loft-style condominiums and garden-style apartments, a parking garage and retail space.

#### **St. Anne's Gate**

This new housing development is located in southwest Detroit near the Ambassador Bridge and consists of new single and multi-family homes. The total project cost is expected to be \$41 million.

#### **Tri-Centennial Village**

A \$19 million housing development is being constructed on Detroit's west side. The development will include 165 single-family homes, 85 of which will be constructed by Habitat for Humanity.

#### Woodward Place at Brush Park

Woodward Place at Brush Park – Phase II. Construction will continue over the next three years, ultimately adding up to 700 new housing units. The project also involves the renovation of several historic homes for residential use. The total cost of the project is \$75 million.

#### Brush Park Manor

A 91,000 square foot senior apartment residence on 3.3 acres of land on Brush Street was recently completed. The 3-story complex consists of 113 apartments. The estimated cost of the project is \$9.9 million.

#### Greyhaven Marina Village

Greyhaven Marina Village is being constructed in phases on a 15-acre site on the Detroit River. Phase one consisted of 190 apartments and town homes overlooking the Detroit River. Phase two consists of 144 condominium units. The total cost of the development was \$21 million. A third phase under development is the \$25 million Shorepoint Village consisting of 57 single-family homes.

#### Woodbridge Estates

The \$98 million project includes 247 rental units, 101 new homes, town homes and duplex condominiums and 297 enhanced service units on a former public site. In addition, the project will include retail space and a community center. The project is being funded with both public and private funds.

#### Federal Reserve Bank

The \$79.5 million, 220,000-square foot Detroit branch northeast of downtown was recently completed to handle check clearing, currency processing, economic analysis and conferences, and serves Michigan's Lower Peninsula.

#### New Center Lofts

This \$14.28 million residential project includes 102 loft-style, two-story townhouses located in northwest Detroit. Later phases will include three-story townhouses.

#### Morningside Commons

Located on the City's east side, this \$30 million housing development is being constructed in phases. The first phase of the development consisted of 40 new single-family homes. The second phase consisted of a 64-unit multi-family townhouse development. Currently under construction, phase three will consist of the construction of 50 new single-family homes and the rehabilitation of 10 existing single-family homes.

#### Lombardo Heritage

A \$197.7 million housing complex is being constructed in phases on a 10.5-acre parcel on the City's east side. Upon completion, the complex will include 126 condominium homes with basements.

#### Palmer Street Redevelopment

Located near the Wayne State University district, this \$10 million project consists of the rehabilitation of nine existing buildings and the construction of new townhouses into a total of 115 housing units.

#### River Park Village Senior Apartments

The 15-story Whittier building will be converted into a \$66 million development of 80 senior apartments, other loft-style apartments and retail space.

#### The PricewaterhouseCoopers Building

The accounting firm PricewaterhouseCoopers is nearing completion of a \$26 million 115,000-square foot, five-story office building adjacent to Ford Field football stadium. PricewaterhouseCoopers will occupy the first four floors of the building, with the fifth floor available for lease to a future tenant. A 1,200-stall parking garage has been constructed immediately north of the building on an adjacent parcel of land.

#### St. John Hospital and Medical Center

St. John Hospital is constructing a \$12 million, 62,000-square foot medical office building on its Riverview hospital campus. The health care provider will also build a \$141 million hospital tower and a \$15 million emergency department expected to open in 2008 at its eastside location in the City.

#### The Salvation Army Southeast Adult Rehabilitation Center

The Salvation Army Southeast Adult Rehabilitation Center in downtown Detroit completed a \$26 million renovation that added 100 beds, renovated offices, added a dining room and moved its thrift store.

#### Detroit-Wayne County Port Authority

The Detroit/Wayne County Port Authority ("DWCPA") financed a \$43 million mixed-use facility on the east riverfront in downtown Detroit. The project consists of 18,000 square feet of ground floor retail space and upper floors and a parking garage with 1,174 parking spaces.

#### Kennedy Square Office Building

This \$54 million project is being built on top of an existing underground garage in the downtown area. Expected to be completed in June 2006, the 10-story, 240,000-square foot office building will offer ground floor retail space and house up to 1,300 workers.

#### Casino Development

A recent court settlement has paved the way for the construction of three permanent casinos in the City. Each casino will expand in or near its current temporary location at a cost of about \$200 million each. Each casino will have a minimum of 100,000 square feet of gaming space, a 400-room hotel and additional parking and restaurants. See "FINANCIAL OPERATIONS - General Fund Revenue Categories."

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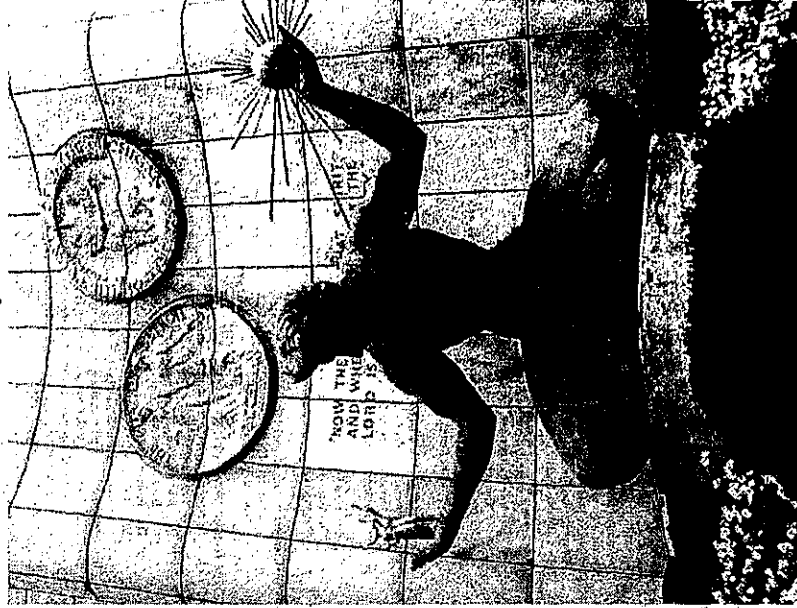
**CITY OF DETROIT, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended**  
**June 30, 2005**

**FINAL**  
See attached KPMG  
**OPINION**

**Kwame M. Kilpatrick**  
Mayor

**City of Detroit, Michigan**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2005**

**Kwame M. Kilpatrick**  
Mayor



Prepared by the Finance Department  
**Roger Short, CPA**  
*Interim Finance Director / Chief Financial Officer*

**APPENDIX C**

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*"It shall  
rise again  
from the ashes"*

*"We  
hope for  
better things"*

**FOUNDED 1701  
INCORPORATED 1806  
AREA (Square Miles) 137.9  
POPULATION 911,402**



1200 COLEMAN A. YOUNG MUNICIPAL CENTER  
DETROIT, MICHIGAN 48226

CITY OF DETROIT  
FINANCE DEPARTMENT

May 13, 2006

The City of Detroit,  
The Honorable Mayor Kwame M. Kilpatrick and  
The Honorable City Council

The management and staff of the Finance Department is pleased to present the City of Detroit's (the "City") Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2005 along with the Independent Auditor's Report. The CAFR is prepared by the City's Finance Department in accordance with the financial reporting principles and standards of the Governmental Accounting Standards Board.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. Accordingly, we believe that the information, as presented, is accurate in all material respects. We also believe that the financial statement presentation accurately depicts the financial position and the results of operations as measured by the financial activity of our various funds. Finally, the notes and disclosures included provide the reader with a more comprehensive understanding of the City's financial position.

**Independent Audit**

The City's Charter requires the Auditor General of the City to audit the transactions of all City agencies at least once every two years. The Auditor General is appointed by the City Council for a 10-year term.

Additionally, state laws require the City to have its financial statements audited by an independent, outside auditor once every five years. However, beginning with the fiscal year 1980, the Mayor and City Council agreed to have an annual financial statement audit by an independent auditor. The independent auditor's report on the financial statements is included in the financial section of this report. The City must also comply with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and non-profit organizations*.

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#### CITY OF DETROIT GOVERNANCE STRUCTURE

The City was incorporated in 1806, and is a home rule city under State law. The organizational structure of the City is as follows:

##### The Executive Branch

- The Mayor heads the executive branch. The citizens of Detroit elect the Mayor to a four-year term. The City Charter grants the Mayor broad managerial powers including the authority to appoint department directors, deputy directors, and other executive branch officials. The responsibility to implement most programs, provide services, activities, and manage day-to-day operations is delegated by the Charter to the executive branch.

##### The Legislative Branch

- The legislative branch is comprised of the City Council and its agencies. The nine members of City Council are also elected to a four-year term. Many significant decisions, including budget appropriations, procurement of goods and services, and certain policy matters must be approved by the City Council.

##### Other Agencies

- The City Clerk's Office and the Election Commission are not classified under either of the two branches mentioned above.

##### Background and Overview

Detroit, Michigan's largest city is located in the County of Wayne in the southeastern section of the state's lower peninsula. The City covers approximately 140 square miles and accounts for nearly half of the population of Wayne County. The City is internationally known for automotive manufacturing and trade. Detroit is located on an international waterway, which is linked via the St. Lawrence Seaway to seaports around the world.

##### MAJOR INITIATIVES AND ACCOMPLISHMENTS

A number of significant initiatives, outlined below, are underway in the City that will have a positive effect on the City's economic health and its ability to provide services to residents and businesses.

##### City of Detroit Call Centers

###### 911

- The administration successfully opened a state-of-the-art Computer Aided Dispatch Communications Center, which for the first time links 911 operators with Fire/EMS and Police Department Dispatchers. This new system replaced the City's 32 year-old 911 system.

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##### One Call to City Hall

- The City developed and implemented an extensive overhaul of Detroit's 311 system. The new one stop shop for City services provides "ONE CALL TO CITY HALL", information about City programs, hours of operation or locations, and one place to call to request a service from any of the City's 42 Agencies.

##### Detroit Department of Administrative Hearings

- In January 2005, code violations that were formerly processed as criminal misdemeanors began to be prosecuted as civil cases by the newly created Detroit Department of Administrative Hearings (DAH). By taking such cases out of the backlogged 36<sup>th</sup> District Court and moving them to the DAH, more cases can be resolved by hearing officers who are licensed attorneys. Cases that come before the department include violations of property maintenance, zoning, solid waste, and illegal dumping ordinances.

##### Issuance of Pension Obligation Certificates

###### Midwest Regional Deal of the Year Award

On December 6, 2005, the Mayor accepted the Midwest Regional Deal of the Year Award from The Bond Buyer on behalf of the City of Detroit during an awards banquet in New York City. The City of Detroit received the award for its landmark pension obligation certificate transaction. The Detroit Retirement Systems Funding Trust 2005 issued \$1,440,000,000 of taxable Pension Obligation Certificates of Participation (S640 million of taxable fixed rate, Series A and \$800 million of taxable floating rate, Series B), which represents:

- o The first pension financing in the State of Michigan (state or local)
- o The largest municipal offering ever completed in City and State
- o The largest sale by a U.S. local-level government entity of taxable or tax-exempt floating rate notes in the asset-backed securities market
- o A highly intricate and creative legal, tax and credit framework
- o Protection of the City and pension systems through integrating the pension funding transaction with the funding and operational mechanisms of the pension systems.

##### City of Detroit Hurricane Katrina Relief Program

- On September 1, 2005, Detroit Mayor Kwame M. Kilpatrick made Detroit the first major city not adjacent to New Orleans to extend its resources to the victims of Hurricane Katrina. Working with hotels, businesses, and human service agencies throughout the region, Mayor Kilpatrick made several resources available to those who sought refuge in Detroit and the Detroit Metro Area. The City and Wayne County activated the Hurricane Katrina Evacuees Reception and Assistance Center. The Coleman A. Young International Airport Passenger Terminal became the designated site for Homeland Security and became the official location

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for the Reception Center. On September 14, 2005, the Reception Center opened and started processing evacuees. Over 300 evacuees were served over the first four days.

#### Build Detroit Program

- The Build Detroit is a public information campaign that the Mayor established to coordinate, manage, and communicate construction projects throughout the City. The Build Detroit campaign is a unique partnership with the business community and the media. Build Detroit helps keep metropolitan Detroit residents informed about construction delays or detours on a weekly basis. With more than 100 projects planned for the next two years, Build Detroit has proven to be a welcome addition for residents and the media.

#### Department of Transportation

- The Department added 121 new buses with low floors to its fleet. The low floor feature eliminates steps and wheelchair lifts and is considered a major customer service improvement.

#### Detroit Water and Sewerage Department

- Continuing operational efficiencies enabled the department to hold rate increases for 2005-06 to the lowest amount in 12 years.

#### Recreation Department

- More than 20 parks were renovated during Summer 2005 including:
  - *Buffer Playfield and Playscape* -- Renovations to the 5.66-acre playfield include a large new barrier-free playscape, three youth soccer fields, a ball diamond with backstop and bleachers, picnic tables, benches, trees, sidewalk, and fencing.
  - *Fargo-Fenton Playfield* -- Renovations to the 2 1/4 - acre playfield include two new play structures with swing sets, under which a protective rubber surfacing was installed, a new 1/4 - mile walking trail, landscaping along the walking trail and throughout the park, which includes flowering shrubs and trees, new benches, and bike racks.
  - *Peterson Playfield* -- The 17-acre playfield, the only park of its size in the area, received \$1.3 Million in renovations thanks in part to a grant award of \$950,000 from the Urban Park and Recreation Recovery (UPARR) Program. Renovations include a new playground area, water spray area, walking trail, two basketball courts, six tennis courts, three softball diamonds, baseball diamond, football/soccer field, comfort station, picnic shelter, picnic tables, grills, flag pole, peace pole, parking lot, and landscaping.
  - *Skinner Playfield* -- Renovations to the seven-acre playfield include a new play structure with a protective rubber surfacing, football/soccer field, volleyball court, and new walking trail. Other amenities include benches and picnic tables.

- The Jayne/Lasky Baseball Family Fun Center opened. This is the City's first family entertainment complex. This unique facility offers a wide variety of fun and challenging recreation and sports activities for all ages.

#### Economic Development

To spur Detroit's growth and build stronger neighborhoods, the Mayor has dramatically streamlined the economic development process while forming groundbreaking partnerships with the private sector and community organizations. In just three years, the results have been impressive. The City currently has more than 7,400 housing starts in the pipeline including the unprecedented Far Eastside project, which envisions a neighborhood with 3,000 homes.

#### 1001 Woodward

This 26-story, twin office tower, adjacent to Campus Martius, is undergoing a \$20 million renovation, along with the addition of a \$10 million 500-space parking structure.

#### GM Global Headquarters

General Motors completed a \$100 million hotel renovation to its global headquarters including the addition of 10,000 square feet of meeting space and improvements to the main entrance of the facility. A riverside promenade is currently under construction.

#### Downtown YMCA

Construction was completed on a \$38 million five-story YMCA recreational facility located in the City's downtown area. The new facility houses an auditorium, a swimming pool, health and fitness center, wellness center, parking garage, and childcare center.

#### Woodward Millennium

A \$37 million mixed-use development in the medical center area was completed last summer. The development includes 180 units of loft-style condominiums and garden-style apartments, a parking garage, and retail space.

#### St. Anne's Gate

This new housing development is being built in southwest Detroit near the Ambassador Bridge and consists of new single and multi-family homes. The total project cost is expected to be \$41 million.

#### Tri-Centennial Village

A \$19 million housing development is being constructed on Detroit's west side. The development will include 165 single-family homes, 85 of which will be constructed by Habitat for Humanity.

- *Woodward Place of Brush Park*  
Phase 1 construction of 100 town homes is complete. Construction will continue over the next three years, ultimately adding up to 700 new housing units to Brush Park. The condominiums average 1,800 square feet. The project also involves the renovation of several historic homes for residential use. The total cost of the project is \$75 million.
- *Brush Park Manor*  
A 91,000 square foot senior apartment residence on 3.3 acres of land on Brush Street was recently completed. The 3-story complex consists of 113 apartments. The estimated cost of the project is \$9.9 million.
- *Greynhaven Shorepoint Village*  
Greynhaven Marina Village is being constructed in phases on a 15-acre site on the Detroit River. Phase one consisted of 190 apartments and town homes overlooking the Detroit River. Phase two consists of 144 condominium units. The total cost of the development was \$21 million. A third phase under development is the \$25 million Shorepoint Village consisting of 57 single-family homes.
- *Woodbridge Estates*  
The \$98 million project includes 247 rental units, 101 new homes, town homes, and duplex condominiums and 297 enhanced service units on a former public site. In addition, the project will include retail space and a community center. The project is being funded with both public and private funds.
- *Federal Reserve Bank*  
The 220,000 square foot \$79.5 million reserve branch located northeast of downtown is expected to employ 275 workers handling check clearing, currency processing, economic analysis, and conferences. Its state-of-the-art design and equipment will allow the Detroit Branch's operations to be among the most efficient in the Federal Reserve System.
- *American Axle*  
American Axle is completing a second building phase in its \$30 million research and training center complex next to its headquarters.
- *Morningstar Commons*  
Located on the City's east side, this \$30 million housing development is being constructed in phases. The first phase of the development consisted of 40 new single-family homes. The second phase consisted of a 64-unit multi-family townhouse development. Currently under construction, phase three will consist of the construction of 50 new single-family homes and the rehabilitation of 10 existing single-family dwellings.
- *The PricewaterhouseCoopers Building*  
The accounting firm, PricewaterhouseCoopers, constructed a five-story, 115,000 square foot office building adjacent to the Ford Field at a cost estimated at \$26 million. PricewaterhouseCoopers will occupy the first four floors of the building with the fifth floor available for lease to a future tenant. A 1,200 stall-parking garage will be constructed immediately north of the building on an adjacent parcel of land.
- *Kennedy Square Office Building*  
This \$54 million project is being built on top of an existing underground garage in the downtown area. The 10-story 240,000 square foot building will offer ground floor retail space and house up to 1,000 workers. The building will be ready for occupancy in June 2006.
- *West Town Homes*  
This west side revitalization project is the first of a two-phase project. This project will create a total of 150 single-family homes. Phase 1 creates 33 scattered, single-family affordable homes constructed on a 40-foot frontage lots. The total development cost for Phases II and I is approximately \$26 million.
- *Core City Neighborhoods*  
The project includes Core City II, a 66-unit townhouse rental project; Core City West Village, a 60 unit single-family project; and Riverside Estates, a 67-unit rental apartment complex. The projects are all financed with tax credits. Together, these projects account for more than \$37 million dollars in public/private investment in the City of Detroit.
- *Circle of Life Health Care Center*  
There is another \$30 million in planned commercial investment that will be located along Grand River Avenue to service residents of these housing units and the residents of the Woodbridge Historical District. The commercial portion is called Core City Town Center and has already solicited several retail outlet stores. Phases two through five will include a development of single-family, market-rate housing, consisting of approximately 170 units; a live work loft complex and specialty retail shops.
- *Circle of Life Health Care Center*  
The former Saratoga Hospital on Detroit's east side is being refurbished into the Circle of Life Health Care Center, a private 90-bed facility that would serve mentally ill adults and children. The project represents an investment of \$2 million.
- *Far East Side Project*  
The project consists of an ambitious eight to 12 year strategic plan to redevelop 1,200 acres with approximately 400 building sites stretching from Jefferson Avenue to Warren Avenue and from Conner Road to Alter Road. No viable homes will be torn down: the development will grow block by block. Some of the housing will be affordable, built with large subsidies

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from the Michigan State Housing Development Authority and some will be market rate. In addition, retail, housing, churches, recreational facilities, public spaces, and schools are to be built in the area to complete the neighborhood.

*Merchants Row*

The \$30-million residential transformation of eight 1910-era buildings is located on Woodward across from Campus Martius and the site of the former Hudson's department store. Once-vacant buildings are being demolished or renovated into 163 loft apartments together with restaurants, retail outlets and offices.

▪ *Forest Park III*

A \$7.8 million residential complex is currently under construction on Detroit's near west side. The project will include 100 senior citizen units.

**Economic Considerations**

The State Economy continues to rank at the bottom nationally in performance. The Bureau of Labor Statistics reports that the August 2005 unemployment rate for the nation was 4.9% while the State had a rate of 6.7% and the City's rate was close to 15%. The economy of the City is very dependent on automobile manufacturing which is undergoing a dramatic restructuring. The City is taking steps to aggressively pursue wireless communications, fuel cell technology, health technology and health care, and the entertainment industries to diversify the City's economy.

**BUDGETARY INITIATIVES**

To address fiscal year 2004-05 General Fund deficit of \$155 million, the City's budgetary initiatives in fiscal year 2005-06 include:

- An appropriation of \$101.7 million to offset the prior year deficit
- Departmental cuts (January layoffs) to reduce payroll costs -- \$23.5 million.
- Sales of excess inventory -- \$10.0 million.
- Reduction of non essential purchases

**OUR VIEW OF THE FUTURE**

Financial position is one of the key indicators of an organization's strength. While financial statements are an objective measure of the strength of the City, there are other factors, which taken together, provide the framework for our view of the City.

Since taking office in 2002, Kwame M. Kilpatrick has led tremendous growth in the City including the biggest housing and commercial construction boom in 50 years, the largest road and infrastructure improvement program in decades, and a \$2-billion overhaul of Detroit's riverfront. After decades of decline, Detroit is experiencing a revival thanks to Mayor Kilpatrick's leadership that has been recognized by media including the New York Times, USA Today, the Los Angeles Times, and the Financial Times of London.

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▪ **Certificate of Achievement for Excellence in Financial Reporting**

The City is pleased that the Government Finance Officers Association (GFOA) recognized Detroit with the prestigious award for excellence in financial reporting for our 2003-04 CAFR.

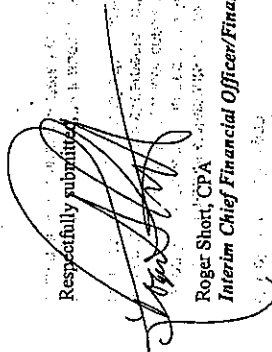
This is the third consecutive year that the City has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish a well-organized and easily understandable CAFR in accordance with Generally Accepted Accounting Principles (GAAP). A certificate is valid for a period of one year only.

We believe our current CAFR continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine eligibility for another certificate.

**ACKNOWLEDGEMENTS**

I wish to express my appreciation to the entire staff of all accountants and fiscal staff within the City of Detroit, the City's Finance Department, and the fiscal staff at each of our component units whose professionalism, dedication and efficiency contributed to the preparation of this report. Also, thanks to the Mayor's Office, members of City Council and the Auditor General for their interest and support in planning and conducting the City's financial affairs.

Respectfully submitted,



Roger Short, CPA  
*Interim Chief Financial Officer/Finance Director*

OFFICE OF THE AUDITOR GENERAL  
2 WOODWARD AVE., ROOM 208  
DETROIT, MICHIGAN 48226  
PHONE 313.224.3101  
FAX 313.224.4091

LOREN E. MONROE, CPA, JD  
AUDITOR GENERAL  
CITY OF DETROIT

AUDITOR GENERAL'S LETTER

May 13, 2006

The Honorable Mayor Kwame M. Kilpatrick  
and Members of the City Council  
City of Detroit, Michigan

The basic financial statements included in the City's Comprehensive Annual Financial report for the fiscal year ended June 30, 2005, were audited by KPMG LLP, and Alan C. Young Associates, P.C., under contract with the City of Detroit, Auditor General. The audit of these financial statements and the resulting Auditors' opinion satisfies the requirements of the City Charter under Section 4-205.

Based on the results of their audit, KPMG LLP has issued their report on the aforementioned financial statements, dated May 13, 2006.

Respectfully,

*Loren E. Monroe*

Loren E. Monroe  
Auditor General

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

City of Detroit,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carol E. Perry*

President

*Jeffrey R. Egan*

Executive Director

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**PRINCIPAL OFFICIALS  
Of The  
CITY OF DETROIT, MICHIGAN**

**Executive  
(Elected)**



**Mayor  
KWAME M. KILPATRICK**

**Legislative  
(Elected)  
City Council**



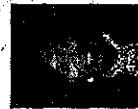
**KENNETH V. COCKREL, JR.  
President**



**MONICA CONYERS  
President Pro Tem**



**BARBARA-ROSE COLLINS**



**BRENDA JONES**



**KWAME KENYATTA**

**PRINCIPAL OFFICIALS  
Of The  
CITY OF DETROIT, MICHIGAN**



**MARTHA REEVES**



**ALBERTA TINSLEY-TALABI**



**JOANN WATSON**

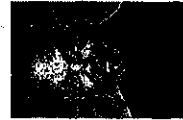


**City Clerk  
JANICE WINFREY**

**Other Executive Officials  
(Appointed)**



**ANTHONY ADAMS, ESQ.  
Deputy Mayor**



**ROGER SHORT  
Interim Finance Director**



**MIKE D. BRIDGES, CPA  
Chief Accounting Officer**

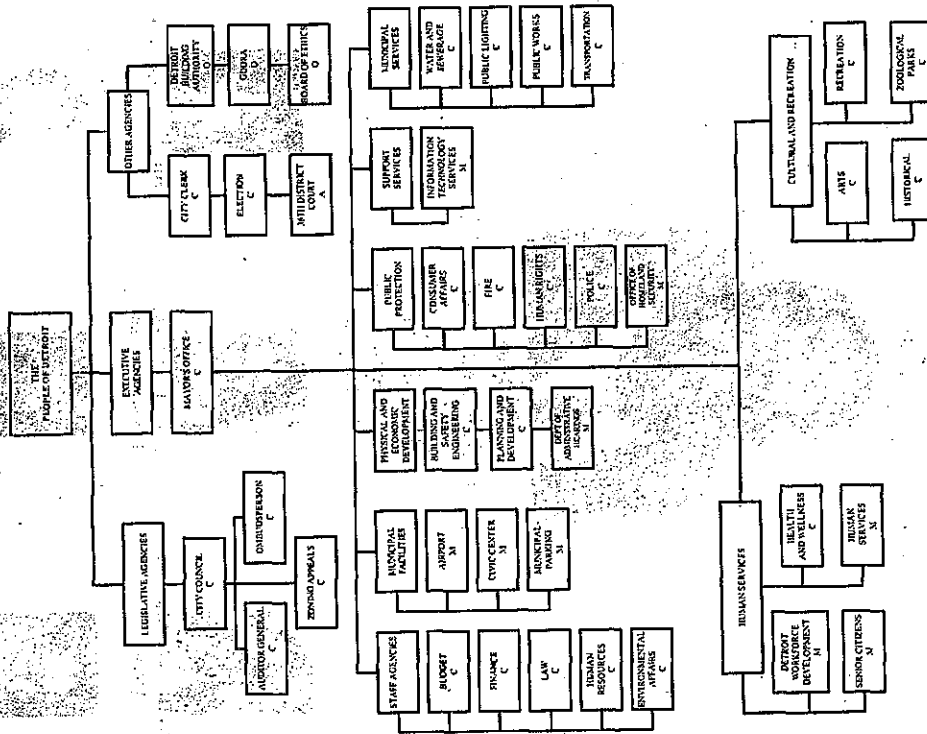
# FINANCIAL

*The Financial Section contains:*

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information

CITY OF DETROIT ORGANIZATION CHART

June 30, 2005



ESTABLISHED UNDER:  
 A- STATE ACT  
 B- STATE ACT  
 C- MAYOR'S EXECUTIVE  
 ORGANIZATION PLAN  
 D- CITY ORDINANCE

**INDEPENDENT  
AUDITORS'  
REPORT**

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KPMG LLP  
 Suite 1200  
 150 West Jefferson  
 Detroit, MI 48226-4429

**Independent Auditors' Report**

To the Honorable Mayor Kwame Kilpatrick  
 and Members of the City Council  
 City of Detroit, Michigan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School District of the City of Detroit, the Downtown Development Authority, the Economic Development Corporation, the Museum of African American History, the Detroit Transportation Corporation, the Detroit Housing Commission, and the Greater Detroit Resource Recovery Authority, which represent 96.9% and 96.6%, respectively, of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the Retirement Systems, which represent 95.1% and 36.7%, respectively, of the assets and expenses/expenditures/deductions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The financial statements of the Detroit Housing Commission Component Unit (Housing) have not been audited, and we were not engaged to audit Housing's financial statements as part of our audit of the City's basic financial statements. Housing's financial activities are included in the City's financial statements as a discretely presented component unit and represent 3.1%, 37.8%, and 1.2% of the assets, net assets, and revenues, respectively, of the City's aggregate discretely presented component units.

KPMG LLP, U.S. member-firm, is the U.S. member firm of KPMG network, a Swiss entity.



In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had Housing's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for City of Detroit, Michigan as of June 30, 2005, and the changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 26, the budgetary comparison information on pages 113 through 115, and the schedules of employer contributions and the schedules of funding progress on page 117 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Detroit's basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

Detroit, Michigan  
 May 13, 2006

**MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS  
(MD & A)**

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## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. These components are described below:

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, similar to that used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- *The statement of net assets* - presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- *The statement of activities* - presents information showing how the City's net assets changed during each fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation). This statement also presents a comparison between direct expenses and program revenues for each major function of the City.

As management of the City of Detroit, Michigan (City) we offer readers of the City's Comprehensive Annual Financial Report (CAFR) this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage the readers to consider the information presented here in conjunction with information that we have furnished in our letter of transmittal, contained within this report.

### FISCAL 2005 FINANCIAL HIGHLIGHTS

- The assets of the City, in the government-wide financial statements, exceeded its liabilities at June 30, 2005 by \$1.6 billion (*net assets*). Of this amount, \$306 million is an unrestricted deficit, while \$1.6 billion is invested in capital assets, net of related debt and \$318 million is restricted for specific purposes.
- The City's total net assets decreased by \$114 million over the previous year's net asset of \$1.7 billion.
- The City's total governmental activities' assets increased by \$1.2 billion since June 30, 2004 to \$3.1 billion at June 30, 2005, due mainly from the net pension asset created from the issuance of \$1.4 billion of pension obligation certificates (POCs) and the subsequent contribution to the pension systems. The City's increase in liabilities from \$1.8 billion at June 30, 2004, to \$3.2 billion at June 30, 2005, occurred mostly from the issuance of the \$1.4 billion pension obligation certificates.
- The General Fund Revenues and Other Financing Sources, in the fund financial statements, available for general governmental operations during 2005 were \$1.6 billion, a decrease of \$2.6 million (0.16 percent) from 2004.
- The General Fund, also in the fund financial statements, ended 2005 with a total fund deficit of \$33.6 million. Total Fund Balance decreased from 2004 primarily because Expenditures and Other Financing Uses exceeded Revenues and Other Financing Sources by \$87 million. Fund Balance at June 30, 2005 of \$122 million was reserved for commitments. Unreserved Fund Balance was \$155 million deficit at June 30, 2005, compared to a \$95 million deficit at the end of 2004.
- The City's general obligation bonds and notes outstanding increased by \$776 million during the current fiscal year. The key factor in this increase was the issuance of additional general obligation bonds to fund the City's capital plan.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include public protection, health, recreation and culture, education development, economic development, housing supply and conditions, physical environment, transportation and development and management functions. The business-type activities of the City include an airport, automobile parking, water and sewage disposal operations, and transportation.

The government-wide financial statements reflect not only the activities of the City itself (known as the primary government), but also legally separate organizations and agencies for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

#### *Governmental funds*

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, *governmental fund* financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the *governmental fund balance sheet* and the *governmental fund statement of revenues, expenditures, and changes in fund balances* provide reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects, and permanent funds). Information for three funds that qualify as major is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances. The three major governmental funds are as follows: the General Fund, the General Retirement System Service Corporation, and the Police and Fire Retirement System Service Corporation. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriation budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found immediately following the government-wide statements.

#### *Proprietary funds*

These funds are generally used to show activities that operate more like those of commercial enterprises. Because these funds charge user fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds, like government-wide statements, use the accrual basis of accounting and provide both long and short-term financial information. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The City uses five enterprise funds to account for its water, sewer, transportation, parking, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail. The proprietary fund financial statements provide separate information for the Water Fund, Sewage Disposal Fund, Transportation Fund, Automobile Parking Fund and Airport Fund.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

#### *Fiduciary funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside of primary government. The City is trustee, or fiduciary, for its employees' pension plans. It is responsible for other assets that, because of a trust arrangement can be used only for the trust beneficiaries. The City also uses fiduciary funds to account for transactions for assets held

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

An additional portion of the City's net assets in the amount of \$318 million represent resources that are subject to external restrictions on how they may be used.

City of Detroit, Michigan  
Summary of Net Assets  
(in thousands of dollars)

	2005	2004	2005	2004	2005	2004
	Governmental Activity		Business-type Activities		Total	
Assets:						
Current and other assets	\$ 1,703,066	\$ 1,811,052	\$ 1,792,712	\$ 1,984,886	\$ 3,495,778	\$ 3,795,938
Capital assets	1,401,291	1,194,020	5,105,272	4,201,432	6,506,563	5,397,370
Total assets	3,104,357	3,005,072	6,897,984	6,186,318	10,094,541	9,193,308
Liabilities:						
Other liabilities	611,175	481,145	120,015	354,371	731,190	835,516
Long-term liabilities	2,517,254	1,309,802	3,553,402	4,672,822	6,070,656	5,508,338
Total liabilities	3,128,429	1,790,947	3,673,417	5,027,193	6,801,845	6,343,854
Net assets:						
Invested in capital assets, net of related debt	602,317	621,119	1,030,143	1,630,515	1,632,460	2,261,625
Unrestricted	188,984	85,250	285,729	199,037	474,713	294,267
Total net assets	\$ 791,301	\$ 706,369	\$ 1,315,872	\$ 1,829,552	\$ 2,107,173	\$ 2,555,892

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

By the City as agent for various entities. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The accounting used for fiduciary funds is much like that used for proprietary funds.

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of data reported in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fiduciary fund financial statements.

*Additional Information*

The combining statements, which include nonmajor funds, for governmental and trust and agency funds are presented immediately following the notes to the financial statements.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

*Net assets*

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1.6 billion at June 30, 2005.

By far the largest portion of the City's net assets reflects its investment in capital assets (land, buildings, roads, bridges, etc.), less any related debt used to acquire those assets that is still outstanding which is \$1.6 billion. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

Governmental Activities

Net assets of the City's governmental activities decreased \$187 (97%) to reflect a balance of \$6 million. A significant portion of those net assets are either restricted as to the purpose they can be used for or they are invested in capital assets (buildings, roads, bridges, etc.). Consequently, unrestricted net assets showed a \$586 million deficit at the end of this fiscal year.

The deficit is the result of having long-term commitments that are greater than currently available resources. Specifically, in accordance with its budgetary policies, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from, long term commitments. The City will include these amounts in future years' budgets as they come due.

Over 40% of the City's revenue comes from taxes. Total taxes decreased by 0.5%. Total taxes include a decrease in property taxes of \$14 million (6% percent) is primarily due to a flat property tax growth coupled with population decline. Wasting taxes increased by \$22 million (19%) due to enactment of State of Michigan House Bill 4612 and an increase in activity. The bill was effective September 1, 2004. The bill raised the tax on Detroit's three casinos adjusted gross receipts received to 24 percent from 18 percent. The new additional tax of 6 percent generated roughly \$75 million per year of which one-third is earmarked for the City. Thus, the City's share was \$25 million.

Federal and State grants vary from year to year depending primarily on the level of spending for programs, construction, and other projects.

Expenses for governmental activities in 2005 were \$1.9 billion. This reflects a decrease of \$24 million (1.22%) over 2004. Public protection (police and fire protection) was the largest component of current expenses, accounting for 45% of total expenses. Public protection expenses increased \$120 million (16%) over 2004 due to increased payouts for litigation, workmans compensation and rising health expenses for retired police and fire employees. Development and Management decreased \$136 million (39%) below 2004 as a result of cost reductions and restructuring of related services.

Revenues for governmental activities were \$1.8 billion.

The amount that taxpayers paid for these activities through City taxes was only \$729 million. Other funding for governmental activities was provided from the following sources:

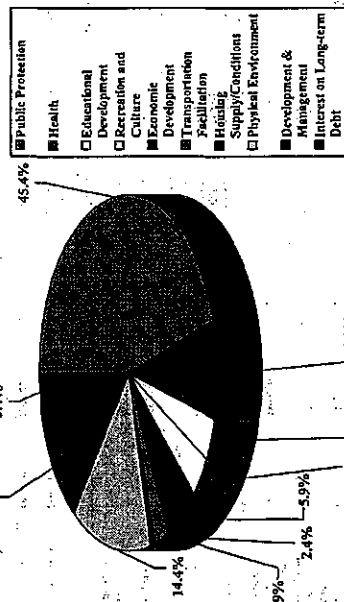
- o User fees were paid by those who directly benefited from certain programs (\$408 million).
- o Other governments and organizations subsidized certain programs with grants and contributions (\$382 million).
- o Other revenues such as state aid, interest, and miscellaneous income funded the "public benefit" portion of various programs (\$315 million)

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

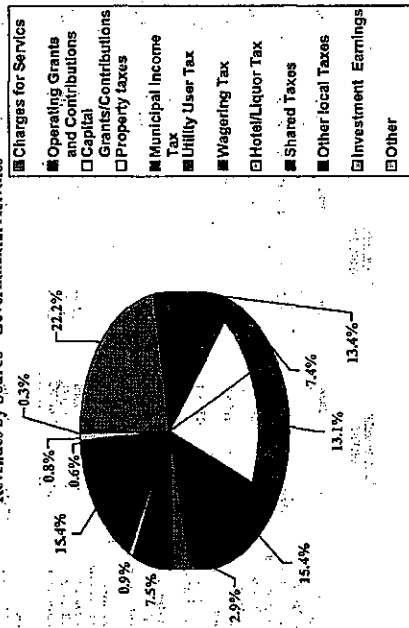
City of Detroit, Michigan  
Changes in Net Assets  
Years Ended June 30  
(in thousands of dollars)

	2005	2004	2003	Total
<b>Revenue:</b>				
Transfer from Services	\$ 407,869	\$ 464,344	\$ 684,042	\$ 1,556,255
Opening Grants and Contributions	246,249	89,245	314,260	650,754
Capital Grants and Contributions	132,203	33,759	150,986	316,948
General Revenues:				
Municipal Income	239,576	239,508	239,508	718,592
Tax	383,202	382,502	382,502	1,148,206
Utility User Tax	37,940	47,423	47,423	132,786
Wasting Tax	116,146	137,970	116,146	370,262
Food and Liquor Tax	16,311	16,311	16,311	48,933
Sales Tax	382,371	382,371	382,371	1,147,113
Other Local Taxes	11,211	11,211	11,211	33,633
Investment Earnings	14,645	12,516	37,274	64,435
Miscellaneous	6,432	3,813	4,181	14,426
<b>Total Revenues</b>	<b>1,834,478</b>	<b>2,039,702</b>	<b>2,439,702</b>	<b>3,999,716</b>
<b>Expenses:</b>				
Public Protection	875,157	876,157	876,157	2,627,471
Health	170,500	170,500	170,500	511,500
Education	12,862	12,862	12,862	38,586
Recreation and Culture	75,145	75,145	75,145	225,435
Economic				
Development	114,665	114,665	114,665	343,995
Transportation	46,372	46,372	46,372	139,112
Housing Supply and Amenities	17,981	17,981	17,981	53,943
Development and Management	377,806	377,306	377,306	1,132,418
Interest on Long-Term Debt	214,847	214,847	214,847	644,541
Sewage Disposal	62,253	62,253	62,253	186,759
Waste Management	192,411	186,988	186,988	565,387
Automobile Parking	195,084	195,084	195,084	585,252
Airport	3,141	3,141	3,141	9,423
<b>Total Expenses</b>	<b>2,091,537</b>	<b>2,039,702</b>	<b>2,039,702</b>	<b>6,170,966</b>
<b>Decrease in Net Assets before Transfers</b>	<b>(97,059)</b>	<b>(13,665)</b>	<b>(113,673)</b>	<b>(324,407)</b>
<b>Change in Net Assets</b>	<b>(186,644)</b>	<b>63,443</b>	<b>(113,673)</b>	<b>(336,874)</b>
<b>Net Assets, July 1</b>	<b>193,130</b>	<b>1,461,593</b>	<b>1,796,190</b>	<b>1,913,140</b>
<b>Net Assets, June 30</b>	<b>6,506</b>	<b>1,546,041</b>	<b>1,682,517</b>	<b>1,738,190</b>

**Expenses by Function Type - Governmental Activities**



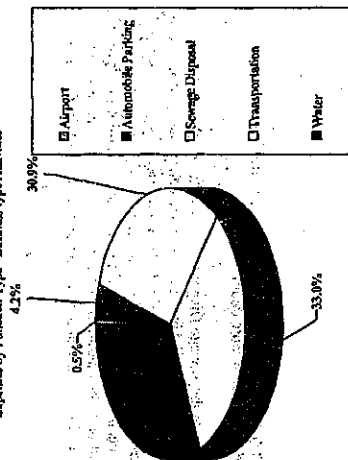
**Revenues by Source - Governmental Activities**



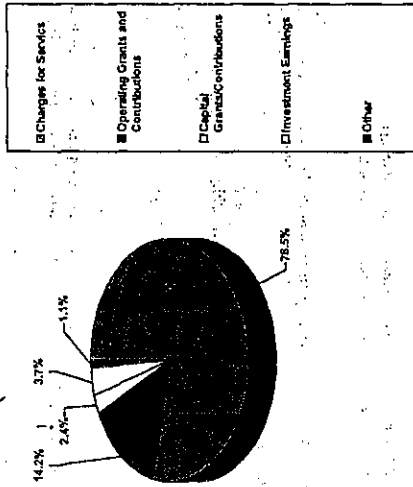
**Business-type Activities**

- Total revenues of the City's business-type activities increased by \$1.4 million in 2005 generally due to higher charges for services revenue.
- The Sewage Disposal Fund's operating revenues for 2005 increased by 8.2 % due to an increase in sewage rates. Offsetting the increase in sewer rates was a reclass for this year's bad debt expense, which was charged directly against gross service revenue. However, net sewer revenue still increased over the previous year.
  - The Transportation Fund's operating revenues decreased by 7.6 % during fiscal year 2005. Capital contributions in 2005 decreased by 75.8% due to a significant decrease in projects planned for 2004-2005.
  - The Water Fund's operating revenues for 2005 increased by 6.4 % due to an increase in water rates. More than offsetting the increase in water rates was reclass for this year's bad debt expense, which was charged directly against gross service revenue.
  - The Automobile Parking Fund's operating revenues for 2005 decreased 30 % due to garages not being filled to capacity. Also, the Detroit Red Wings (the local National Hockey League team) did not play during the 2005 season because of the players strike which significantly reduced utilization of municipal parking facilities. Operating expenses in 2005 increased by 22.5 % due to an increase in operating expenses (i.e., expenses associated with salaries and benefits, and contractual services) and depreciation.
  - The Coleman A. Young Municipal Airport's operating revenues for 2005 increased 21.4%. Operating expenses in 2005 increased by 21 % percent due to an increase in personnel and related fringe benefits, materials, supplies, and other expenses, and depreciation.

Expenses by Function Type - Business-type Activities



Revenues by Source - Business-type Activities



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2005, the City's governmental funds reported combined ending fund balances of \$275 million, a decrease of \$113 million in comparison with the prior year. The combined fund balance includes an unreserved fund deficit of \$78 million. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$49 million), 2)



to pay debt service (\$52 million) and 3) for a variety of other restricted purposes (\$252 million).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was a \$155 million deficit with a combined (reserved and unreserved) total fund deficit of \$33 million.

The fund deficit of the City's General Fund increased by \$103 million during the current year due to Expenditures and Other Financing Uses exceeded Revenues and Other Financing Sources by \$87 million. As a result of the City's population decline and economic downturn cut into the City's two primary revenue sources: 1) income taxes and 2) state revenue sharing funds are directly connected to the health of the economy. Also, the City continues to experience rising health care costs and pension costs.

With the issuance of the POCs this fiscal year, two Special Revenue Funds, the Detroit General Retirement System Service Corp. (DGRS) and the Detroit Police and Fire Retirement System Service Corp. (DPFRS), were created to account for the proceeds and service payments related to the issuance of the POCs. The DGRS has a total fund balance of \$36.2 million, of which \$23.8 million is reserved for advances and \$12.4 million is reserved for debt service. The DPFRS has a total fund balance of \$10.6 million, which is reserved, for debt service.

The Other Governmental Funds has a total fund balance of \$262 million, of which \$185 million is reserved for advances, inventory, encumbrances, endowments and trusts, debt service, and capital projects, while there was an unreserved, undesignated balance of \$77 million.

#### Changes in fund balance

The City's governmental fund revenues (excluding other financing sources) decreased by 1.4 percent or \$27 million.

#### Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewage Disposal, Transportation, Water, Automobile Parking, and Coleman A. Young Municipal Airport Funds at the end of the year amounted to \$1.6 billion. The total increase in unrestricted net assets related to the \$1 billion of net assets invested in capital assets, net of related debt and the \$288 million of net assets restricted is primarily due to assets being reserved for debt service and a transfer in of governmental-type activities of \$89 million to business-type activities. Other factors concerning the finances of these five funds have already been addressed in the discussion of the City's business-type activities.

#### General Fund Budgetary Highlights

The City's 2005 General Fund Budget is \$1.7 billion. The budget reflects an increase of \$98 million (6%) over the 2004 Budget. The City's 2005 General Fund Budget contains no additions or material changes to existing taxes and fees and was approved by the City Council in June 2004.

The General Fund revenues and expenditures in 2005 ended the current year with an unreserved fund balance deficit of \$155 million, which is a \$60 million increase (63%) over 2004. Within the 2005-2006 adopted budget, the City Council appropriated \$101 million for the prior year deficit.

During the year, the estimated revenues in the budget exceeded actual revenues and other resources by \$216.2 million. The majority of this amount is attributable to actual property taxes, municipal income tax, grant revenues, sales and charges for services, and sale of real property being somewhat less than the final budgets. However, expenditures were less than budgeted estimates. Budgeted expenditures were approximately \$1.7 billion but actual expenditures were \$1.5 billion, a favorable variance of \$200 million.

Differences between the original budget and the final amended budget consisted of a total net increase in estimated revenues of \$161.4 million and a total net increase in appropriations of \$238.7 million. The difference was offset by a total net increase in Other Financing Sources and Uses of \$77 million.

A major reason for the increase in estimated revenues can be briefly summarized as follows:

- \$133.2 million increase in grants (Federal, State and other)
- \$10.9 million increase in sales and charges for services

Some major reasons for the increase in appropriations can be briefly summarized as follows:

- \$68.5 million in increases for the Police department
- \$63 million in increases for the Health department
- \$84.8 million in increases for Sale of General Obligation Bonds

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

##### Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2005 amount to \$6.5 billion (net of accumulated depreciation). These capital assets include land,

City of Detroit, Michigan  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
 (UNAUDITED)

buildings and improvements, machinery and equipment, vehicles, park facilities, roads, streets, and bridges.

Major capital projects during the current fiscal year included the following:

- The Recreation department expended \$17 million on capital activities for the construction and improvement of parks, playgrounds, and recreation facilities.
- The Department of Public Works expended \$66 million on capital activities for road paving and resurfacing including the modernization of traffic signals.
- The Police Department expended \$30 million on capital activities for construction of communication center, acquisition of electronic equipment and software, renovation of precincts, and the purchase of police vehicles.
- The Detroit Institute of Arts expended \$35 million on capital activities for expansion and renovation.
- The City expended \$2.5 million to acquire land for the waterfront redevelopment and the casino development project.
- The Fire Department expended \$19 million on capital activities to acquire fire trucks and renovate fire stations.
- The Transportation Department expended \$32 million on capital activities to acquire 102 buses through a capital lease purchase.

City of Detroit, Michigan  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2005**  
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City of Detroit, Michigan  
**Capital Assets (net of depreciation)**  
 (in thousands of dollars)

	2005	2004	2005	2004	Total
	Geographical Assets	Geographical Assets	Infrastructure Assets	Infrastructure Assets	
Land and Land Rights	\$ 183,014	\$ 335,512	\$ 36,702	\$ 16,202	\$ 561,430
Land Improvements		47,747		43,371	91,118
Buildings and Structures	596,428	414,835	1,539,650	1,048,723	3,599,636
Structures and Facilities			900,236	879,131	1,779,367
Machinery and Equipment	91,775	84,405	973,817	681,482	1,631,579
Furniture and Vehicles					76,287
Works of Art	29,788	29,788			59,576
Infrastructure	185,941	140,403		183,041	368,944
Construction-in-Progress	206,997	153,107	1,543,568	1,894,041	3,707,613
Total	\$ 1,403,043	\$ 1,194,030	\$ 5,105,722	\$ 4,993,454	\$ 11,702,249

Information on the City's capital assets can be found in Note III A 7 to the basic financial statements.

**Debt**

At the end of the current fiscal year, the City had total long-term obligations of \$7.4 billion outstanding. Of this amount, \$931 million are general obligation bonds backed by the full faith and credit of the City and \$5.7 billion are revenue bonds, commercial paper, loans, and other obligations of the City's business enterprises. The remainder includes other types of long-term obligations.

In August 2004, the City issued \$41.3 million of General Obligation Unlimited Tax Bonds for capital improvements to various General City Agencies. Approximately \$70.4 million in refunding bonds were issued to refund prior debt. The bonds mature beginning April 1, 2009 with an average yield of 4.22 percent.

In August 2004, the City issued \$62.2 million of Self-Insurance Bonds Limited Tax to fund payment of claims. The bonds mature beginning April 1, 2009 with an average yield of 4 percent.

In January 2005, the City issued \$81 million in General Obligation Unlimited Tax Refunding Bonds to refinance prior debt. The bonds mature beginning April 1, 2006 with an average yield of 4 percent.

In June 2005, the City issued \$87 million of Capital Improvement Limited Tax Bonds to acquire, construct, and equip several 800 MHz radio frequency towers and related communication facilities. In addition, \$11.8 million in refunding bonds were issued to

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

	FY 2005	FY 2004
Net General Bonded debt	\$1,209,104	\$1,104,034
Net General Bonded debt per capita	\$1,271.05	\$1,211.37
Ratio of net General Bonded debt to net assessed value (50% of present market value)	14.50 %	13.24%
Ratio of debt to present market value	7.25 %	6.62%

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, ACT 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City; or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities. Not all the General Bonded debt is subject to the general debt limitation, which is \$728.2 million. The City's legal debt limitation at June 30, 2005 was \$1.3 billion of which \$582 million is available for use.

The City's ratings on uninsured general obligation bonds as of June 30, 2005 were:

Moody's Investors Service, Inc.      Baal  
Standard and Poor's Corporation      BBB+  
Fitch IBCA, Inc.                              BBB+

Subsequent to June 30, 2005, the Moody's Investors Service, Inc. reduced the City's uninsured bond ratings to Baal.

Subsequent to June 30, 2005, the Standard and Poor's Corporation reduced the City's uninsured bond ratings to BBB.

Subsequent to June 30, 2005, the Fitch IBCA, Inc. reduced the City's uninsured bond ratings to BBB.

Additional information on the City's long-term debt can be found in Notes III B 4,5 and 6 to the basic financial statements.

The City's ratings were reduced primarily due to less favorable revenues for Property Taxes and Municipal Income Tax and the City's inability to identify new revenue sources. In addition, the City was under increasing financial pressure due to rising health care and pension costs.

City of Detroit, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)

refinance prior debt. The bonds mature beginning April 1, 2006 with an average yield of 4.11 percent.

In June 2005, the Detroit Retirement System Funding Trust (DRSFT) issued \$1,440,000 (\$640 million of taxable fixed rate, Series A and \$800 million of taxable floating rate, Series B) of taxable Pension Obligation Certificates of Participation (POCs). The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City. The City entered into service contracts with the GRSSC and the PFRSSC to facilitate the transaction. The POCs represent undivided proportionate interests in the rights to receive the payments from the City under its service contracts with the GRSSC and the PFRSSC.

The POCs were issued for the purpose of providing money to pay down certain unfunded accrued actuarial liabilities (UAAL) of each Retirement System of the City of Detroit: 1) the General Retirement System (GRS) and 2) the Police & Fire Retirement System (PFRS). The UAAL is a liability of the City of Detroit (COD) for past services rendered by its employees that must be paid. Michigan State Law and the Michigan Constitution require the city to annually pay down a portion of this UAAL liability. The GRS also include employees and retirees of certain proprietary funds (i.e., The Department of Transportation (DDOT) and the Department of Water and Sewerage) and The Detroit Public Library, which is a component unit of the city.

The City contributed \$739,793,897 of the proceeds were to the GRS, which included \$52,503,654 of annual required contributions for June 30, 2005. The remaining amount of \$687,290,243 resulted in a net pension asset. \$630,829,188 of the proceeds were contributed to the PFRS, which included \$98,842,261 of annual required contributions for June 30, 2005. The remaining amount of \$531,986,927 resulted in a net pension asset.

Interest payments for Series A will commence on December 15, 2005 and are due semi-annually while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. Interest payments for Series B will commence on September 15, 2005 and are due quarterly through 2025 while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. The interest rates on the outstanding obligations range from 4.00% and 4.94%

In June 2005, the City issued \$54.4 million in Revenue Anticipation Notes to pay necessary operating expenditures. The notes mature April 2006 with a yield of 2.63 percent.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, and investors. Note - the following ratios do not include the Pension Obligation Certificates. A comparison of these indicators follows:

**ECONOMIC FACTORS AND NEXT YEARS BUDGET**

The City made several strategic budget cuts in 2005-2006 that did not impact City services:

- The Detroit People Mover subsidy was reduced by \$1.5 million.
- The Zoo subsidy was reduced by \$1.5 million.
- The Center Computing Services Department was eliminated. The function was consolidated with the City's Information Technology Services Department to increase efficiency for agencies.
- The Department of Culture, Arts & Tourism was eliminated. The function (including Eastern Market and arts grants management) was consolidated with the Recreation Department.
- The City eliminated 205 lake home vehicles (62 general, 43 executive, and 100 police). The vehicles are to be sold at auction for projected proceeds of \$1.3 million.
- The City initiated a 10 percent reduction in non-union and appointees salary.

The City is currently experiencing a less favorable economic environment resulting from the continued decline in the manufacturing sector of the economy, partially offset by modest increases in leisure and hospitality, professional and business services, educational and health services, and construction. Detroit's unemployment rate decreased from 15.1 percent in June 2004 to 14.8 percent by June 2005. As of November 2005, the rate had decreased to 13.3 percent.

The 2005-06 Budget has 2,992 fewer positions including layoffs:

Description	FY 2005-2006	FY 2004-2005	Variance
General City	10,203	12,668	2,465
Enterprise Agencies	5,548	6,075	527
Total Budgeted Positions	15,751	18,743	2,992

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Detroit Finance Department, Coleman A. Young Municipal Center, Suite 801, 2 Woodward Avenue, Detroit, Michigan 48226.

**BASIC  
FINANCIAL  
STATEMENTS  
(BFS)**

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City of Detroit, Michigan  
STATEMENT OF NET ASSETS  
June 30, 2005

	Primary Government		Component Units
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 513,072,208	\$ 2,202,061	\$ 515,274,269
Investments	265,097,802	60,216,619	325,314,421
Energy Deposits			7,600,534
Accounts and Contracts Receivable:			228,845,658
Internal Balance	(40,465,211)	40,465,211	16,889,051
Due from Primary Government			16,763,769
Due from Component Units	5,035,254		274,716,317
Due from Other Governmental Agencies	200,132,033	7,311,200	207,443,233
Other Receivables - Net	64,006,862	171,135,549	235,142,411
Total Accounts and Contracts Receivable - Net	228,707,938	218,972,960	447,680,898
Prepaid Expenses	21,024,413	24,443,946	45,468,359
Inventory	127,635	1,418,433	1,546,069
Total Unrestricted Assets	566,947,897	307,340,010	874,287,907
Restricted Assets:			
Cash and Cash Equivalents	88,105,837	48,602,256	136,708,093
Investments	45,599,567	687,583,173	733,182,740
Other Restricted Assets	334,405,404	726,185,429	1,060,590,833
Total Restricted Assets	768,110,808	1,462,370,858	2,230,681,673
Total Current Assets	1,335,058,705	1,769,710,868	3,564,969,580
<b>Non-Current Assets:</b>			
Restricted Investments		376,045,765	376,045,765
Long-Term Receivable		44,846,430	44,846,430
Loans and Notes Receivable		256,388,295	256,388,295
Net Pension Asset	1,011,722,816		1,011,722,816
Bonds, Notes and POC Insurance Colls.	55,551,562	76,336,342	131,887,904
Advances to Component Unit	23,819,934		23,819,934
Deferred Charges			1,929,276
Capital Assets:			
Non-Depreciable	619,799,106	1,680,270,437	2,300,069,543
Depreciable, Net	783,243,729	3,425,451,106	4,208,694,835
Total Capital Assets, Net	1,403,042,835	5,105,721,543	6,508,764,378
Other Assets	2,484,181,161	658,808	2,484,840,000
Total Non-Current Assets	3,195,579,562	5,903,435,884	9,109,004,726
Total Assets	4,530,638,267	7,673,146,752	12,673,974,306
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts and Contracts Payable	\$ 175,694,769	\$ 38,881,271	\$ 214,576,040
Due to Other Governmental Agencies	44,834,866		44,834,866
Due to Primary Government	14,999,810	1,764,760	16,764,570
Due to Component Units	29,153,581	95,334	29,248,915
Deposits and Refunds	16,236,459	78,671,369	94,897,828
Accrued Interest Payable			334,239
Loans and Advances from Primary Government	42,996,648	6,601,446	49,598,094
Deferred Revenues	8,475,633	12,296,738	20,772,371
Other Current Liabilities	61,598,793	12,864,140	74,462,933
Restricted Liabilities:			
Accounts Payable	2,333,843	87,671,377	89,005,220
Accrued Public Liability and Worker's Compensation	17,115,917		17,115,917
Other Liabilities	733,694	718,363	1,452,057
Total Restricted Liabilities	20,183,454	88,450,737	108,634,191
Bonds, Notes and Other Debt Payable - Current	140,031,083	81,245,000	221,276,083
Accrued Compensated Absences	112,481,028	17,162,561	129,643,589
Accrued Public Liability and Workers' Compensation	671,375,376	5,379,974	676,755,350
Total Current Liabilities	1,090,408,971	1,465,869,228	2,556,278,299
<b>Long-Term Liabilities:</b>			
Bonds, Notes and Other Debt Payable		4,654,869,228	4,654,869,228
Unamortized Premium/Discount and Loss (Gain) on Discounts	31,503,983	(68,239,486)	(36,735,503)
Bonds, Notes and Other Debt Payable - Net	1,121,912,954	4,699,350,134	5,721,265,088
Pension Obligation Certificates Payable	1,170,697,422	269,391,578	1,440,089,000
Deferred Swap Termination Fees		19,064,091	19,064,091
Advances Payable to Primary Government	44,597,266	39,796,809	84,394,075
Accrued Compensated Absences	189,535,495	23,106,987	212,642,482
Accrued Public Liability and Workers' Compensation	18,182,314	18,182,314	36,364,628
Other Long-Term Obligations	2,317,848,137	4,955,407,073	7,273,255,210
Total Long-Term Liabilities	3,189,023,213	5,384,441,265	8,573,464,378
Total Liabilities	4,279,432,184	6,850,310,493	11,129,742,677
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	563,311,648	1,050,440,297	1,613,751,945
Restricted for:			
Endowments and Trust (Non-Expendable)	1,253,623		1,253,623
Capital Projects	29,234,971	287,778,927	317,013,898
Debt Service	(862,194,194)	280,765,875	(581,428,319)
Unrestricted (Deficit)			
Total Net Assets	6,596,049	1,618,992,099	1,625,068,148
Total	\$ 12,673,974,306	\$ 12,673,974,306	\$ 12,673,974,306

The accompanying notes are an integral part of the financial statements.

City of Detroit  
**STATEMENT OF ACTIVITIES**  
 For the Year Ended June 30, 2005

Functional Programs	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Operating Revenues and Contributions	Charges for Services		Primary Government Activities	Business-type Activities	Total
<b>Primary Government</b>						
Governmental Activities	\$ 876,156,606	\$ 96,823,019	\$ 418,374	\$ (784,912,213)	\$ (784,912,213)	\$
Public Protection	170,039,920	13,026,677	133,571,803	(23,491,450)	(23,491,450)	
Health	75,145,276	11,474,394	1,373,670	(62,597,212)	(62,597,212)	
Recreation and Culture	114,865,586	5,427,118	59,765,281	(18,188,622)	(18,188,622)	
Economic Development	71,770,757	73,827,899	11,464,565	67,142	67,142	
Education	37,980,767	6,700,117	1,146,369	(4,336,350)	(4,336,350)	
Housing, Supply and Conditions	277,309,834	81,944,899	130,051	(192,330,882)	(192,330,882)	
Physical Environment	46,272,594	198,570,684	74,571,099	38,298,365	38,298,365	
Transportation	214,746,647	19,704,576		3,530,613	3,530,613	
Development and Management	65,532,895			(65,532,895)	(65,532,895)	
Inquest on Long-Term Debt				(1,141,814,470)	(1,141,814,470)	
<b>Total Governmental Activities</b>	<b>1,931,516,893</b>	<b>407,968,808</b>	<b>135,504,749</b>	<b>61,578,645</b>	<b>61,578,645</b>	
<b>Business-type Activities</b>						
Business-type Activities	192,421,480	254,350,136	71,230,491	(86,723,196)	(86,723,196)	
Sewer Disposal	204,913,780	22,959,490	88,110,603	5,869,212	5,869,212	
Transportation	195,085,657	13,627,580	633,882	(12,668,027)	(12,668,027)	
Water	26,239,627	1,180,334		(938,815)	(938,815)	
Amuseable Parking	3,140,746	466,072,847	1,021,247	(32,593,170)	(32,593,170)	
Alport	621,872,240	891,041,655	15,060,720	(32,593,170)	(32,593,170)	
<b>Total Business-type Activities</b>	<b>2,553,394,233</b>	<b>391,041,655</b>	<b>15,060,720</b>	<b>(32,593,170)</b>	<b>(32,593,170)</b>	
<b>Total Primary Government</b>	<b>4,484,911,126</b>	<b>808,010,463</b>	<b>150,565,469</b>	<b>(1,174,407,640)</b>	<b>(1,174,407,640)</b>	
<b>Component units:</b>						
Brownsville Redevelopment Authority	\$ 276,975	\$ 225,000	\$ 154,341	\$	\$	\$ 102,366
Detroit Public Library	35,649,258	267,492	5,387,912	(39,992,954)	(39,992,954)	(39,992,954)
Downtown Development Authority	45,468,302	9,311,240		4,399,571	4,399,571	4,399,571
Economic Development Corporation	7,959,886	12,289,457		1,532,382	1,532,382	(2014,292)
Detroit Housing Commission	20,691,443	4,622,167	17,401,668	(3,594,217)	(3,594,217)	(3,594,217)
Local Development Finance Authority	7,014,282	1,699,275	4,718,423	(118,551,449)	(118,551,449)	(118,551,449)
Museum of African American History	9,833,615	9,054,137	533,265,746	(1,174,407,640)	(1,174,407,640)	(1,174,407,640)
Detroit Public Schools	1,676,885,532	11,210,975				
Tax Increment Finance Authority	11,210,975	43,669	11,694,930			
Detroit Transportation Corporation	18,317,364	46,176,530	67,695,797			
Greater Detroit Resource Recovery Authority	113,778,256	46,176,530	67,695,797			
<b>Total Component units</b>	<b>1,987,082,498</b>	<b>83,989,729</b>	<b>640,517,832</b>	<b>\$</b>	<b>\$</b>	<b>(1,122,542,920)</b>
<b>General Revenues:</b>						
Taxes:						
Property taxes, levied for general purposes				\$ 170,694,260	\$ 170,694,260	\$ 155,900,883
Property taxes, levied for debt service				58,813,679	58,813,679	99,454,576
Municipal income tax				282,501,825	282,501,825	
Utility Users tax				51,939,819	51,939,819	
Wage and Fringe tax				132,970,347	132,970,347	
Hotel and Liquor tax				16,310,767	16,310,767	
Other taxes				282,914,317	282,914,317	12,928,065
Shared taxes				11,712,960	11,712,960	530,419
Interest and Penalty on taxes				14,464,802	14,464,802	17,752,813
Investment earnings				21,808,775	21,808,775	3,194,364
Miscellaneous revenue (expense)				(6,850,110)	(6,850,110)	12,102,431
Loss on disposal of capital assets				(3,551,006)	(3,551,006)	
Transfers				89,385,206	89,385,206	
Total general revenues and transfers				1,060,714,169	1,060,714,169	1,130,709,811
Change in net assets				(113,692,891)	(113,692,891)	(71,845,125)
Net assets - beginning, as Restated				1,946,041,395	1,946,041,395	31,073,246
Net assets - ending				1,832,348,504	1,832,348,504	25,228,121

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

City of Detroit, Michigan  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General Fund			Police Department			Public Works			Police Commission			Total
	General Fund	Police Department	Public Works	Police Department	Police Commission	Police Commission	Police Commission	Police Commission	Police Commission	Police Commission	Police Commission		
<b>ASSETS</b>													
Cash and Cash Equivalents	37,431,077											37,431,077	
Accounts and Contracts Receivable	38,408,391											38,408,391	
Due from Other Funds	33,152,485											33,152,485	
Due from Primary Funds	4,010,376											4,010,376	
Due from Other Governmental Agencies	102,236,534											102,236,534	
Due from Other Governmental Agencies - Net	23,811,590											23,811,590	
Property Tax Receivable	6,211,469											6,211,469	
Property Tax Receivable - Net	5,095,479											5,095,479	
Income Tax Receivable	38,611,243											38,611,243	
Special Assessments	25,097,431											25,097,431	
Interest and Penalties	5,881,000											5,881,000	
Other Receivables	21,251,110											21,251,110	
Allowance for Uncollectible Accounts	(15,621,170)											(15,621,170)	
Total Accounts and Contracts Receivable - Net	34,787,241											34,787,241	
Inventory/Verified Property	21,171,310											21,171,310	
Prepaid Expenses	12,652,095											12,652,095	
Prepaid Insurance	2,645,710											2,645,710	
Due from Other Funds	15,209,816											15,209,816	
Total Restricted Assets	93,107,240											93,107,240	
Advances to Component Units	8,040											8,040	
Other Assets	8,040											8,040	
Total Assets	\$ 472,881,114											\$ 472,881,114	
<b>LIABILITIES</b>													
Accounts and Contracts Payable	11,142,789											11,142,789	
Due to Other Funds	7,233,832											7,233,832	
Due to Other Governmental Agencies	34,968,449											34,968,449	
Due to Component Units	14,799,615											14,799,615	
Due to Other Governmental Agencies - Net	4,098,447											4,098,447	
Payroll Deductions Payable	12,968,139											12,968,139	
Interest on Refunds Payable	1,261,116											1,261,116	
Interest on Bonds and Customers	42,122,447											42,122,447	
Accrued Liabilities	34,522,900											34,522,900	
Revenue Anticipated From Payable	54,445,909											54,445,909	
Other Liabilities	5,973,572											5,973,572	
Liabilities Payable from Restricted Assets	3,333,140											3,333,140	
Accrued Public Liabilities	2,838,121											2,838,121	
Accrued Workers' Compensation Payable	2,813,464											2,813,464	
Due to Other Funds	48,124											48,124	
Other Liabilities	18,221,442											18,221,442	
Deferred Revenues	14,773,578											14,773,578	
Total Liabilities	\$ 451,777,543											\$ 451,777,543	
<b>FUND BALANCES</b>													
Reserved Fund Balance	21,119,934											21,119,934	
Reserved for Advances to Component Units	11,153,139											11,153,139	
Reserved for Encumbrances	3,158,499											3,158,499	
Reserved for Special Taxes Loan and Advances to Other Funds	12,499,331											12,499,331	
Reserved for Risk Management Operations	19,119,138											19,119,138	
Reserved for Other Vehicle Operations	24,066,251											24,066,251	
Reserved for Other Projects	12,411,499											12,411,499	
Reserved for Capital Projects	19,811,484											19,811,484	
Total Reserved Fund Balance	\$ 111,809,981											\$ 111,809,981	
Unreserved Fund Balance (Deficit)	(85,620,433)											(85,620,433)	
Special Revenue Fund Balance (Deficit)	(15,464,025)											(15,464,025)	
Total Unreserved Fund Balance (Deficit)	\$ 6,725,523											\$ 6,725,523	
Total Liabilities and Fund Balances	\$ 472,881,114											\$ 472,881,114	

The accompanying notes are an integral part of the financial statements.





City of Detroit, Michigan  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

City of Detroit, Michigan  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2005**

Change in fund balances - total governmental funds	\$	(97,140,377)
Amount reported for governmental activities in the statement of net assets and different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.	382,545,706	213,541,066
Expenditures for capital assets	(70,000,423)	
Less current year depreciation		(6,551,036)
Gain on sale of capital assets is reported in the statement of activities. However, in the governmental funds, the gain from the sale increases fund balances for the year and offsets from the change in fund balance by the cost of assets sold.		938,287
Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.		(13,544,041)
Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities.		233,344,216
Inventory		(174,949,056)
Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.		(1,170,607,422)
Bond and note proceeds and provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of bond issuance cost and premiums that must be amortized over the life of the bond.		1,611,723,816
Pension Obligation Certificate provides current financial resources to governmental funds, but issuing POC's increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of certificate issuance cost and premiums that must be amortized over the life of the certificate.		
Payments to The Pension Systems exceed a Net Pension Asset.		
Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Increase in Bond and POC Issuance Cost	34,362,509	
Increase in accrued interest expense on governmental debt	(1,234,187)	
Increase in accrued interest on POC's	(1,670,874)	
Increase in accrued compensated absences	(13,947,288)	
Increase in accrued public liability and workers compensation	(11,027,878)	
Amortization of current year bond premium and discounts	4,021,498	
Amortization of current year bond cost	(2,925,196)	
Change in net assets of governmental activities	\$	(186,641,692)

The accompanying notes are an integral part of the financial statements.

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City of Detroit, Michigan  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

ASSETS

	Sewer Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	Non-Major Fund	Total
<b>Current Assets:</b>						
Cash and Cash Equivalents	\$ 47,940,538	\$ 115,569	\$ 870,259	\$ 331,775	\$ 894,458	\$ 2,308,061
Investments		4,742,114	7,520,716	5,242		60,316,618
Accounts and Contracts Receivable:						
Due from Other Funds	66,388,078	760,432	53,149,298	389,636	1,430,941	122,118,385
Due from Other Governmental Agencies	7,297,850				13,350	7,311,200
Other Receivables - Trade	165,158,307	975,621	105,859,302	342,165	1,008,408	273,335,803
Total Accounts and Contracts Receivable	338,844,225	1,736,053	169,008,600	731,801	2,444,699	402,765,388
Allowance for Uncollectible Accounts	(64,682,340)	(383,531)	(56,887,901)	(102,139,254)	(338,543)	(102,139,254)
Total Accounts and Contracts Receivable - Net	164,161,885	1,352,522	112,120,699	629,647	2,106,156	300,626,134
Inventory	11,173,186	670,401	6,139,165			24,433,946
Prepaid Expenses	381,847		568,111		86,452	1,418,413
Restricted Cash and Cash Equivalents	12,891,106	11,261,086	25,091,149			48,633,256
Restricted Investments	275,424,104		471,389,949			687,883,173
Restricted Due from Other Funds	37,638,549		46,752,239			78,113,848
Total Current Assets	951,919,671	31,687,424	615,096,438	1,450,741	3,038,127	1,403,192,401
<b>Noncurrent Assets:</b>						
Retiree Benefits						
Investments	308,770,507		30,072,332	37,202,936		376,045,765
Capital Assets:						
Land	13,876,751	4,114,574	6,571,438	7,014,113	5,169,374	36,702,250
Land Improvements			103,322,777	214,908	8,020,718	111,559,403
Buildings and Structures	1,145,914,922	69,910,255	797,846,651	207,288,512	5,853,773	2,134,814,113
Water and Sewer Lines	547,069,689		714,856,603			1,261,926,292
Equipment, Machinery, and Fixtures	708,031,859	50,730,624	630,435,010	2,391,206	1,770,642	1,393,593,441
Vehicles and Buses		166,837,062			1,576,778	168,413,840
Construction Work in Progress	3,219,958,863	5,050,781	418,027,160	584,183		1,643,568,187
Total Capital Assets	3,637,879,284	296,643,296	2,811,216,639	217,412,932	22,391,285	6,763,244,426
Less: Accumulated Depreciation	(681,127,715)	(142,845,069)	(688,863,364)	(114,187,633)	(12,497,851)	(1,440,517,293)
Net Capital Asset	2,956,751,569	153,798,227	2,122,353,275	103,225,299	9,893,434	5,195,721,633
Total Retiree Benefits / Noncurrent Assets	3,253,503,138	157,798,236	1,912,423,607	140,438,045	9,893,434	5,481,767,398
<b>Other Long-Term Assets:</b>						
Long-Term Receivable	44,946,420					44,946,420
Bond and Pension Obligation Certificate Issuance Cost	35,719,846	3,172,890	37,203,666			76,105,312
Net Pension Asset	7,891,251	98,105,506	150,451,598			256,408,295
Other Asset		650,000				650,000
Total Noncurrent Assets	3,347,758,633	254,026,922	2,110,121,771	140,438,045	9,893,434	5,862,636,225
Total Assets	\$ 3,899,678,304	\$ 286,514,006	\$ 2,725,218,209	\$ 141,876,796	\$ 12,931,561	\$ 7,063,308,886

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2005 (Continued)**

	Business-Type Activities				Total
	Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities:</b>					
Current Liabilities:					
Book Loan Overdraft	758,762				758,762
Accounts and Contracts Payable	7,683,678	10,222,683	1,624,393	3,177,197	37,890,129
Due to Other Funds	52,871,340	10,849,562	65,883,639	565,478	130,480,213
Due to Fiduciary Funds	262,382				262,382
Due to Component Units		1,764,760			1,764,760
Refundable Deposits				98,324	98,324
Accrued Salaries and Wages	1,629,152	2,480,179	2,171,724	123,101	6,804,156
Accrued Compensated Absences	5,556,611	5,039,331	8,604,763	251,636	17,534,197
Accrued Public Liability and Workers Compensation	895,155	992,272	3,478,751		5,379,974
Other Liabilities	5,693,247	2,577,808	3,053,509		11,418,066
Bonds and Notes Payable	50,035,000		24,895,000	6,615,000	81,245,000
Accrued Interest on Bonds and Notes Payable	38,654,433	743,151	38,521,332	905,717	78,874,633
Restricted Accounts and Contracts Payable	11,074,902		20,117,205		31,192,107
Restricted Other Liabilities	89,017		629,346		718,363
Deferred Revenue		117,630		3,702,090	3,821,205
Total Current Liabilities	237,668,345	33,109,376	190,105,806	15,280,171	476,811,319
Noncurrent Liabilities:					
Bonds and Notes Payable	2,603,791,572	29,533,118	1,957,020,080	54,220,000	4,654,574,690
Unamortized Discount and Gain on Defasament	5,212,683		(51,725,621)	(1,276,548)	(48,239,486)
Bonds and Notes Payable - Net	2,609,004,255	29,533,118	1,905,294,459	52,943,452	4,606,335,204
Deferred Swap Termination Fees	2,286,256		1,039,795		3,326,051
Accrued Compensated Absences	8,161,795	759,833	9,898,909	307,555	19,546,173
Accrued Public Liability and Workers' Compensation	3,832,814	3,969,088	15,248,595		23,100,967
Advance From Other Funds	18,447,231			1,250,000	11,697,231
Pension Obligation Certificates Payable	8,768,811	103,083,553	157,548,214		269,399,578
Other Long Term Liabilities	2,054,465	11,037,009		90,540	18,182,314
Total Noncurrent Liabilities	2,639,200,396	158,299,832	2,114,689,892	64,151,847	4,967,237,633
Total Liabilities	2,876,868,741	191,939,208	2,309,795,728	69,432,018	5,444,208,787
<b>Net Assets:</b>					
Invested in Capital Assets, Net of Related Debt	646,808,681	120,687,310	264,520,224	66,533,638	1,058,443,397
Restricted for Debt Service	166,020,102		121,469,875		287,489,977
Unrestricted (Deficit)	208,511,790	(26,112,512)	58,992,442	3,913,130	1,965,035
Total Net Assets	\$ 1,019,689,563	\$ 94,574,798	\$ 420,422,501	\$ 71,446,768	\$ 1,616,992,499

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

	Operating Revenues:	Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	Non-Major Fund	Total
Sales and Charges for Services	\$ 310,491,707	\$ 22,959,490		\$ 258,971,833	\$ 13,677,451	\$ 98,901	\$ 592,571,831
Rentals, Fees and Surcharges	281,062			1,641,252		1,606,314	14,914,027
Miscellaneous	2,815,506			205,613,985	13,627,651	75,552	4,532,110
<b>Total Operating Revenues</b>	<b>313,588,275</b>	<b>22,959,490</b>		<b>467,531,131</b>	<b>27,305,102</b>	<b>1,180,667</b>	<b>611,962,168</b>
Operating Expenses:							
Salaries, Wages and Benefits	37,441,707	121,359,201		5,550,516	1,472,526		214,571,881
Contractual Services	113,669,589	20,046,086		6,293,134			140,008,729
Operating	12,348,658			2,933,107		780,166	23,272,294
Repairs and Maintenance				1,196,435		214,121	1,410,556
Materials, Supplies and Other Expenses				32,200		280,929	431,499
Depreciation and Amortization	44,052,316	40,757,127		6,287,158		392,089	109,189,593
<b>Total Operating Expenses</b>	<b>207,453,670</b>	<b>165,981,636</b>		<b>22,392,560</b>	<b>3,140,831</b>	<b>(1,960,164)</b>	<b>616,452,193</b>
<b>Total Operating Income (Loss)</b>	<b>106,134,605</b>	<b>(182,122,146)</b>		<b>(56,172,223)</b>	<b>(8,654,897)</b>	<b>(1,960,164)</b>	<b>(24,483,025)</b>
Non-Operating Revenues (Expenses):							
Earnings on Investments	14,010,932	296,577		7,175,572	405,624		21,888,705
Grants-Federal	3,226,017	3,226,017				1,021,349	7,473,383
Contributions		72,670,180					72,670,180
Amortization of Bond Premium					181,992		181,992
Interest on Bonds and Notes Payable	(44,205,957)	(589,887)		(63,260,449)	(4,185,120)		(112,241,413)
Other Revenue				(62,246)			(62,246)
Other Expenses	(7,039)			6,190,931			6,183,892
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(29,292,643)</b>	<b>75,603,437</b>		<b>5,927,756</b>	<b>2,593,437</b>	<b>4,011,349</b>	<b>(6,210,851)</b>
<b>Net Income (Loss) Before Contributions and Transfers</b>	<b>76,841,962</b>	<b>(106,518,709)</b>		<b>(51,044,467)</b>	<b>(6,061,460)</b>	<b>(7,948,815)</b>	<b>(30,699,479)</b>
Capital Contributions	7,120,491			6,938,382			14,058,873
Transfers In		77,441,493		9,575,006		2,568,402	89,585,306
Increase (Decrease) in Net Assets	83,962,453	(29,077,216)		12,921,638	3,533,434	1,629,587	71,960,891
<b>Net Asset - Beginning of Year</b>	<b>94,837,601</b>	<b>116,531,318</b>		<b>68,943,334</b>	<b>10,228,882</b>	<b>10,228,882</b>	<b>1,566,841,298</b>
<b>Net Asset - End of Year</b>	<b>178,800,054</b>	<b>87,454,102</b>		<b>81,864,972</b>	<b>13,762,314</b>	<b>11,858,469</b>	<b>1,638,792,199</b>

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2005

	Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	Non-Major Fund	Total
<b>Cash Flows from Operations:</b>						
Receipts from Customers	\$ 324,617,651	\$ 22,665,516	\$ 260,740,367	\$ 14,383,275	\$ 614,205	\$ 625,021,014
Advances from Other Funds	-	-	-	1,310,000	-	1,310,000
Repayment from Other Funds	(18,598,461)	-	(28,698,398)	389,862	-	(46,906,897)
Loans to Other Funds	-	-	-	934,068	-	934,068
Deposits Refunded to Customers	(124,639,969)	(23,488,278)	(115,365,031)	(6,499,865)	2,257	(271,486,950)
Payments to Suppliers	(75,204,371)	(21,075,500)	(294,140,636)	(5,667,693)	(1,785,571)	(608,071,527)
Payments to Employees	102,174,910	(321,818,562)	(87,403,699)	5,446,747	(2,792,136)	(199,356,039)
Net Cash Provided by (Used in) Operating Activities	8,760,811	103,083,533	157,549,214	9,575,006	3,589,751	269,397,558
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from Pension Obligation Certificates	(286,646)	(3,372,800)	(5,154,834)	-	-	(8,814,280)
Insurance Costs - Pension Obligation Certificates	758,762	-	-	-	-	758,762
Bank Overdraft	-	-	-	-	1,021,349	1,021,349
Grants and Contributions from Other Governments	75,896,797	-	-	-	-	76,011,146
Transfers from Other Funds	76,943,880	-	-	9,575,006	2,568,402	89,087,288
Net Cash Provided by Non-Capital Financing Activities	9,232,927	252,551,410	152,393,380	9,575,006	3,589,751	427,142,474
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Capital Contributions	20,308,094	-	6,938,882	-	-	27,246,976
Acquisition and Construction of Capital Assets	(54,680,064)	(9,231,417)	(134,488,175)	(2,897,037)	(717,474)	(541,974,167)
Proceeds from Bond and Note Issuance	429,391,224	-	429,966,584	-	-	859,357,808
Principal Paid on Bonds and Notes	(32,590,000)	-	(21,440,000)	(6,615,000)	-	(61,445,000)
Interest Paid on Bonds - Net	(82,070,501)	-	(85,928,689)	(5,502,077)	-	(173,440,667)
Principal Paid on Refunded Debt	(108,765,000)	-	(125,985,000)	-	-	(234,750,000)
Swap Termination Fees	(11,750,000)	-	-	-	-	(11,750,000)
Net Cash Provided by (Used in) Capital Financing Activities	(170,469,361)	(18,933,323)	68,104,402	(15,014,114)	(717,474)	(136,955,970)
<b>Cash Flows from Investing Activities:</b>						
Proceeds from Sales and Maturities of Investments	651,726,904	103,371,800	390,876,577	35,897,510	-	1,100,772,791
Purchase of Investments	(632,443,250)	(106,320,328)	(448,752,017)	(37,208,168)	-	(1,225,423,763)
Interest on Investment Securities	14,930,952	296,527	7,175,672	405,624	-	22,808,775
Net Cash Provided by (Used in) Investing Activities	34,514,606	(2,892,001)	(132,699,168)	(903,034)	-	(101,899,197)
Net Increase (Decrease) in Cash and Cash Equivalents	(58,481,918)	9,097,824	303,916	(894,395)	120,041	(10,854,832)
Cash and Cash Equivalents at Beginning of Year	31,771,026	2,357,033	25,528,463	1,224,170	772,417	61,465,129
Cash and Cash Equivalents at End of Year	\$ 12,689,108	\$ 11,374,557	\$ 25,922,399	\$ 331,775	\$ 892,458	\$ 30,310,297

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (Continued)  
 For the Year Ended June 30, 2005

	Business-Type Activities				Total
	Sewage Disposal Fund	Transportation Fund	Water Fund	Automobile Parking Fund	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)					
Operating Income (Loss)	\$ 106,134,605	\$ (182,122,346)	\$ 62,129,779	\$ (8,664,899)	\$ (1,960,164)
Adjustments to Operating Income (Loss):					
Depreciation and Amortization	44,053,316	16,919,222	41,529,608	6,287,138	393,089
Allowance for Uncollectible Accounts	21,580,885	339,241	6,650,637	-	28,579,583
Changes in Assets and Liabilities:					
Other Receivables - Trade	(19,337,158)	(93,974)	(10,919,185)	-	(30,349,977)
Inventories	(282,877)	2,972,217	501,841	-	3,196,181
Increase in Net Pension Asset	(7,850,381)	(89,710,753)	(159,452,985)	-	(250,013,547)
Prepaid Expenses	(375,967)	-	(461,392)	-	(837,359)
Accounts Receivable	-	-	254,802	-	254,802
Due from Other Funds	-	-	(28,698,390)	758,624	(28,698,390)
Accounts and Contracts Payable	(20,085,947)	(4,155,309)	(11,787,881)	389,963	(36,638,174)
Due to Other Funds	(18,598,461)	3,384,553	1,435,430	934,968	(14,963,510)
Due to Component Units	-	(3,762,664)	-	-	(3,762,664)
Other Liabilities	482,844	43,301,199	(7,667)	2,511,403	(2,441,027)
Accrued Compensated Absences	1,759,543	69,004	2,814,151	112,098	4,654,796
Accrued Public Liability and Worker Compensation	(478,715)	1,413,261	2,913,892	(42,363)	3,896,485
Advances from Other Funds	-	-	-	1,310,000	1,310,000
Refundable Deposits	-	-	-	-	2,257
Prepaid Revenue	-	-	354,077	-	354,077
Accrued Salaries and Wages	173,313	(177,814)	-	123,101	(1,398)
	\$ 107,174,910	\$ (221,818,562)	\$ (87,403,893)	\$ 5,469,747	\$ (2,752,259)
Net Cash Provided by (Used in) Operating Activities					

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 June 30, 2005

City of Detroit, Michigan  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 For the Year Ended June 30, 2005

ASSETS	Pension and Other Employee Benefit Funds	Agency Funds	Total
Cash and Cash Equivalents.....	\$ 31,216,333	\$ 2,510,037	\$ 34,726,370
Investments at Fair Value:			
Short-Term Investments.....	1,311,852,696	-	1,311,852,696
Commercial Paper.....	15,579,446	-	15,579,446
U.S. Government Obligations.....	39,733	-	39,733
Bonds and Stocks.....	4,543,538,820	-	4,543,538,820
Mortgage-Backed Securities.....	182,055,771	-	182,055,771
Mortgage and Construction Loans.....	153,136,711	-	153,136,711
Equity Interest in Real Estate.....	174,797,172	-	174,797,172
Real Estate Investment Trusts Held by Convodian.....	35,450,553	-	35,450,553
Pooled Investments.....	470,829,154	8,639,787	479,468,941
Private Placements.....	302,198,121	-	302,198,121
Total Investments.....	7,188,478,377	8,639,787	7,197,118,164
Accrued Interest Receivable.....	28,321,019	-	28,321,019
Accounts Receivable:			
Due from Primary Government.....	71,412,133	186,281	71,597,414
Due from Component Units.....	14,207	-	14,207
Other Receivable.....	152,939,255	-	152,939,255
Total Accounts Receivable.....	234,563,595	186,281	234,750,276
Cash and Investments Held as Collateral for Securities Lending.....	1,102,131,232	-	1,102,131,232
Other Assets.....	920,108	-	920,108
Total Assets.....	8,571,843,664	11,335,695	8,583,179,359

LIABILITIES AND NET ASSETS	Pension and Other Employee Benefit Funds	Agency Funds	Total
Accounts and Contracts Payable.....	6,542,883	1,486,321	8,029,204
Due to Broker.....	198,337,141	-	198,337,141
Benefits and Claims Payable.....	21,238,025	-	21,238,025
Due to Primary Government.....	4,678,331	238,406	4,916,737
Due to Component Units.....	787,815	-	787,815
Amount Due to Broker for Securities Lending.....	1,103,131,232	-	1,103,131,232
Other Liabilities.....	59,419,435	8,698,969	68,118,404
Total Liabilities.....	1,391,110,952	11,523,695	1,402,634,647
Net Assets.....	\$ 7,180,732,712	\$ -	\$ 7,180,732,712

(An unaudited Schedule of Employer Contributions and Funding Progress is presented on page 17)

The accompanying notes are an integral part of the financial statements.

	Pension and Other Employee Benefit Funds
<b>ADDITIONS:</b>	
Employer Contributions.....	1,743,796,035
Plan Member Contributions.....	54,099,417
Other Income.....	18,170,273
Total Contributions.....	1,806,065,725
Investment Gain.....	518,048,281
Total Additions.....	2,324,114,006
<b>DEDUCTIONS:</b>	
Pension and Annuity Benefits.....	381,243,316
Premiums to Insurers and Damage Claims.....	316,609,028
Refunds.....	2,084,972
General and Administrative Expenses.....	146,039,687
Total Deductions.....	845,977,003
Net Increase.....	1,478,136,977
Net Assets Held in Trust for Pension and Employee Benefits, Beginning of Year.....	5,688,127,885
Net Assets Held in Trust for Pension and Employee Benefits, End of Year.....	\$ 7,166,264,862

The accompanying notes are an integral part of the financial statements.



City of Detroit, Michigan  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
June 30, 2016

	Detail Specialized Development Authority	Public Library	Development Authority	Economic Development Corporation	Detroit Housing Commission (Reclassified)	Level Development Thru Activity	Systems of Affairs Division	School District of the City of Detroit	TTC Transit Authority	General Transportation Commission	City of Detroit Revenue Authority	Total
<b>ASSETS:</b>												
Cash and Cash Equivalents	\$ 114,129	\$ 80,865	\$ 1,071,619	\$ 1,705,022	\$ 740,334		\$ 218,977	\$ 210,219	\$ -	\$ 1,017,218	\$ -	\$ 3,848,504
Money Deposits-Cash			140,251	16,747,800						5,693,465		18,542,516
Investments, Including Accrued Interest		1,866,129	8,123,758	21,890,208			35,6412	105,865,710		1,764,700		31,645,096
Accounts and Contracts Receivable		7,071,457	5,372,524		1,371,000			103,944,615		2,862,675		16,703,789
Due from Primary Government	150,000	2,492,689	31,618,882	11,137,767	3,346,645		2,118,282	3,866,675		8,841,653		24,118,217
Due from Other Government	150,000	150,000	3,153,737	11,137,767	5,301,710		21,023,301	3,866,675		3,445,232		38,211,287
Due from Other Component Units			(2,500,000)	(28,561,011)	(210,000)							(31,271,011)
Allowance for Doubtful Accounts			37,113,113	11,137,767	4,870,412		7,663,337	7,663,337		4,833,335		52,798,004
Total Accounts and Contracts Receivable - Net	150,000	3,211,483	37,113,113	11,137,767	4,870,412		7,663,337	7,663,337		4,833,335		52,798,004
Inventory			199,206		699,837		115,069	1,553,551		2,137,214		4,545,877
Prepaid Expenses		839,000	31,016,156		699,837		4,804	107,237,667		665,304		140,939,043
Trade, Interest, and Payable Receivable - Net			2,410,102									2,410,102
Loans and Notes Receivable			2,499,966									2,499,966
Noncurrent Loans and Note (Gains) - Net			22,653,534									22,653,534
Restricted Cash		1,694,760			996,912							2,691,672
Capital Assets:		7,228,520						26,911,526		9,800,627		44,940,673
Land		1,371,996	7,546,673		154,181,616			6,911,299		5,123,237		187,243,621
Network		1,209,125						1,986,000		1,986,000		3,195,125
Plant and Equipment		165,055,987	7,643,841		164,471,430		11,771,292	1,406,964,433		511,623,297		2,821,112,999
Construction Work in Progress					63,871,653							63,871,653
Leasehold Improvements		159,208,660	3,118,520				1,635,945,628			134,828,269		1,800,172,417
Capital Assets, Net		176,975,768	31,328,034		343,689		18,137,381	1,834,018,259		218,113,021		2,149,572,811
Deferred Charges		778,289			943,443							1,721,732
Total Assets	\$ 264,129	\$ 72,864,387	\$ 20,046,669	\$ 4,870,412	\$ 102,321,115		\$ 31,902,337	\$ 2,278,674,939		\$ 10,259,669	\$ 50,199,241	\$ 3,772,951,814
<b>LIABILITIES:</b>												
Current Liabilities:												
Accrued Payable and Current Payable	15,217	471,665	3,242,151	1,534,777	610,654		2,478,545	11,683,094		1,664,715		18,084,941
Due to Primary Government			6,271,196	127,140				1,407,246		1,238,866		21,986,498
Due to Other Government		11,161,151	16,096				31,055	9,270,417		35,331		56,658,296
Accrued Salaries and Wages		311,305		21,924	21,924		146,087	9,581,190		97,435		11,427,941
Deferred Revenues		1,018,504			398,133			3,178,203		87,637		4,684,474
Other Current Liabilities		839,534	7,444,120					4,039,217		3,304,086		16,686,957
State AG Anticipation and Other Notes Payable			11,108,000	1,382,398				10,315,029				22,805,427
Bonds, Notes, and Other Debt Payable - Current		1,108,000	11,000,000	1,382,398				4,540,333				17,030,731
Bonds, Notes, and Other Debt Payable - Current - Net		11,099,977	10,991,977	1,382,398				4,540,333				17,030,731
Accrued Compensated Absences		243,971		13,827,978	288,211			21,669,145		51,699,008		75,368,193
Accrued Public Liability and Workers Compensation		5,347			14,899			16,590,913				16,612,743
Non-current Liabilities:												
Bonds, Notes, and Other Debt Payable - Noncurrent			161,103,501	900,000				1,613,547,418		372,117,219		2,147,668,128
Unamortized Premiums and Discounts			13,072,331							13,072,331		26,144,662
Bonds, Notes, and Other Debt Payable - Noncurrent - Net			154,175,832	900,000				1,613,547,418		385,189,550		2,173,812,790
Accrued Public Liability and Workers Compensation					1,001,012					208,659		1,209,671
Total Liabilities	\$ 15,217	\$ 37,244,667	\$ 18,335,626	\$ 18,165,873	\$ 4,870,412		\$ 3,808,252	\$ 33,828,823		\$ 4,833,413	\$ 44,033,824	\$ 116,821,983
<b>NET ASSETS:</b>												
Invested in Capital Assets, Net of Related Debt		17,767,254	31,182,311		96,344,136			208,765,259		78,411,021		501,965,848
Restricted (Non-Expendable)		10,692,183		71,572,428	980,912			11,771,292		11,771,292		15,914,116
Capital Projects	84,395		(10,041,140)		2,488,230							(1,949,655)
Debt Service	161,977	32,569,120		1,954			58,374	(23,862,573)		6,800,627		(1,044,055)
Unrestricted (Deficit)		34,102	\$ 18,100,349	\$ 21,308,519	\$ 68,924,298		\$ 9,103,875	\$ 1,177,603		\$ 96,792,806	\$ 56,914,517	\$ 26,218,121
Total Net Assets (Deficit)	\$ 14,112	\$ 34,102	\$ 18,100,349	\$ 21,308,519	\$ 68,924,298		\$ 9,103,875	\$ 1,177,603		\$ 96,792,806	\$ 56,914,517	\$ 26,218,121

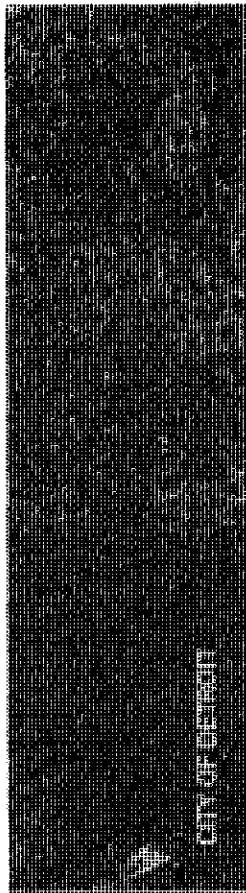
The accompanying notes are an integral part of this financial statement.

City of Detroit, Michigan  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
 For the Year Ended June 30, 2005.

	Detroit Boroughfield Development Authority	Detroit Public Energy	Downtown Development Authority	Economic Development Corporation	Detroit Housing Commission (Including)
Expenses:	\$ (276,975)	\$ (51,629,358)	\$ (55,458,922)	\$ (1,959,886)	\$ (18,891,453)
Program Revenues:					
Charges for Services:	225,000	267,872	3,111,503	12,867,537	472,107
Operating Grants and Contributions:	154,131	5,307,392	7,112,501	12,872,457	11,461,448
Total Program Revenues:	379,131	5,575,264	10,224,004	25,740,000	21,223,555
Net Program (Expense) Revenues:	(102,844)	(49,054,094)	(45,234,918)	(1,119,383)	(15,667,898)
General Revenues:					
Property Taxes - Levied for General Purpose:	71,333	263,674,818	18,238,502		
Property Taxes - Levied for Debt Service:					
Investment Income:		167,376		3,172	31,001
Interest and Penalties on Taxes:	2,603	503,396			
Shared Taxes:		2,871,099			
Other Taxes and Assessments:		131,594			
Other Non Operating:		(1,115,751)	872,073	390,020	310,332
General Revenues:	72,936	265,598,048	19,110,575	393,192	412,333
Charges to Other Assets:	(77,762)	(3,311,309)	(17,048,564)	(4,032,740)	1,915,766
Net Assets (Liabilities) - Beginning of Year as Reported:	71,220	24,989,242	36,141,933	11,975,315	9,885,512
Net Assets (Liabilities) - End of Year:	243,395	46,203,318	18,082,569	27,962,579	10,801,278

The accompanying notes are an integral part of the financial statements.

	Leon Development Authority	Museum of Africa America History	School District of the City of Detroit	Ten Increment Finance Authority	Detroit Transportation Corporation	Greater Detroit Recovery Authority	Totals
Expenses:	\$ (284,233)	\$ (1,812,115)	\$ (1,675,889,523)	\$ (11,210,279)	\$ (6,512,167)	\$ (11,176,554)	\$ (1,527,865,299)
Program Revenues:							
Charges for Services:		1,699,235	904,137		43,549	46,174,834	18,143,799
Operating Grants and Contributions:		4,795,423	53,236,245		11,894,728	67,403,291	87,329,717
Total Program Revenues:		6,494,658	54,140,382		12,939,277	113,578,125	105,473,516
Net Program (Expense) Revenues:	(284,233)	(1,117,457)	(1,171,747,141)	(11,210,279)	(6,468,888)	(67,331,711)	(1,222,351,684)
General Revenues:							
Property Taxes - Levied for General Purpose:	8,882,583		8,578,074	13,118,975			20,579,632
Property Taxes - Levied for Debt Service:			79,554,276				79,554,276
Investment Income:	48,478	(6,327)	9,798,478		1,431,144	6,675,310	11,877,083
Interest and Penalties on Taxes:							
Shared Taxes:			863,513,133				863,513,133
Other Taxes and Assessments:	28,310	2,495,269	11,178,976				13,902,555
Other Non Operating:	3,001,531	2,495,269	(5,502,321)		2,841,886		2,841,886
General Revenues:	12,960,892	4,972,681	1,255,999,566	13,538,975	3,273,030	5,146,144	1,295,999,111
Charges to Other Assets:	(1,115,751)	(3,398,115)	(18,451,843)	(1,126,215)	(2,462,715)	(4,172,716)	(24,927,135)
Net Assets (Liabilities) - Beginning of Year as Reported:	(1,676,127)	(5,386,250)	(7,274,239)		99,154,721	5,818,241	33,873,346
Net Assets (Liabilities) - End of Year:	(587,729)	(9,131,075)	(31,177,603)		96,727,806	56,945,517	263,221,111

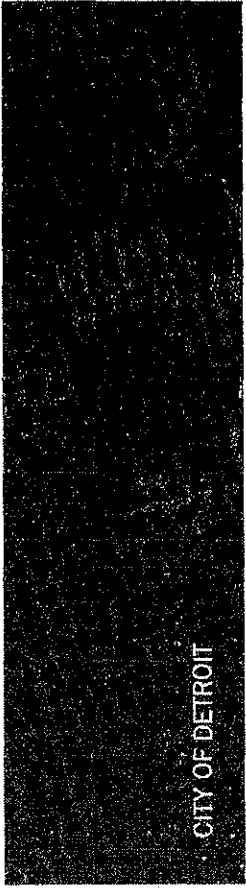
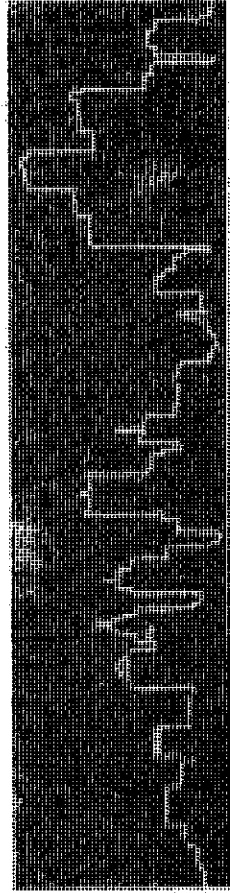


In April, musicians and dancers perform at the celebration of the 40th anniversary of the Charles H. Wright Museum of African American History. The museum has taken great strides in expanding its membership, and its exhibits have struck a deep chord with visitors from across the country.

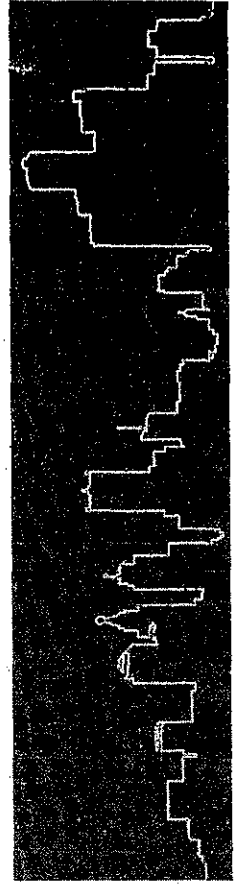


One of the fabulously imaginative CarTune car sculptures that were displayed on streets throughout downtown Detroit and Windsor during the summer of 2005.

The cars were later sold to raise funds for local charities.



Mayor Kilpatrick receives the Midwest Regional Deal of the Year Award from The Bond Buyer in New York City on December 6, 2005.

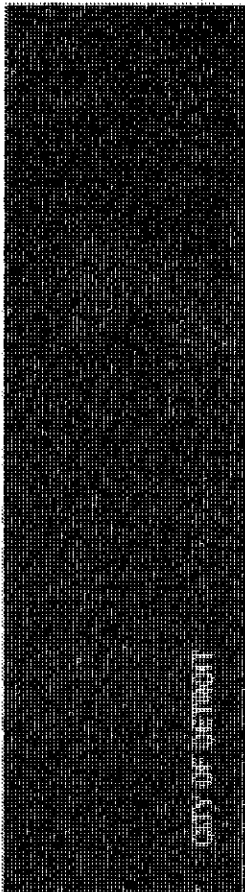


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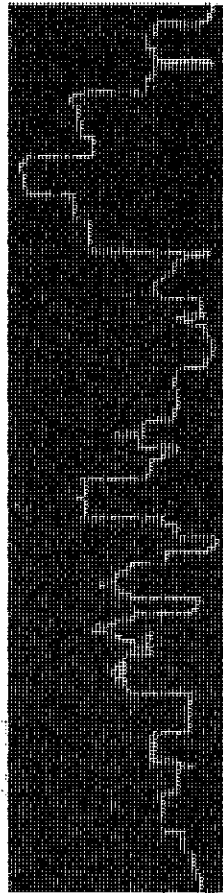
STATEMENTS



Children relish a warm spring day at Belle Isle Park's Kids' Kingdom. People of all ages enjoy the many attractions and natural beauty of Belle Isle, Detroit's 980-acre island gem.



Children create their own crafts at Metro Youth Day. Hundreds of children participated in the many activities at the annual event on Belle Isle.



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Detroit (the City), incorporated in 1806, is a home rule city under State of Michigan law. The City is organized into two separate branches: (1) the executive branch, which is headed by the Mayor, and (2) the legislative branch, which is composed of the City Council and its agencies. Other agencies (City Clerk and Election) are not classified under the two branches. The City provides the following services as authorized by its charter: public protection, public works, recreation and culture, health, economic development, public lighting, transportation, water and sewage, airport, and parking.

**A. REPORTING ENTITY**

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the financial statements of the reporting entity include those of the City (the primary government) and its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The thirteen component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

**1. Blended Component Units:**

**Detroit Building Authority (DBA):** The City of Detroit Building Authority (DBA) is included in the operations and activities of the City because it was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, or maintaining a building or buildings (including but not limited to health and public safety facilities), automobile parking lot or structures (independently or adjacent to other buildings), recreational facilities, and the necessary site or sites, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, all for the use of any legitimate public purpose of the City. Financing is provided by the issuance of bonds secured by lease agreements with the City and from grants received by the City.

**Detroit General Retirement System Service Corporation (DGRSSC) and Police and Fire Retirement System Service Corporation (DPRSSCO):**

The Detroit General Retirement System Service Corporation (DGRSSC) and the Detroit Police and Fire Retirement System Service Corporation (DPRSSCO) are Michigan nonprofit corporations incorporated by the City pursuant to State Law. The DGRSSC and DPRSSCO were formed to assist the City in maintaining the actuarial integrity of the City's two pension systems. The governing body of each corporation is its Board of Directors, each of which consists of three officials of the City, the Finance Director, the Budget Director and the Corporation Counsel, plus two members of the City Council, selected and appointed by the City Council.

In May 2005, the City entered into a separate service contract with each of the DGRSSC and the DPRSSCO, in which the City contractually obligated itself to make periodic payments to the corporations in return for their service which reduces the financial burden of the City's pension costs. The DGRSSC and the DPRSSCO, severally and not jointly, entered into a Trust Agreement with U.S. Bank National Association, as Trustee, which created the Detroit Retirement Systems Funding Trust 2005 (DRSFT), a grantor trust established and existing under Michigan law. The DGRSSC and DPRSSCO sold and assigned to the DRSFT their rights to receive certain of the payments to be received from the City under the service contracts.

**2. Discretely Presented Component Units:**

Component units, which are not blended as part of the primary government, are discretely presented by reporting component unit financial data in a column separate from the financial data of the primary government. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units presented in this manner are the following:

**Detroit Brownfield Redevelopment Authority (DBRA):** The DBRA was created by a City Council resolution and approved by the Mayor in April 1998, under the provisions of Act 381, Public Acts of Michigan of 1996. DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-severed, blighted, or functionally obsolete property. This is the first year of substantial financial activity for this authority.

**Detroit Public Library (DPL):** The DPL is a statutory body created by the State. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an ad valorem tax of 3.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. City Council is responsible for approving DPL's annual budget.

**Downtown Development Authority (DDA):** The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an ad valorem tax of 1.0 mill on real and personal property in the downtown development district, a levy on the increased assessed value of a tax increment district, and issuance of revenue and tax increment bonds.

**Economic Development Corporation (EDC):** The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

**Detroit Housing Commission (DHC):** The DHC was established in 1933 under the authority of the Housing Facilities Act, 1933 PA 18 (Ex. Sess.), MCL 125.651 et. seq. Section 2 of the act provided that any city or incorporated village with population of over 400,000 was authorized "to purchase, acquire, construct, maintain, operate, improve, extend, and/or repair housing facilities and to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, and/or welfare."

**Local Development Finance Authority (LDFA):** The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler/Jefferson Avenue Assembly Plant. Incremental portions of the City and the County of Wayne (the County) property taxes fund LDFA.

**Museum of African American History (MAAAH):** The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage, and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

**School District of the City of Detroit (the District):** The District is a statutory body created by the State and functions under the provisions of the Michigan School Code. Funding is provided by an ad valorem tax of 13.19 mills (homesite properties) and 31.19 mills (non-homesite) on real and personal property in the City and a "foundation allowance" provided by the State.

**Tax Increment Finance Authority (TIFA):** The TIFA was created to acquire property and provide financing for residential and commercial development programs through issuance of long-term debt secured by tax increment financing.

**Detroit Transportation Corporation (DTC):** The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

**Greater Detroit Resource Recovery Authority (GDRRA):** The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The financing was provided by the issuance of revenue bonds.

Complete financial statements of the individual blended and discretely presented component units can be obtained directly from the following administrative offices:

Detroit Building Authority  
 2800 Cadillac Tower  
 65 Cadillac Square  
 Detroit, MI 48226  
 (313) 224-7242

Detroit General Retirement System  
 Service Corporation  
 Coleman A. Young Municipal Center, Room 1200  
 2 Woodward Avenue  
 Detroit, Michigan 48226  
 (313) 224-3180

Detroit Police & Fire Retirement System  
 Service Corporation  
 Coleman A. Young Municipal Center, Room 1200  
 2 Woodward Avenue  
 Detroit, Michigan 48226  
 (313) 224-3180

Brownfield Redevelopment Authority  
 500 Griswold, Suite 2200  
 Detroit, Michigan 48226  
 (313) 237-4616

Detroit Public Library  
 5201 Woodward Avenue  
 Detroit, MI 48202  
 (313) 833-1000

Downtown Development Authority  
 211 Fort Street, Suite 900  
 Detroit, MI 48226  
 (313) 963-2940

Economic Development Corporation  
 211 West Fort Street, Suite 900  
 Detroit, Michigan 48226  
 (313) 963-2940

Detroit Housing Commission  
 2211 Orleans Street  
 Detroit, MI 48207  
 (313) 877-8537

Local Development Finance Authority  
 211 West Fort Street 900  
 Detroit, MI 48226  
 (313) 963-2940

Museum of African American History  
 315 East Warren Avenue  
 Detroit, MI 48209  
 (313) 494-5800

School District of the City of Detroit  
 3011 West Grand Blvd.  
 11<sup>th</sup> Floor  
 Detroit, MI 48202  
 (313) 873-4147

Tax Increment Finance Authority  
 211 West Fort Street Avenue, Suite 900  
 Detroit, MI 48226  
 (313) 963-2940

Detroit Transportation Corporation  
 1420 Washington Blvd., 3<sup>rd</sup> Floor  
 Detroit, MI 48226  
 (313) 224-2160

Greater Detroit Resource Recovery Authority  
 5700 Russell Street  
 Detroit, MI 48211  
 (313) 876-0449

(Continued)

**B. JOINT VENTURE**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity, subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint ventures:

The Detroit-Wayne Joint Building Authority (DWJBA) was created as a corporate instrumentality in 1948 by agreement between the City and the County. All revenues or other monies received by the DWJBA must be disbursed for specific purposes in accordance with agreements with the incorporating units and the holders of the bonds. In March 1988, the City and County signed a consent judgment whereby the County's equity in the ownership of a portion of the space in the Coleman A. Young Municipal Center was transferred to the City. As a result, the fixed asset costs are recorded within the City's government-wide financial statements.

The DWJBA is party to a lease agreement that extends to March 1, 2023 for rental of the Coleman A. Young Municipal Center to the City and the County. The lease provides that the DWJBA shall maintain and operate the building, the expenditures of which are to be reimbursed by the City and County on the basis of the building space allocations specified in the lease. Also, the extended lease agreement identified the intention to renovate space occupied by the County and provided the commitment of the County to enter into a separate supplemental lease for the repayment for the debt used in the renovations. Therefore, the County has an ongoing financial responsibility.

Complete financial statements of the DWJBA may be obtained by writing the DWJBA at the following address:

Detroit-Wayne Joint Building Authority  
 1316 Coleman A. Young Municipal Center (CAYMC)  
 Detroit, MI 48226

**C. BASIS OF PRESENTATION**

The basic financial statements include both government-wide and fund financial statements.

**1. Government-wide Financial Statements**

The government-wide statement of net assets and statement of activities report the overall financial activity of the primary government (the City), excluding fiduciary activities and its component units. Eliminations have been made to minimize the double counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**2. Fund Financial Statements**

The fund financial statements provide information about the City's funds, including its fiduciary fund types. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

(Continued)

Proprietary fund operating revenues, such as charges for services primarily result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-exchange revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City uses the following major funds:

**Governmental Funds:**

- a. General Fund accounts for several of the City's primary services (Police, Fire, Public Works, Community and Youth Services, etc.) and is the primary operating unit of the City.
- b. Detroit General Retirement System Service Corporation accounts for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005.
- c. Police & Fire Retirement System Service Corporation accounts for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005.

**Proprietary Funds:**

- a. Sewage Disposal Fund accounts for the operations of the wastewater treatment plant, sewers, including sanitary and combined sewers, combined sewer overflow, and interceptors. The facility provides service to Detroit and 75 other communities in southeastern Michigan.
- b. Transportation Fund accounts for the City's mass transit system with a fleet of over 572 coaches. The fund operates three light repair garages and terminals.
- c. Water Fund accounts for the operations of five water treatment plants, 20 booster stations, a transmission and distribution system and reservoirs. The fund provides service to Detroit and 125 other communities in southeastern Michigan.
- d. Automobile Parking Fund accounts for the activity of the City's Auto Parking and Arma System, but does not include parking fair revenues.

The City reports the following additional fund types:

**Fiduciary Funds:**

- a. Pension and Other Employee Benefit Funds account for monies held in trust by the City for pension benefits and other employee benefits. The City uses pension trust funds to account for the retirement plans for civilian employees, firefighters and police officers. The Employee Benefit funds accounts for various health and long-term disability benefits for employees and retirees.
- b. Agency Funds account for transactions for assets held by the City as agent for certain activities or for various entities. Payroll deductions and special deposits are the primary transactions accounted for in these funds.

(Continued)

**D. BASIS OF ACCOUNTING**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded in the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Financial Accounting Standards Board (FASB) Statements and Interpretations, APB opinions and ARB'S of the Committee on Accounting Procedure issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent FASB guidance.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, compensated absences and other long term obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt, pension obligation certificates and acquisitions under capital leases are reported as other financing sources. Significant revenue sources, which are susceptible to accrual, include property taxes, income taxes, utility taxes, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

**E. BUDGETARY DATA**

**Budgeting Policy:**

The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included in separate sections of the budget. Any surplus or deficit during the preceding year is entered into the budget for the next fiscal year as either revenue (surplus) or appropriation (deficit), in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues, so that the budget as submitted is a balanced budget. Budgets are prepared for all agencies of the City.

**Budgetary Compliance Report:**

The Finance Department has prepared a Budgetary Compliance Report for the fiscal year ended June 30, 2005. This report shows the Original and Final Budgets amounts and the (non-GAAP) budgetary-basis expenditures for each appropriation in of the Governmental Funds. The report is in Adobe PDF format and is available on the Finance Department home page of the City's website at [www.ci.detroit.mi.us](http://www.ci.detroit.mi.us)

On or before April 12 each year, the Mayor submits to the City Council a proposed annual budget for the next fiscal year. A public hearing in the manner provided by law or ordinance is held on the proposed budget before adoption. After the public hearing, the City Council adopts the budget with or without amendment. Consideration of the budget is completed by the City Council no later than May 24. If the Mayor disapproves of amendments made by the City Council, the Mayor, within seven days, submits to the City Council in writing the reasons for the disapproval. The City Council proceeds to reconsider any budget item so disapproved. If, after reconsideration, a two-thirds majority of the City Council

(Continued)

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

Disposal and Water Funds was \$40,767,951 and \$31,567,774 respectively. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Land improvements	5 - 20
Buildings and building improvements	5 - 50
Improvements other than buildings	5 - 50
Machinery and equipment	5 - 20
Vehicles other than buses	3 - 10
Buses	12
Stormwater and wastewater lines and pump stations	10 - 65
Other infrastructure	7 - 60

The City has a collection of artwork presented both in buildings and public outdoor spaces. The true value of the art is expected to either be maintained at cost or appreciate over time, and thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded.

**5. Bond Premiums, Discounts, and Issuance Costs:** In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are defined and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and gains (losses) on defeasance. Bond premiums, discounts and issuance gains and costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums or discounts and gains or losses on defeasance, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. Encumbrances:** Encumbrances outstanding for governmental funds at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. All governmental fund budgets are maintained on the modified accrual basis of accounting, except budgetary-basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year-end.

**7. Compensated Absences:** For funds other than the Transportation Fund, unused vacation pay and sick leave overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. For that time is awarded to uniformed police and fire employees at the beginning of two semi-annual periods. Any unused through time remaining at the end of each semi-annual period is forfeited. For the Transportation Fund, unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation may be used for the employee loses a portion of the vacation pay.

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds only if they have vested.

**8. Property Taxes:** The State Constitution limits the proportion of net cash value at which real property can be uniformly assessed to 50%. The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government are responsible for actually assessing at 50% of net cash value, the final State equalized assessment against which local property tax rates are applied is derived through several steps. County equalization is brought about by adjustments of the various local unit assessment ratios to the

(Continued)

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

servicing agency to sustain any of the City Council's amendments to the budget, those amendments so sustained are of full force and effect. The City Council's reconsideration of the budget must be concluded within three business days after receipt of the Mayor's disapproval.

The adoption of the budget provides for: (1) appropriations of specific amounts from funds indicated, (2) a specific levy of property tax, and (3) provision for the issuance of bonds specified in the capital program. The budget as adopted becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriations for the functions of each City department are fixed. Expenditures may not exceed the original appropriations without City Council approval. If during the fiscal year the Mayor advises the City Council that there are available appropriations and revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of estimated revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. In any case, the Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services, or activities within an agency or from one agency to another.

**F. ASSETS, LIABILITIES, AND FUND EQUITY**

**1. Cash and Investments:** Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value based on quoted market prices.

**2. Interfund Transactions:**

The City has the following types of interfund transactions:

a. Loans - amounts provided with a requirement for repayment. Interfund loans are reported as due from other funds in lender funds and due to other funds in borrower funds.

b. Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

c. Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

d. Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

**3. Inventories:** Cost of inventories of the governmental-type funds is recorded as expenditures at the time of purchase. Inventories at year-end for the General Consumption Fund, Drug Law Enforcement Fund, and Major and Local Street funds are recorded in the balance sheet at cost or market, whichever is lower, based on a physical inventory, with a reserve for inventories in fund balance by the related fund. Inventories of the Enterprise Funds are stated at the lower of cost or market and expensed when used.

**4. Capital Assets:** Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are recorded at fair market value as of the date received. The City's capitalization levels are \$5,000 on tangible personal property and for improvements other than buildings, and \$50,000 on infrastructure, including sewer and storm water lines. All acquisitions of land and land improvements will be capitalized regardless of cost. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capitalized interest, net of related debt, for the year ended June 30, 2005 for the Sewage

(Continued)



City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

same level; then the State equalizes the various counties in relation to each other. State equalized values are imposed: aside from their use for local property tax levy purposes, because of their role in distribution of State school aid and in the calculation of debt limits. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures, and equipment. Through comprehensive authority is granted by the State to Michigan municipalities for governmental purposes, the Constitution and general laws of the State limit the municipal rate of taxation and restrict the amount of debt a municipality may incur. At the present time, the general ad valorem taxing power of the City is generally limited by State law and the City Charter to 20 mills. The City is levying at its current maximum rate limit. In addition, the City is authorized to levy additional taxes within specified amounts for specific purposes under specific legislation. At the present time, under such an authorization, the City is levying 3 additional mills for the purpose of garbage and rubbish collection. These millage limitations, however, do not apply to taxes levied by the City for payment of principal and interest on presently outstanding unlimited tax-supported bonds, nor do they apply to payment of principal and interest on tax-supported bonds issued in anticipation of presently outstanding contractual obligations of the City or presently outstanding assessments in the City.

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. Property owners may appeal their assessments to the local Board of Review and ultimately to the Michigan Tax Tribunal.

In the government-wide financial statements, property tax revenue is recorded in the period in which the tax is levied. In the governmental fund financial statements, the City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

9. **Municipal Income Taxes:** The City levies an annual income tax. The rate for the calendar year 2005 consists of an annualized tax of 2.50% on the income of resident individuals, 1.25% on income earned in the City by non-residents and for corporations the annual rate for 2005 is 1.0%. These rates are being lowered over a 10-year period starting July 1, 1999. The resident rate will decrease by 1/10 of a percentage point, the non-resident rate by 1/20 of a percentage point, and the corporate rate by 2/10 of a percentage point over the same period. After the 10-year period, the calendar 2009 resident rate will be 2%, the non-resident rate will be 1%, and the corporate rate will be zero. However, due to current economic conditions there was a temporary rate freeze of the tax rates for the calendar year 2005. The rates were as follows: residents 2.5%, non-residents 1.25% and corporations 1%. The City has re-applied for, and received, approval for the rate freeze to remain in effect for calendar year 2006. Municipal income taxes are accrued for income tax withholdings collected by employers but not yet remitted to the City. In the government-wide financial statements, income tax revenue is recorded in the period in which the underlying compensation is earned by the taxpayer. In the governmental fund financial statements, the City records municipal income tax revenues when they become available. Available is defined as due and receivable within the current fiscal year or expected to be collected within 60 days thereafter. Estimated refunds for income tax returns received and in process, in which payment has not been made, are recorded as a reduction of revenues. Income tax assessment receivable represents estimated additional taxes assessed as a result of tax return audits or failure to file a return.

10. **Fund Balances:** In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative City plans that are subject to change.

11. **Net Assets:** The government-wide and proprietary fund financial statements utilize a net asset presentation. Net assets are categorized as follows:

a. **Invested in Capital Assets Net of Related Debt** - consists of capital assets, net of accumulated depreciation. The outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets would further reduce this component. If there were significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds would be offset by the outstanding debt.

b. **Restricted Assets** - consist of constraints placed on net asset use through external constraints imposed by grantors, contributors, or laws. When both restricted and unrestricted resources are available,

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generally it is the City's policy to use restricted resources first, and then unrestricted resources, when they are needed.

c. **Unrestricted Assets** - Consist of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, net of related debt."

12. **Use of Estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

13. **Detroit Housing Commission (DHC) Restatement:** On July 7, 2005, the United States Department of Housing and Urban Development (HUD) signed a cooperative endeavor agreement with the Mayor. The agreement calls for the City to transfer all of DHC's assets, projects, and programs to HUD and for HUD to manage the day-to-day operations and reporting requirements of the DHC. The agreement has a two-year term and is renewable annually thereafter. DHC's net assets at June 30, 2004 are restated based on their unaudited financial statements.

The Basic Financial Statements contain the Detroit Housing Commission's unaudited financial statements for fiscal year ended June 30, 2005.

These unaudited financial statements represent the best data available as of April 15, 2006.

Net Assets of DHC at June 30, 2004, as previously reported	\$	126,561,588
Net Assets of DHC at June 30, 2004, as restated	\$	96,858,512
		<u>\$ 29,723,076</u>

Net DHC restatement

14. **New Accounting Pronouncements:** The City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures—on Amendment of GASB Statement No. 3*, for the year ended June 30, 2005. This pronouncement requires additional disclosures presented in these notes, but has no impact on fund balance or net assets. These disclosures address common deposit and investment risks related to credit risk, concentration of credit risk, interest risk, and foreign currency risk.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. The City will implement Statement No. 42 beginning with the year ended June 30, 2006. The City is currently evaluating the impact of adopting Statement No. 42.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employers contributions to a plan, including the OPEB liability or asset at transition, if any. The City is currently evaluating the impact that this standard will have on the financial statements when adopted. The City will implement Statement No. 45 beginning with the year ended June 30, 2008.

(Continued)

**C. DEFICIT FUND EQUITY**

General Fund had a deficit fund balance of \$33,594,434. The Detroit Public Schools (DPS) and Local Development Finance Authority (both Component units) had fund deficits of \$31,177,603 and \$56,877,192, respectively. Each fund has a deficit reduction plan, which includes, among other things, changes in how and what level of services are to be provided, perhaps additional subsidies and in the case of DPS additional State appropriations.

**NOTE III - DETAILED NOTES ON ALL FUNDS**

**A. ASSETS**

**I. Deposits and Investments**

**a. Primary Government**

The following is a complete listing of deposits and investments held by the City at June 30, 2005:

	Governmental Activities	Business - Type Activities	Total
Deposits	\$ 152,481,046	\$ 71,120,511	\$ 223,601,557
Investments	297,229,368	1,102,535,354	1,400,464,722
<b>Total</b>	<b>\$ 450,410,414</b>	<b>\$ 1,174,655,865</b>	<b>\$ 1,625,066,279</b>

The Deposits and Investments of the City at June 30, 2005 are reflected in the financial statements as follows:

	Governmental Activities	Business - Type Activities	Total
Uncertified Cash and Cash Equivalents	\$ 50,307,208	\$ 2,208,061	\$ 52,515,269
Investments	265,697,892	602,166,610	325,914,412
Remitted Cash and Cash Equivalents	88,405,837	48,602,256	137,408,093
Investments	45,599,567	1,063,628,938	1,109,228,505
<b>Total</b>	<b>\$ 450,410,414</b>	<b>\$ 1,174,655,865</b>	<b>\$ 1,625,066,279</b>

State has authorized the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of bank failure, the bank may not return the City's deposits. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the governmental and business-type activities had deposits of \$204,484,712 that were exposed to custodial credit risk as they were uninsured and uncollateralized.

**NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The City has no material violations of finance-related legal and contractual provisions.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The legal level of budget control is maintained at the appropriation level, which is more detailed than the budget in the Required Supplemental Information. Listed below are expenditures that exceeded its corresponding appropriation for the year ended June 30, 2005:

Department Name	Appropriation No.	Appropriation Description	Final Budget	Actual Expenditures	Actual Over Appropriation
Public Works	00035	Refuse Collection	25,848,672	27,340,817	(1,392,145)
	00037	Street Cleaning	2,812,494	4,242,270	(1,429,776)
	00040	Refuse Disposal	76,508,620	82,768,373	(6,319,753)
	00041	Street Maintenance	5,313,828	6,386,396	(1,172,568)
	00053	Stores and Supplies	16,144,002	12,233,477	(3,910,525)
		<b>Total Public Works</b>	<b>120,627,616</b>	<b>132,871,233</b>	<b>(12,243,617)</b>
Fire	00718	Fire Fighting Operations	146,268,864	147,713,662	(1,444,798)
Non Departmental	10828	Tax Support-Bligs and Safety Eng	112,106	461,106	(349,000)
	11177	Program Management Office	463,362	1,674,004	(1,210,642)
	11426	Office of Targeted Business Development	499,273	786,488	(317,223)
	11915	ITS - Unisys Project	-	6,612,615	(6,612,615)
		<b>Total Non Departmental</b>	<b>1,074,741</b>	<b>9,534,223</b>	<b>(8,459,482)</b>
Police	00112	Police Executive	4,973,669	5,319,436	(345,767)
	00115	Human Resources Bureau	10,303,321	10,699,572	(396,251)
	00116	Essential Operations Bureau	128,355,851	137,173,079	(8,817,228)
	00363	Office of Executive Deputy Chief	-	4,527,611	(4,527,611)
	10164	COIS URP-DOOT (3001)	4,026,456	5,248,993	(1,222,537)
		<b>Total Police</b>	<b>147,359,297</b>	<b>163,248,591</b>	<b>(15,889,294)</b>
Public Lighting	00121	Heat and Power Production	37,175,546	44,221,515	(7,045,969)
Recreation	10944	North District Operations	6,991,243	8,374,769	(1,383,526)
	10947	East District Operations	4,433,025	4,865,580	(432,555)
	10948	Belle Isle District	6,343,673	9,311,638	(2,967,965)
	<b>Total Recreation</b>	<b>17,768,201</b>	<b>22,552,187</b>	<b>(4,783,986)</b>	

Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of June 30, 2005, the City had no investments subject to custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in securities maturing more than 10 years from original date of purchase.

As of June 30, 2005, the City had the following investments and maturities:

Governmental Activities	Fair Value	Investment Maturities in Years		
		Less Than 1 Year	1-5 Years	6-10 Years
US Treasury	\$ 12,689,389	\$ 2,446,448	\$ 7,383,266	\$ 2,659,675
US Government Agency Securities	84,887,117	18,024,779	66,862,338	-
Repurchase Agreement	1,005,222	1,005,222	-	-
Money Market	154,347,640	154,347,640	-	-
Total Unrestricted	252,929,368	175,824,089	74,445,604	2,659,675
Total - Restricted	45,000,000	45,000,000	-	-
Total Investments	\$ 297,929,368	\$ 220,824,119	\$ 74,445,604	\$ 2,659,675

Business Type Activities	Fair Value	Investment Maturities in Years		
		Less Than 1 Year	1-5 Years	6-10 Years
Money Market	\$ 54,216,611	\$ 54,216,611	-	-
Total Unrestricted	54,216,611	54,216,611	-	-
US Treasury	12,976,157	12,976,157	-	-
US Government Agency Securities	454,132,713	251,440,514	199,784,590	2,907,609
Repurchase Agreement	91,256,654	42,332,654	14,924,000	36,000,000
Money Market	488,933,219	488,933,219	-	-
Total - Restricted	1,019,218,743	795,702,544	214,708,590	2,907,609
Grand Total	\$ 1,103,533,354	\$ 849,919,155	\$ 214,708,590	\$ 2,907,609

**Credit Risk**

The City's investment policy complies with state law which limits its investments in commercial paper, mutual funds and external investment pools which purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NSRSROs).

As of June 30, 2005, the City's investments have the following ratings:

**Governmental Activities:**

	U.S. Treasury	U.S. Government Agency Securities	Repurchase Agreements	Money Market
S&P				
AAA	\$ 12,689,389	\$ 58,059,229	\$ -	\$ -
Moody's				
Aaa				732,688
AAA		26,877,888	1,005,222	198,614,982
Total	\$ 12,689,389	\$ 84,937,117	\$ 1,005,222	\$ 199,347,640

**Business-Type Activities:**

	U.S. Treasury	U.S. Government Agency Securities	Repurchase Agreements	Money Market
S&P				
AAA	\$ 12,976,157	\$ 395,844,561	\$ 28,442,000	\$ 10,645,531
AA-			40,074,500	
A+			9,816,154	
A-			14,924,000	
Moody's				
Aaa		58,288,152		38,010,950
A+3				1,014,385
Not Rated				493,498,964
Total	\$ 12,976,157	\$ 454,132,713	\$ 93,256,654	\$ 543,169,830

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the city's investment in a single issuer. The city's policy specifies a number of limitations to minimize concentration of credit risk include prohibiting investing more than 5% of the portfolio in securities (excluding U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer. More than 5% of the primary government's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage, and Federal National Mortgage Association. These investments are 18.5%, 6.1%, and 13.9%, respectively, of the primary governments investments.

**Fiduciary Activities**

The Fiduciary activities consist of the Pension funds (General Retirement System and Police and Fire Retirement System) and Other Employees Benefit and Agency Funds.

City of Detroit, Michigan  
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**Pension Funds**

State laws authorize the Pension Funds to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Pension Funds are authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, equity securities and investment pools authorized by state law.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Pension Funds' deposits may not be returned by the bank. The Pension Funds do not have a deposit policy for custodial credit risk. At June 30, 2005, the General Retirement System and Police and Fire Retirement System had deposits of \$11,267,228 and \$9,672,771, respectively, that were exposed to custodial credit risk as they were uninsured and uncollateralized.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Pension Funds will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Funds do not have a policy for custodial credit risk. As of June 30, 2005, the Pension Funds had no investments subject to custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The pension funds' investment policy does not restrict investment maturities.

As of June 30, 2005, the Pension Funds had the following investments and maturities:

General Retirement System	Fair Value	Less than 1	Investment Maturities (in years)		more than 10
			1-5	6-10	
Asset Backed	83,953,543	753,194	59,361,622	1,252,924	21,838,803
CMO	24,876,956	-	799,965	272,038	23,804,953
Corporate Bonds	231,628,740	1,599,450	82,989,282	118,588,374	14,146,714
FILM/C	24,969,252	-	1,247,691	2,044,374	21,677,187
FNMA	69,664,833	-	1,938,633	2,844,399	64,241,781
GNMA	4,743,387	-	534,423	204,094	4,004,870
Government Issues	509,386,179	28,110,142	452,570,860	8,833,505	19,911,572
Municipals	702,496	633,242	49,254	-	-
Foreign Government Issues	33,112,242	4,028,477	6,725,441	19,353,419	3,005,005
STIF-Type Instrument	797,103,222	89,304,981	-	-	707,798,241
Mortgages	46,253,663	31,383,209	14,880,454	-	-
Construction Items	21,930,559	15,310,065	8,615,464	-	-
Private Placement	5,000,000	-	5,000,000	-	-
Total	1,854,725,142	168,785,116	28,495,918	19,233,419	710,802,246

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**Police and Fire Retirement System**

	Fair Value	Investment Maturities (in years)		More than 10
		Less than 1	1-5	
U.S. Government	\$129,475,028	\$14,431,714	\$75,458,000	\$30,581,190
Mortgage Backed	54,371,713	-	270,134	51,927,124
Collateralized Mortgage Obligation	24,833,936	-	-	24,833,936
Corporate	432,288,985	23,656,048	187,021,254	143,788,865
Yieldco Bonds	12,463,070	1,231,416	15,288,814	8,742,818
Non-U.S. Fixed Income	31,155,584	3,979,259	15,288,814	10,916,548
Convertible Bonds	8,294,662	149,044	1,070,885	2,862,025
Treasury Bills	3,439,095	19,331,504	-	7,034,733
Mortgages	19,331,504	-	-	19,331,504
Construction Loans	62,621,014	51,305,516	11,315,499	-
Total	785,184,552	95,960,576	322,106,692	175,562,331

**Credit Risk**  
 State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The system has no investment policy that would further limit its investment choices.

As of June 30, 2005, the Pension Funds' investments have the following ratings:

**General Retirement System**

	S&P		Moody	
	Amount	Rating	Amount	Rating
Asset Backed	217,955	A	3,609,867	A1
CMO	2,184,833	A+	10,746,815	A2
Corporate Bonds	275,673	A-+	2,448,831	A3
FILM/C	89,828	AA	1,682,295	AA1
FNMA	542,621	AA-	3,530,682	AA2
GNMA	152,974	AA+	914,947	AA3
Government Issues	11,684,542	AAA	246,131,696	AAA
Municipals	3,255,949	B	18,169,725	B1
Foreign Government Issues	380,147	B+	21,017,624	B2
STIF-Type Instrument	4,625,130	B+	25,387,322	B3
Mortgages	1,061,020	BB	9,453,732	BA1
Construction Items	60,738	BB-	15,725,284	BA2
Private Placement	2,822,861	BB+	15,975,592	BA3
	1,764,783	BBB	6,043,294	BAA1
	239,755	BBB+	9,005,332	BA2
	104,162	D	11,017,052	BA3
	-	C	8,750	CA
	-	C	3,696,136	CA
	-	CA	11,216,333	CAA1
	-	CA	4,612,680	CAA2

**Securities Lending**

As permitted by State statutes and under the provisions of a securities lending authorization agreement, the Pension Funds lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension Funds custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities.

The Pension Funds did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The General Retirement System had lent no securities to broker-dealers or banks.

The Police and Fire Retirement System and the borrower maintain the right to terminate all securities lending transaction on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2005 was 27 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005, the Police and Fire Retirement System had no credit-risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the Police and Fire Retirement System as of June 30, 2005 was \$1,103,131,232 and \$1,072,327,090, respectively.

**Other Employee Benefit and Agency Funds**

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Other Employee Benefit and Agency Funds (Other Funds) deposits may not be returned by the bank. The City does not have a deposit policy for custodial credit risk. At June 30, 2005, the Other Funds had deposits of \$13,311,612 that were exposed to custodial credit risk as they were uninsured and uncollateralized.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Other Funds will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of June 30, 2005, the Other Funds had no investments subject to custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in securities maturing more than 10 years from original date of purchase.

**Police and Fire Retirement System**

Investment Type and Value (2005)	TSV	ASV	ASL	ASL	ASL	ASL	ASL	ASL	ASL
U.S. Government	58,408	52,844	54,109	996					
Mortgage Backed		54,775	18,100						
Collateralized Mortgage Obligations		15,709	12,240	15,152					
Corporate Bonds		711	12,240	18,771	12,176	52,012	44,607	18,421	6,540
Non-LEAS First Income				3,168	6,818	1,357	900		
Convertible Bonds				42,079	2,914	2,077	4,884		
Treasury Bills				83	1,825	753	1,970		
Municipal				3,418					
Conversion Loans									
<b>Total</b>	<b>\$ 1,480</b>	<b>\$ 72,115</b>	<b>\$ 69,977</b>	<b>\$ 24,005</b>	<b>\$ 18,410</b>	<b>\$ 18,520</b>	<b>\$ 31,606</b>	<b>\$ 18,421</b>	<b>\$ 11,612</b>

Quality Ratings of TSV and ASV have been assigned by The Bank of New York

**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in a foreign currency could lose U.S. dollar value because of changes in foreign currency exchange rates. State law and the city's investment policy do not permit investments in foreign currency. However, the General Retirement System and Police and Firemen Retirement System (Pension Funds) do not restrict the amount of investments in foreign currency. Their foreign currency investments are as follows:

	Equity	Corporate Bonds	Cash and Cash Equivalents	Government Securities	Derivatives
Australian Dollar	\$ 7,995,112	\$ 163,535	\$ 8,262,540	\$ -	\$ -
Brazilian Real	41,311,013	1,567,280	3,092	3,004,005	(2,771)
British Pound Sterling	1,811,519	31,372	9,893,994	9,488	
Canadian Dollar	2,839,232	49,856			
Euro Currency	84,064,927	2,165,538	3,040,295	(11,291)	
Hong Kong Dollar	2,944,461	31,139	(1,868)		
Japanese Yen	3,169,711		3,616		
Indonesian Rupiah	534,819		7,100,403	6,384	(11,491)
Japanese Yen	45,406,763				
Malaysian Ringgit	621		13,277	34,180	
Mexican Newes Peso	936,989				
New Russian Ruble					
New Zealand Dollar	297,023	1,174,483	3,352	1,200,650	
Norwegian Krone	6,246,851		12,685		
Philippine Peso	168,797		3,239		
Polish Zloty	6,901,247			5,003,245	
Singapore Dollar	1,578,579		16,976	4,058,477	(1,216)
South African Rand	537,065		9,615		
South Korean Won	2,292,933		372		
Swedish Krona	12,071,882		430,400		(1,385)
Swiss Franc	16,031,622		335,465		
Thai Baht	22,581		269		
<b>Total</b>	<b>\$ 216,579,767</b>	<b>\$ 13,741,483</b>	<b>\$ 121,944,075</b>	<b>\$ 39,654,890</b>	<b>\$ (21,120)</b>

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As of June 30, 2005, the Other Funds had the following investments and maturities:

Employee Benefit Agency Funds	Pair Value	Less than 1 Year
Money Market	\$ 34,354,890	\$ 34,354,890
Mutual Funds	18,429,867	18,429,867
U.S. Gov't Agency Securities	39,723	39,723
Equity	4,636,139	4,636,139
Total Unrestricted	\$7,269,629	\$7,269,629
Restricted Mutual Funds	2,200,862	2,200,862
Grand Total	\$ 59,461,491	\$ 59,461,491

**Credit Risk**

The City's investment policy complies with state law which limits its investments in commercial paper, mutual funds and external investment pools which purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2005, the Other Funds investments in debt securities are with money market funds and mutual funds, which have no rating.

**e. Component Units**

**School District of the City of Detroit**

State statutes and the School District of the City of Detroit (School District) investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures no more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District deposits are in accordance with statutory authority.

The School District has designated three banks and one credit union for the deposit of its funds.

The investment policy adopted by the School District has authorized investments as listed in the State statutory authority as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$9,698,466 had \$8,880,646 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring

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City of Detroit, Michigan  
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the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year-end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Face Value	Maturity	Rating	Rating Organization
Federal Home Loan Mortgage Corporation Discount Note	\$ 15,043,919	7/5/2005	AAA	S&P
Bank America Tri Party Repurchase Agreement	70,000,000	7/1/2005	AAA	S&P
Goldman Sachs Tri Party Repurchase Agreement	21,000,000	7/1/2005	AAA	S&P
Merger Stanley Tri Party Repurchase Agreement	70,000,000	7/1/2005	AAA	S&P
ING US FDG LLC Commercial Paper	1,963,389	8/1/2005	A1/P1	S&P/Moody's
JF Morgan US Government Money Market Fund Capital Class	82,980,549	N/A	AA+/A+	S&P/Moody's
Dreyfus Corporation Dreyfus Government Cash Management	871,549	N/A	N/A	N/A
Chicago Discount Commercial Paper	1,994,330	7/15/2005	A1/P1	S&P/Moody's
AIG FDG Inc Discount Commercial Paper	8,693,431	7/22/2005	A1/P1	S&P/Moody's
Cresco LLC Discount Commercial Paper	6,387,778	7/22/2005	A1/P1	S&P/Moody's
Cligwood Global Markets Holdings Inc. Discount Commercial Paper	\$ 487,075	7/27/2005	A1/P1	S&P/Moody's
General Electric CAP Corporation Discount Commercial Paper	1,994,330	8/1/2005	A1/P1	S&P/Moody's
ING US FDG LLC Discount Commercial Paper	12,963,478	8/1/2005	A1/P1	S&P/Moody's
Bacetyl US FDG LLC Discount Commercial Paper	5,864,193	8/1/2005	A1/P1	S&P/Moody's
Bacetyl US FDG LLC Discount Commercial Paper	4,968,950	9/6/2005	A1/P1	S&P/Moody's
US Financial Dist LLC Discount Commercial Paper	3,774,698	9/6/2005	A1/P1	S&P/Moody's
Cligwood Global Markets Holdings Inc. Discount Commercial Paper	4,968,100	9/9/2005	A1/P1	S&P/Moody's
Debit Del LLC Discount Commercial Paper	4,699,450	9/9/2005	A1/P1	S&P/Moody's
Federal Home Loan Bank Discount Note	8,990,100	7/15/2005	AAA	S&P
Federal National Mortgage Association Discount Note	9,862,313	7/15/2005	AAA	S&P
Federal Home Loan Bank Discount Note	6,989,300	7/15/2005	AAA	S&P
Federal National Mortgage Association Discount Note	4,982,000	8/19/2005	AAA	S&P
Federal Home Loan Mortgage Corporation Medium Term Note	2,000,160	10/7/2005	AAA	S&P
Federal Home Loan Bank Discount Note	5,443,900	10/19/2005	AAA	S&P
Amstel Funding Corporation Commercial Paper	350,300	7/15/2005	A1/P1	S&P/Moody's
Asset One LLC Commercial Paper	290,493	7/6/2005	A1/P1	S&P/Moody's
Atlanta One Funding Commercial Paper	248,340	8/11/2005	A1-P1	S&P/Moody's
Bismarck Funding Corporation Commercial Paper	248,373	1/19/2005	A1/P1	S&P/Moody's
Beethoven Funding Corporation Commercial Paper	319,970	7/1/2005	A1/P1	S&P/Moody's
Coca-Cola Company Commercial Paper	198,568	7/6/2005	A1/P1	S&P/Moody's
Coop Association Tractor Commercial Paper	98,931	7/29/2005	A1/P1	S&P/Moody's
Coop Association Tractor Commercial Paper	390,884	8/27/2005	A1/P1	S&P/Moody's
Denton Capital Access Commercial Paper	147,704	10/12/2005	A1/P1	S&P/Moody's
Edison Asset Securitization Commercial Paper	245,940	10/20/2005	A1-P1	S&P/Moody's
Fairway Finance Corporation Commercial Paper	346,663	7/10/2005	A1/P1	S&P/Moody's
Fairway Finance Corporation Commercial Paper	343,884	11/7/2005	A1/P1	S&P/Moody's
GE Capital Corporation Commercial Paper	118,470	7/1/2005	A1-P1	S&P/Moody's
GE Capital Corporation Commercial Paper	197,314	9/16/2005	A1-P1	S&P/Moody's
Starbuck Funding Corporation Commercial Paper	248,279	8/10/2005	A1/P1	S&P/Moody's

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City of Detroit, Michigan  
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Due to	Due from									
	General Fund	Non-Major Governmental Funds	Special Districts	Transportation Fund	Water	Am	Non-Major Proprietary Fund	Major	Proprietary Fund	Total
General Fund	\$ 149,817	\$ 470,200	\$ 20,812	\$ 11,760	\$ 2,119	\$ 4,026	\$ 21,119	\$ 4,026	\$ 21,119	\$ 21,119
Non-Major Governmental Funds	518,131	1,182,209	—	—	—	—	—	—	—	1,700,340
Special Districts	49,023	—	—	—	—	—	—	—	—	49,023
Transportation Fund	30,146	—	—	—	—	—	—	—	—	30,146
Water	3,073	—	—	—	—	—	—	—	—	3,073
Am	3,073	—	—	—	—	—	—	—	—	3,073
Non-Major Proprietary Fund	24,024	—	—	—	—	—	—	—	—	24,024
Major Proprietary Fund	1,000	—	—	—	—	—	—	—	—	1,000
Proprietary Fund	71,550	—	—	—	—	—	—	—	—	71,550
Total	\$ 1,010,000	\$ 1,642,409	\$ 20,812	\$ 11,760	\$ 2,119	\$ 4,026	\$ 21,119	\$ 4,026	\$ 21,119	\$ 1,697,291

5. Advances: Advances represent interfund receivables and payables that will not be paid within one year. Advances between funds in June 30, 2005 are as follows:

Receivable Fund	Amount	Payable Fund	Amount
General Fund	\$ 12,692,905	Debt Service - Capital Projects Fund (Non-Major Governmental Fund)	\$ 145,674
	\$ 12,692,905	Transportation Fund (Proprietary Fund)	\$ 1,350,000
		Automobile Parking Fund (Proprietary Fund)	\$ 12,692,905
			\$ 148,674

6. Transfers: During the course of the fiscal year transactions occur between the City funds for operating subsidies. Related interfund receipts and disbursements are classified as "transfers in" and "transfers out" on the Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Assets. The transfers are routine and consistent with the activities of the funds. Transfers between funds at June 30, 2005 are as follows:

Transfers Out	Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ 47,052,947	\$ 77,641,898	\$ 124,694,845
Non-Major Governmental Funds	\$ 31,051,566	\$ 60,958,066	\$ 92,009,632
	\$ 78,104,513	\$ 138,600,000	\$ 216,704,513

The General Fund transferred \$136.6 million to other funds. The largest transfer was made to the Transportation Fund for \$77.4 million to maintain bus operations. The General Fund also transferred \$38.6 million to the Debt Service Fund for principal and interest payments. A transfer of \$9.6 million was made to the Automobile Parking Fund to support operations due to the union lockout in effect for the 2004-2005 NHL hockey season.

The Non-Major Governmental Funds transferred \$94 million to other funds. The Debt Service Fund transferred \$37.5 million of unspent bond proceeds to the Capital Projects Fund to be reserved for the future Cobo Hall construction costs.

City of Detroit, Michigan  
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Investment	Fair Value	Percentage of Total Investments
3M Morgan US Government Money Market Fund Capital Class	\$ 12,980,569	21.12%
Bank America Trl Pnny Repurchase Agreement	70,000,000	11.86%
Morgan Stanley Trl Pnny Repurchase Agreement	70,000,000	11.86%
Goldman Sachs Trl Pnny Repurchase Agreement	21,000,000	5.60%
Federal Home Loan Bank Discount Note	33,423,200	6.31%
Total	\$ 207,403,769	21.22%

2. Other Receivables: Other receivables in the statement of net assets for governmental activities are shown in the aggregate. The following details the other receivable balance at June 30, 2005:

Investment	Fair Value		Total
	General	Other Governmental	
Estimated Withheld Income Tax Receivable	\$ 28,381,590	\$ —	\$ 28,381,590
Trade Receivables	21,342,143	1,236,024	22,578,167
Land Contracts Receivable	4,672,578	—	4,672,578
Property Taxes	58,093,679	20,478,737	78,572,416
Income Taxes	38,617,652	—	38,617,652
Special Assessments	25,697,431	347,225	26,044,656
Interest and Penalties	5,685,000	2,005,000	7,690,000
Utility Users Tax	6,241,469	—	6,241,469
Due from Fiduciary Funds	4,910,736	—	4,910,736
Allowance for Doubtful Accounts	(136,611,870)	(17,091,522)	(153,703,392)
Total Other Receivables, Net	\$ 57,030,408	\$ 6,975,454	\$ 64,005,862

3. Due from/to Other Governmental Agencies: Due from/to other governmental agencies consists primarily of sales and charges for services to/from the County, the State, and the Federal Government.

4. Interfund Receivables and Payables: During the course of operations, numerous transactions occur between the City funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "due from other funds" and "due to other funds" on the Balance Sheet and Statement of Net Assets and will be settled within one year. Interfund receivables and payables at June 30, 2005 are as follows:

Due to	Due from		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ 47,052,947	\$ 77,641,898	\$ 124,694,845
Non-Major Governmental Funds	\$ 31,051,566	\$ 60,958,066	\$ 92,009,632
	\$ 78,104,513	\$ 138,600,000	\$ 216,704,513

The General Fund transferred \$136.6 million to other funds. The largest transfer was made to the Transportation Fund for \$77.4 million to maintain bus operations. The General Fund also transferred \$38.6 million to the Debt Service Fund for principal and interest payments. A transfer of \$9.6 million was made to the Automobile Parking Fund to support operations due to the union lockout in effect for the 2004-2005 NHL hockey season.

The Non-Major Governmental Funds transferred \$94 million to other funds. The Debt Service Fund transferred \$37.5 million of unspent bond proceeds to the Capital Projects Fund to be reserved for the future Cobo Hall construction costs.

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The Major and Local Street Fund transferred \$30.3 million to the General Fund to reimburse General Fund for street construction costs.

7. Capital Asset Activity for the Year Ended June 30, 2005:

Governmental Activities: Non-Depreciable Assets:	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Land	\$ 355,511,574	\$ 27,536,653	\$ (34,420)	\$ 380,013,807
Works of Art	29,788,133			29,788,133
Construction in Progress	153,106,957	75,251,114	(21,360,725)	206,997,346
Total Non-Depreciable Assets	538,406,664	102,787,767	(21,395,125)	619,799,306
Depreciable Assets:				
Buildings and Improvements	698,160,966	106,885,999	(3,671,389)	801,375,576
Machinery and Equipment	377,848,919	34,168,607	(4,287,368)	407,730,158
Infrastructure	767,336,917	60,064,260	(27,401,177)	800,000,000
Total Depreciable Assets	1,843,346,802	201,118,866	(7,959,934)	2,036,505,734
Less Accumulated Depreciation for:				
Buildings and Improvements	263,335,939	31,805,821	(183,754)	294,347,466
Machinery and Equipment	297,444,161	22,770,003	(6,258,367)	313,955,797
Infrastructure	626,934,101	15,625,818	(4,442,121)	638,117,798
Total Accumulated Depreciation	1,187,714,201	70,201,642	(9,742,242)	1,258,173,601
Governmental Activities Capital Assets, Net	\$ 1,194,049,805	\$ 233,964,791	\$ (24,911,761)	\$ 1,403,042,835

Depreciation Expense was charged to the Governmental functions as follows:

Public Protection	\$ 12,106,755
Health	1,800,341
Education	109,785
Police and Fire	9,786,487
Economic Development	18,316,250
Housing Supply and Condition	191,875
Physical Environment	21,015,059
Development and Management	4,985,330
Total:	\$ 70,001,642

Business Activities: Major Assets:	Beginning Balance	Increase	Decrease	Ending Balance
Saving Deposit Funds	\$ 11,876,791	\$ -	\$ -	\$ 11,876,791
Non-Depreciable Assets:	1,937,807	49,666,001	(453,479,016)	(2,099,608)
Land and Land Rights	1,317,614,859	19,666,001	(43,317,016)	1,293,963,844
Construction in Progress				
Total Non-Depreciable Assets	1,319,552,666	49,666,001	(43,317,016)	1,325,901,651
Depreciable Assets:				
Buildings and Structures	891,488,653	252,666,497	(239,453)	1,123,114,922
Sewer Lines	573,453,750	10,313,999	-	583,767,749
Machinery, Equipment and Fixtures	572,095,371	16,230,145	(384,257)	587,941,259
Total Depreciable Assets	1,997,037,774	379,210,641	(623,700)	2,373,547,715
Total Capital Assets	3,316,690,440	828,876,642	(667,117,016)	3,478,449,066
Less Accumulated Depreciation:				
Buildings and Structures	277,828,813	34,164,334	(311,185)	310,881,962
Sewer Lines	967,819	5,634,113	-	6,602,932
Machinery, Equipment and Fixtures	3,154,601	14,253,879	(28,651)	17,380,829
Total Accumulated Depreciation	637,611,233	54,052,326	(499,836)	687,163,723
Net Capital Assets	2,679,079,207	794,824,316	(667,117,016)	2,806,786,500

Transportation Fund:	Beginning Balance	Increase	Decrease	Ending Balance
Non-Depreciable Assets:	\$ 4,114,574	\$ -	\$ -	\$ 4,114,574
Land and Land Rights	16,978,876	3,897,509	(1,541,625)	19,334,760
Construction in Progress	8,214,509	3,897,509	(1,541,625)	10,570,493
Total Non-Depreciable Assets	25,307,959	7,795,018	(3,083,250)	29,820,727
Depreciable Assets:				
Buildings and Structures	63,096,463	4,411,797	-	67,508,260
Machinery, Equipment and Fixtures	48,489,649	2,300,984	-	50,790,633
Vehicle and Boats	14,670,549	32,277,235	(14,361,221)	32,586,563
Total Depreciable Assets	126,256,661	39,010,016	(14,361,221)	150,905,456
Total Capital Assets	151,564,620	46,805,034	(17,444,471)	180,925,183

Less Accumulated Depreciation:	Beginning Balance	Increase	Decrease	Ending Balance
Buildings and Structures	45,764,174	1,377,719	-	47,141,893
Machinery, Equipment and Fixtures	28,840,860	3,412,179	-	32,253,039
Vehicle and Boats	6,687,027	12,179,304	(14,361,221)	4,505,109
Total Accumulated Depreciation	81,292,061	16,969,202	(14,361,221)	83,899,042
Net Capital Assets	10,000,000	29,835,832	(3,083,250)	36,752,582



City of Detroit, Michigan  
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Business-type Activities (continued)

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Water Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 6,472,418	\$ -	\$ -	\$ 6,472,418
Construction in Progress	679,745,367	171,715,631	(432,433,258)	418,027,740
<b>Total Non-Depreciable Assets</b>	<b>686,217,785</b>	<b>171,715,631</b>	<b>(432,433,258)</b>	<b>424,549,168</b>
Depreciable Assets:				
Land Improvements	64,896,650			64,896,650
Buildings and Structures	49,384,157	21,000,000		70,384,157
Water Line Structures	10,332,777			10,332,777
Machinery, Equipment and Fixtures	714,846,600			714,846,600
Vehicle and Buses	215,769,659	138,004,268	(151,248)	302,522,679
<b>Total Depreciable Assets</b>	<b>805,469,843</b>	<b>138,004,268</b>	<b>(151,248)</b>	<b>942,222,863</b>
<b>Total Capital Assets</b>	<b>1,491,687,628</b>	<b>309,719,899</b>	<b>(583,686,506)</b>	<b>1,217,720,021</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	55,574,258	1,035,200		56,609,458
Buildings and Structures	172,238,108	7,660,215		179,898,323
Water Line Structures	7,660,215			7,660,215
Machinery, Equipment and Fixtures	246,106,133	9,564,274	(1,016,010)	254,654,397
Vehicle and Buses	173,646,339	23,577,967	(125,372)	196,898,934
<b>Total Accumulated Depreciation</b>	<b>655,225,053</b>	<b>32,237,656</b>	<b>(1,141,382)</b>	<b>686,311,327</b>
<b>Net Capital Assets</b>	<b>742,462,695</b>	<b>277,482,243</b>	<b>(432,545,124)</b>	<b>587,399,814</b>

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Automobile Parking Fund:</b>				
Non-Depreciable Assets:				
Land and Land Rights	\$ 7,014,113	\$ -	\$ -	\$ 7,014,113
Construction in Progress	5,836,036	1,282,871	(6,636,244)	504,743
<b>Total Non-Depreciable Assets</b>	<b>12,850,149</b>	<b>1,282,871</b>	<b>(6,636,244)</b>	<b>7,496,776</b>
Depreciable Assets:				
Land Improvements	314,908			314,908
Buildings and Structures	199,088,822	8,199,660		207,288,482
Machinery, Equipment and Fixtures	2,339,955	51,251		2,391,206
<b>Total Depreciable Assets</b>	<b>201,743,685</b>	<b>8,250,911</b>		<b>209,994,596</b>
<b>Total Capital Assets</b>	<b>214,593,834</b>	<b>9,533,782</b>		<b>224,128,372</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	166,268	10,745		177,013
Buildings and Structures	101,978,636	6,103,469		108,082,105
Machinery, Equipment and Fixtures	1,255,641	172,944		1,428,585
<b>Total Accumulated Depreciation</b>	<b>103,399,145</b>	<b>6,286,158</b>		<b>109,685,303</b>
<b>Net Capital Assets</b>	<b>111,194,689</b>	<b>3,247,624</b>		<b>114,442,313</b>

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8. Deferred Revenue: Deferred revenue represents revenue received, but for which the revenue recognition criteria have not been met. Accordingly, these revenues are deferred until such time as the revenue recognition criteria are met.
9. Due From/To Component Units: Due from/to component units consists of sales, charges for services, and property tax revenue to the District, DPL, EDC, and DTC.

**B. LIABILITIES**

**1. Commitments and Contingencies**

**a. Lawsuits and Claims:** The City is a defendant in numerous lawsuits and is also subject to other claims. It has been the City's experience that lawsuits and claims are often settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Legal Department have estimated that the liability for all such litigation and claims approximates \$116.3 million for governmental activities.

**b. Grant Audits:** Several of the City's funds participate in a number of federally audited grant programs, principally the Community Development Block Grant, Low Income Housing Subsidies, Head Start, Job Training Partnership Act, DDS Work First/Edge, and Substance Abuse Programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to auditors including the year ended June 30, 2005 have not been conducted and/or completed. Accordingly, the funds' compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined as of June 30, 2005. Since the City believes such adjustments, if any, will not be material, no provision for possible adjustment has been made.

**c. Detroit Housing Commission Grant Audits (DHC):** Effective July 1, 2003, the City changed its presentation of the DHC to a discretely presented component unit of the City. In April of 2003, HUD issued a Management Review of the Detroit Housing Commission. This report outlined questioned costs and unappropriated expenses amounting to \$14,236,946. These amounts are summarized below:

Grant Name	Amount
Low Income Housing Grant	\$ 5,722,600
PHDEP	5,359,891
Capital Projects Grant	4,577,932
Total	15,660,423
Less: Amount not drawn down from HUD	(1,423,477)
	\$ 14,236,946

On May 16, 2001, the HUD Office of the Inspector General issued an Audit report concerning the HOPE VI Program. The report outlined \$18,291,476 in questioned costs due to HUD. Due to on-going negotiations, the balance of this liability is \$6,480,057 at June 30, 2005.

These liabilities were incurred while the DHC was reported as a department of the City; therefore, both of the questioned amounts of \$14,236,946 and \$6,480,057 have been recorded in the City's government-wide financial statements. The City is in the process of vigorously defending these questioned costs.

**d. Rate Matters:** The Sewerage Disposal Fund is a party to certain challenges and disputes related to its wastewater treatment rates by various groups and governmental entities. The challenges address the reasonableness of the overall revenue requirement to be attained, certain cost allocation methods, and ultimate amounts billed. Settlement discussions are ongoing and the ultimate resolution is not currently known.

(Continued)

Component Unit	Beginning Balance	Additions	Retirements	Ending Balance
<b>Non-Depreciable Assets</b>				
School District of the City of Detroit	\$ 55,431,463	\$ 14,394,596	\$ (10,660)	\$ 69,811,599
Land and Land Rights	433,500,072	15,192,166	(702,667)	448,989,571
Construction in Progress	497,927,675	39,586,742	(713,267)	516,801,150
<b>Total Non-Depreciable Assets</b>				
Depreciable:				
Buildings and Structures	1,009,763,305	139,599,832	(6,171,000)	1,143,191,137
Land Improvements	63,406,679	38,037,657	—	101,444,336
Buses and Other Vehicles	43,213,438	8,748,863	(7,350,000)	44,612,301
Machinery, Equipment and Fixtures	166,063,432	30,491,220	(14,982)	198,639,869
<b>Total Depreciable Assets</b>	1,282,446,254	216,873,571	(12,535,982)	1,486,783,843
<b>Total Capital Assets</b>	1,770,413,729	266,562,313	(13,249,239)	2,003,726,803
<b>Less Accumulated Depreciation:</b>				
Buildings and Structures	339,377,994	36,409,305	(1,180,711)	374,606,588
Land Improvements	10,918,892	3,748,108	—	14,667,000
Buses and Other Vehicles	27,172,099	3,791,381	(7,340,000)	23,623,480
Machinery, Equipment and Fixtures	37,953,026	27,240,644	(2,415)	65,191,255
<b>Total Accumulated Depreciation</b>	415,422,011	67,189,438	(8,530,726)	484,378,233
<b>Net Capital Assets</b>	\$ 1,355,041,718	\$ 199,372,875	\$ (4,718,513)	\$ 1,550,405,950

**Other Component Units:**

Land and Land Rights	\$ 38,032,013	\$ —	\$ —	\$ 38,032,013
Works of Art	3,216,175	—	—	3,216,175
Construction in Progress	39,407,376	673,354	(33,909,840)	6,271,170
<b>Total Non-Depreciable Assets</b>	70,715,564	673,354	(33,909,840)	47,519,338

Depreciable:				
Land and Land Rights	188,444	—	—	188,444
Buildings and Structures	236,145,291	—	—	236,145,291
Facility and Siting	513,623,297	—	—	513,623,297
Machinery, Equipment and Fixtures	300,137,376	13,578,861	(128,019)	313,588,220
Vehicles and Buses	383,024	—	—	383,024
<b>Total Depreciable Assets</b>	1,059,677,434	13,578,861	(128,019)	1,064,128,276
<b>Total Capital Assets</b>	1,121,633,998	14,332,215	(64,037,599)	1,111,867,634
<b>Less Accumulated Depreciation</b>	514,836,000	27,266,368	—	542,102,368
<b>Net Capital Assets</b>	\$ 606,847,998	\$ (13,012,153)	\$ (64,037,599)	\$ 569,877,266

(Continued)

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

e. **Block Grant Funds:** Several revitalization projects in the City have used a combination of financing from governmental and private sources. One of the sources of governmental financing has been Section 108 loan notes from the Federal Government. As of June 30, 2005, future Block Grant Funds of \$2,523,000 were pledged as collateral for the amounts owed to the Federal Government under Section 108 of the Housing and Community Development Act of 1974, as amended. In addition, the City was previously authorized to use Block Grant Funds totaling \$66,562,000 for the Central Industrial Park Project. At June 30, 2005, \$2,807,435 is outstanding against this advance.

f. **Greater Detroit Resource Recovery Authority (GDRAA):** In 1991, the GDRAA sold its waste-to-energy facility to private investors in a sale-leaseback transaction for \$634.9 million. The purchase price was paid with \$127 million in cash, mortgage notes of \$342.7 million, and future assumption of revenue bonds payable in the amount of \$165.2 million. The purchasers agreed to lease the facility to an outside contractor for an initial lease term of 18 years. The outside contractor will continue to operate the facility under a supplemental operating agreement with the GDRAA, which results in the GDRAA assuming most of the lease obligations. Upon expiration of the initial lease term, the GDRAA has options to renew the lease or to repurchase the facility. The City, under the supplemental service contract, has agreed to pay supplemental tipping fees to the GDRAA sufficient to, among other things, meet these obligations. The lease payments approximate the amortization of the mortgage notes. The cash proceeds from the sale of the facility will be reported as a finance obligation until the GDRAA's repurchase option is exercised or expires, at which time the gain on the sale will be recognized. Additionally, in 1991 the GDRAA distributed \$54 million of the cash proceeds to the City, which was reflected as a reduction of the GDRAA's equity.

Future minimum lease payments for each of the next four years for the initial lease term are as follows: 2006 - \$51,419,062; 2007 - \$52,521,466; 2008 - \$34,719,333 and 2009 - \$34,719,333 (expiration year).

g. **Other Contingencies:** The General Fund has a contingent liability for the obligations of all other City funds should such funds be unable to generate sufficient funds to liquidate their liabilities. In particular, the Airport, Detroit Transportation Corporation, and Transportation Fund have received varying levels of subsidy from the General Fund to fund operating requirements.

h. **Construction Commitments:** The City has commitments for future construction contracts. Construction in progress and remaining commitments at June 30, 2005 are as follows:

	Spent to June 30, 2005	Remaining
Public protection	\$ 62,171,273	\$ 95,565,766
Municipal facilities	46,023,951	6,347,120
Cultural and recreational	11,813,976	7,397,993
Human services	1,288,329	2,465,326
Municipal services	1,755,560	1,089,108
	\$ 223,053,089	\$ 112,865,253

i. **Risk Management:** The City is exposed to various risks of losses related to: theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. During fiscal 1995, the City issued \$100 million of Self-Insurance Bonds, and a portion of proceeds were used to reimburse the General Fund for all of its fiscal 1995 legal judgments and workers' compensation claim payments (\$41 million). The bonds require that remaining funds be used for self-insurance activities. The City is self-insured for losses such as workers' compensation, legal, and disability benefits. The City currently reports the risk management activities of non-Enterprise Funds and Transportation Fund in its General Fund. Each fund pays insurance premiums to the General Fund based on past claims activities. Amounts remaining related to self-insurance have been reserved. Because Transportation Fund is included in the General Fund's risk management activities, it does not record a liability in its financial statements.

Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. The Library, a discretely presented component unit, reimburses the City for all costs incurred related to workers' compensation. The Library records the liability in its financial statements.

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City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

At June 30, 2005, the amount of the workers' compensation, legal claims and judgments, and disability benefits was estimated at \$181.2 million for the primary government. The City has recognized a liability that approximated \$7.0 million in the General Fund as of June 30, 2005 for public liability and workers' compensation claims that were due as of year-end. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements. This liability is the City's best estimate based on available information. Changes in the reported liability for the years ended June 30, 2005 and 2004 were as follows:

	(In Millions)	June 30, 2005	June 30, 2004
Balance at Beginning of Year	\$	187.3	\$ 178.8
Current Year Claims and Changes in Estimates		60.8	117.7
Claims Payments		(65.9)	(109.2)
Balance at End of Year	\$	181.2	\$ 187.3

Claims, expenditures, and liabilities are reported in accordance with GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Retired Insurance Issues* (as amended by GASB No. 17), when it is probable that an asset has been impaired or a liability has been incurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

As a result of the issuance of the Self-Insurance Bonds and the operations of the Self-Insurance Reserve Fund, at June 30, 2005 the General Fund has reserved \$29.2 million for the purpose of funding the City's future claims liabilities.

Other Commitments: The City has entered into various noncancelable operating leases for various equipment. The commitments under such lease agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending:	
2006	\$ 8,415,372
2007	5,486,898
2008	4,716,654
2009	2,748,140
2010	1,995,707
Total Minimum Payments	\$ 23,168,771

Rental expense for all operating leases approximated \$18.4 million for the year ended June 30, 2005.

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage.

3. **Short-Term Revenue Anticipation Notes:** In June 2005, the City issued \$54,445,000 (Series 2005) in Revenue Anticipation Notes (RANS). The notes are due on April 3, 2006 and bear interest at 4.00% per year. The notes are not subject to redemption prior to maturity. The Notes were issued to pay necessary operating expenditures and to pay the costs of issuance with respect to the Notes.

4. **Long-Term Obligations**

**Governmental Activities:**

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, Act 179 Public Acts of Michigan, 1999, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City, or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities.

(Continued)

**Business-type Activities**

**Sewage Disposal Fund:**

The outstanding indebtedness of the Sewage Disposal Fund was \$2,653,826,572 at June 30, 2005. The interest rates on the outstanding bonds range from 4.2% to 6.5%. Net revenues of the Sewage Disposal Fund are pledged to repayment of the bonds. In fiscal 2005, the Fund issued \$273,355,000 of City of Detroit, Michigan Sewage Disposal System Revenue Second Lien Bonds, Series 2005-A; \$40,215,000 of City of Detroit, Michigan Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-B; \$63,160,000 of City of Detroit, Michigan Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-C. The net proceeds were used to refund a portion of the City's outstanding Sewage Disposal System Revenue Bonds and Revenue Refunding Bonds and to pay cost of issuance associated with the 2005 Bonds.

The net proceeds of the Sewage System Revenue Second Lien Bond, Series 2005-A will be used (a) to deposit into the Constitution Fund, and (b) for the payment of the related costs of issuance, including the premium for the municipal bond insurance.

The net proceeds of the Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-B were used (a) to advance-refund \$ 22,355,000 principal amount of the City's Sewage Disposal System Senior Lien Bonds, Series 1997-A comprised of serial bonds maturing in the year 2022; (b) the "Advance Refunded 1997-A Bonds" with an average interest rate of 5%; (c) to advance refund \$ 115,000, 1999-A Sewage Disposal System Senior Lien Bonds, maturing 2011 and \$1,425,000, 1999-B Sewage Disposal System Senior Lien Bonds, maturing 2012; (d) the "Advance Refunded 1999-A Bonds" with an average interest rate of 5.20% and 5.25% respectively; (e) to advance refund \$2,215,000, 2000-A Sewage Disposal System Senior Lien Bonds maturing 2014 and \$ 8,470,000 Sewage Disposal System Senior Lien Bonds maturing 2015 (the "Advance Refunded 2000-A Bonds" and "Advance Refunded 2000-A Bonds") with an average interest rate of 5.0%, and (f) to pay the related costs of issuance, including the premium for the bond insurance.

The proceeds of the Sewage Disposal System Revenue Refunding Second Lien Bonds, Series 2005-C will be used (a) to advance refund \$ 6,710,000 principal amount of the City's Sewage Disposal System Senior Lien Bonds, Series 1995-A bonds maturing in the year 2025 (the "Current Refunded Bonds 1995A") with an average interest rate of 5.0% (b) "Refunded 1997-A Bonds" with an average interest rate of 5.0%, (c) to refund principal amounts of the City's Sewage Disposal System Senior Lien Bonds, Series 1995-B bonds with principal amounts of \$ 2,400,000 maturing in the year 2008, Series 1995-B bonds with principal amounts of \$ 20,410,000 maturing in the year 2015, and Series 1995-B bonds with principal amount of \$ 36,603,000 maturing in the year 2021. (d) With average interest rate of 5.25% (the "Advance Refunded Bonds") and, collectively with the Refunded 1995-A Bonds, the "Refunded Bonds"; and (e) for the payment of the related costs of issuance, including the premium for the municipal bond insurance.

These refunded securities were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on the Currently Refunded 1995-A Bonds when due to and including July 1, 2005, the refunded 1997-A Bonds, due July 1, 2007, the 1999-A bonds due January 1, 2010 and the Refunded 2000-A bonds due July 1, 2013 at 100% 101%.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$8,987,394. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$6,143,299.

In prior years, the Sewer Fund defused certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account's assets and liabilities for the defused bonds are not included in its financial statements. Similarly, the interest expensed related to the defused bonds and the related interest earned on the escrow fund investments have not been recognized in the statements of Revenues, Expenses, and Changes in Fund Net Assets. As of June 30, 2005, approximately \$491,330,000 of bonds outstanding are considered defused.

Bonds outstanding at June 30, 2005 include \$2,318,471,573 of bonds callable at various dates after June 30, 2005. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

(Continued)

In August 2004, the City issued \$41,325,000 of Unlimited Tax General Obligation Bonds to finance various capital projects; the bonds are fully insured in April 2024, with an average yield of 4.22%. Refunding Bonds were issued in the amount of \$70,355,000 to advance refund \$69,160,000 of previously issued Unlimited Tax General Obligation Bonds. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$1,195,000. This difference, reported in the financial statements as a deduction from bonds payable, is being charged through the year 2018 using the straight-line method.

In August 2004, the City issued \$62,285,000 of Limited Tax General Obligation Bonds to fund the Risk Management Fund. The bonds fully mature in April 2014, with an average yield of 4.70%.

In January 2005, the City issued \$81,050,000 in Refunding Bonds that were issued to advance refund \$81,230,000 of previously issued Unlimited Tax General Obligation Bonds. The bonds fully mature in April 2011, with an average yield of 3.51%. The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$180,000. This difference, reported in the financial statements as an increase to bonds payable, is being charged through the year 2011 using the straight-line method.

In June 2005, the City issued \$87,030,000 of Limited Tax General Obligation Bonds to finance capital improvement projects. The bonds fully mature in April 2025, with an average yield of 3.24%. Refunding Bonds in the amount of \$11,785,000 were issued to advance refund \$11,410,000 of previously issued Limited Tax General Obligation Bonds. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$375,000. This difference, reported in the financial statements as a deduction from bonds payable, is being charged through the year 2021 using the straight-line method.

The net savings (loss) from refundings and the related economic gains are as follows:

	Series 2004-B	Series 2005-A	Series 2005-B
Cash flow requirements to service old debt	\$ 96,358,370	\$ 96,378,645	\$ 18,431,130
Less cash flow requirements for new debt	102,618,911	93,009,489	17,795,183
Net savings (loss) from refunding	(6,260,541)	3,569,156	637,947
Economic Gain	\$ 423,241	\$ 2,988,078	\$ 728,146

In prior years, the City defused certain bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defused debt are not included in the City's financial statements. The amount of defused debt outstanding at June 30, 2005 approximated \$193.0 million.

In June 2005, the City issued Pension Obligation Certificates of Participation (POC's) to fund certain unfunded accrued actuarial liabilities. The Governmental Activities was allocated an obligation of \$1,170,607,422 out of the total obligation of \$1,460,000,000. See the Pension Obligation Certificates of Participation footnote B.4.F for further disclosure.

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City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

In June 2005, the City issued Pension Obligation Certificates of Participation (POCs) to fund certain unfunded accrued actuarial liabilities. The Sewerage Disposal Fund was allocated an obligation of \$8,760,811 out of the total obligation of \$1,440,000,000. See the Pension Obligation Certificates of Participation Footnote B.A.F. for further disclosure.

**Transportation Funds:**

In June 2005, the City issued Pension Obligation Certificates of Participation (POCs) to fund certain unfunded accrued actuarial liabilities. The Transportation Fund was allocated an obligation of \$103,083,553 out of the total obligation of \$1,440,000,000. See the Pension Obligation Certificates of Participation Footnote B.A.F. for further disclosure.

**Capital Leases:** During the year ended June 30, 2005 the Fund entered into a capital lease agreement with GE Capital Public Finance, Inc. to lease 121 buses and received 102 of the 121 buses. The book value of the 102 buses under capital lease was \$31,005,662 as of June 30, 2005. The annual interest rate of the lease is 4.12% for 19 buses and 4.22% for 83 buses. The capital lease has been recorded at the present value of the future minimum lease payments as of the date of their inception. The present value of future minimum capital lease payments, interest, and the minimum annual lease payment for the 102 buses received as of June 30, 2005 is as follows:

Year	Minimum Lease Payment Includes (principal and interest)
2006	\$ 3,977,397
2007	3,977,397
2008	3,977,397
2009	3,977,397
2010	3,977,397
2011-2015	19,847,056
	39,734,041
	(7,623,115)
	\$ 32,110,926

The actual purchase price of the 102 buses, leased by the fund, is \$31,438,223; a total of \$572,703 less than above lease amount. City's Finance Department will amend the lease agreement and return the \$572,703 plus interest to the lessor, which is recorded as a liability.

The Fund is required to hold \$11.3 million, equal to the lease proceeds not spent on the buses as of June 30, 2005.

**Water Fund:**

The outstanding indebtedness of the Water Fund for revenue bonds was \$1,991,615,000 at June 30, 2005. The interest rates on the outstanding, fixed-rate revenue bonds range from 4.30% to 6.38%. Net revenues of the Fund are pledged to repayment of bonds.

In fiscal 2005, the Fund issued \$105,000,000 of City of Detroit, Michigan Water Supply System Revenue Senior Lien Bonds, Series 2005-A; \$195,000,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Senior Lien Bonds (Variable Rate Demand), Series 2005-B; and \$126,005,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Senior Lien Bonds, Series 2005-C. The net proceeds were used to refund a portion of the City's outstanding Water Supply System Revenue Bonds and Revenue Refunding Bonds and to pay costs of issuance associated with the 2005 Bonds.

The net proceeds of the Water Supply System Revenue Senior Lien Bond, Series 2005-A of \$97,314,500 (net of capitalized interest of \$8,611,516 and bond underwriting fees, insurance and other costs of issuance of \$2,119,542) were used to purchase US Government Securities.

The net proceeds of the Water Supply System Revenue Senior Lien Bond (variable rate demand), series 2005-B of \$176,783,879 (net of capitalized interest of \$16,096,578 and underwriting fees, insurance and other issuance cost of \$2,119,542) were used to purchase U.S. Government Securities.

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

The proceeds of the Revenue Refunding Senior Lien Bonds, Series 2005-C will be used to (a) to advance-refund \$69,283,000 principal amount of the City's Water Supply Revenue Senior Lien Bonds, Series 1997-A comprised of serial bonds maturing in the years 2010, 2016 and 2017; the 2018 through 2021 mandatory redemption payment for serial 1997-A term bonds maturing July 1, 2027 (the Refunded 1997-A Bonds) with an average interest rate of 5.5% (b) to refund \$56,700,000 principal amount of the City's Water Supply System Revenue Senior Lien Bonds, Series 1999-A bonds maturing in the years 2011 through 2018 with interest rate of 7.48% (the "Refunded 1999-A Bonds" and collectively with the Refunded 1997-A Bonds, the "Refunded bonds") and (c) for payment of the related costs of issuance, including the premium for the municipal bond insurance.

Those refunded securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded 1999-A Bonds when due to including July 1, 2010 and return the Refunded 1997-A Bonds on July 1, 2007 at 101%.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt obligations through the year 2024 using the straight-line method. The Water Fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,567,184.

In prior years, the Water Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Fund's financial statements. Similarly, the interest expenses related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the Statements of Revenues, Expenses, and Changes in Fund Net Assets. As of June 30, 2005 approximately \$511,265,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2005 include \$1,792,483,000 of bonds callable at various dates after June 30, 2005. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

In June 2005, the City issued Pension Obligation Certificates of Participation (POCs) to fund certain unfunded accrued actuarial liabilities. The Water Fund was allocated an obligation of \$157,548,214 out of the total obligation of \$1,440,000,000. See the Pension Obligation Certificates of Participation Footnote B.A.F. for further disclosure.

Subsequent to year-end, the Fund received loans from the Michigan Municipal Bond Authority State Revolving Loan Fund Program in the amount of \$25,975,000 for the construction of facilities.

**Automobile Parking Funds:**

The outstanding indebtedness of the Parking Fund was \$60.8 million at June 30, 2005. The interest rates on the outstanding fixed-rate revenue refunding bonds range from 4.50% to 7.75%.

**Compensated Utilities:**

As of June 30, 2005, the School District had \$1,711 billion in bonds outstanding, plus \$40.3 million in unamortized bond premium, for a total of \$1,751 billion.

In April 2005 the School District refinanced Series 2003B bonds of \$310 million in short-term State Aid Anticipation Notes outstanding as of June 30, 2004 with a multi-year payment agreement with a lending institution as allowed by State law (Section 1225 of the Michigan Code). This refinancing was part of an overall deficit elimination plan approved by the State in February 2005. The terms of the issuance of this long-term debt require among other things, that the School District maintain a positive General Fund balance. As of June 30, 2005, the School District is in full compliance with all related debt covenants.

In prior years, the District defeased certain bonds by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the financial statements. The amount of defeased debt outstanding at June 30, 2005 approximated \$63.3 million.

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City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

a. The following is the schedule of the Bonds Payable at June 30, 2005

Municipality	Bond Date	Period Year Ended June 30, 2005		Interest Rate	Range of Interest Rates	Outstanding at June 30, 2005	
		Amount Issued	Amount			Balance	Due
General Obligation Bonds - Unlimited Tax	Series 1999-B	\$ 181,510,000.0	Various	5.20 to 5.375%	4/1/08-11	\$ 5,990,000	e
	Series 1996-A	21,191,000	Various	5.00	4/1/2005	180,500	e
	Series 1996-B	1,350,000	4.90	5.10 to 5.50	4/1/07-15	3,197,500	e
	Series 1996-B	31,675,000	Various	5.00	4/1/08-18	29,120,000	e
	Series 1997-A	29,800,000	Various	5.00	5/01/07	515,000	e
	Series 1997-B	12,860,000	Various	5.20	3/01/05-12/31/08-14	19,245,000	e
	Series 1999-A	44,100,000	Various	5.00 to 5.25	4/1/08-09	32,100,000	e
	Series 1999-B	30,375,000	Various	5.00	4/1/08-09	3,825,000	e
	Series 2000-A	9,270,000	Various	5.25 to 5.875	4/1/10-14	12,550,000	e
	Series 2000-A	1,335,000	Various	5.75	4/1/09	1,335,000	e
	Series 2001-A(1)	16,800,000	Various	3.80 to 5.50	4/1/07-11	8,395,000	e
	Series 2001-A(1)	8,200,000	Various	5.0 to 5.375	4/1/13-21	9,200,000	e
	Series 2001-A(2)	5,000,000	Variable	Variable	4/1/22	2,900,000	e
	Series 2001-B	2,560,000	Various	5.50	4/1/09-11	17,660,000	e
	Series 2001-B	3,335,000	Various	5.375	4/1/13-14	2,375,000	e
	Series 2001-B	13,940,000	Various	4.00	4/1/10	1,800,000	e
	Series 2002	31,160,000	Various	4.00 to 5.50	4/1/11-22	3,110,000	e
	Series 2004	7,845,000	Various	3.70 to 5.00	4/1/10-12	7,985,000	e
	Series 2007-A	30,935,000	Various	4.00 to 5.25	4/1/13-23	16,935,000	e
	Series 2008	10,770,000	Various	3.015 to 4.00	4/1/06	187,000	e
	Series 2004-4(1)	2,655,000	Various	4.25 to 6.25	4/1/15-24	327,000	e
	Series 2004-4(1)	1,175,000	Various	3.75 to 4.00	4/1/15	3,515,000	e
	Series 2004-4(1)	45,640,000	Various	3.25 to 5.21	4/1/13-18	45,540,000	e
Series 2004-4(1)	11,720,000	Various	3.87 to 5.25	4/1/06-18	11,270,000	e	
Series 2004-A	81,026,000	Various	5.00	4/1/06-11	81,060,000	e	
Durhamville Sewer Authority Bonds	Series 1997	124,675,000	5.00	5/10 to 5.25	5/1/07-09	36,755,000	e
Total General Bonds - Unlimited Tax						\$ 279,920,000	

1. Interest rate equal to the Dutch Auction Rate.  
2. Interest rate equal to the Dutch Auction Rate. The rate of funds shall be the rate named by the registered holder of the bonds.  
e - indicates bonds are callable under terms specified in the statement all other bonds are noncallable

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

a. The following is the schedule of the Bonds Payable at June 30, 2005

Municipality	Bond Date	Period Year Ended June 30, 2005		Interest Rate	Range of Interest Rates	Outstanding at June 30, 2005	
		Amount Issued	Amount			Balance	Due
General Obligation Bonds - Limited Tax	Series 2001	\$ 98,095,000	5.00	5.2 to 4.975%	5/1/05-13	\$ 98,095,000	e
	Series 2001	61,230,000	5.00	3.52 to 4.25	4/1/04-14	62,165,000	e
	Series 1997	3,200,000	5.25	5.15 to 5.20	7/1/05-06	1,210,000	e
	Series 2002-A	11,665,000	5.625	5.25 to 6.25	7/1/06-19	985,000	e
	Series 2002-A	21,710,000	5.00	5.00	4/1/06-07	27,910,000	e
	Series 2004	41,960,000	5.00	2.00 to 3.00	4/1/06-09	37,860,000	e
	Series 2004-4(1)	61,070,000	5.00	3.00 to 3.00	4/1/06-09	61,070,000	e
	Series 2005-A(1)	21,310,000	5.00	4.37 to 4.53	4/1/06-15	21,310,000	e
	Series 2005-A(1)	52,175,000	5.00	4.91 to 5.15	4/1/06-15	52,175,000	e
	Series 2005-B	4,025,000	5.00	3.50 to 4.50	4/1/06-15	4,025,000	e
	Series 2005-B	9,475,000	5.00	4.00 to 5.00	4/1/06-15	9,475,000	e
	Series 2005-B	4,945,000	5.00	3.25 to 5.00	4/1/06-15	4,945,000	e
	Series 2005-B	6,940,000	5.00	5.00	4/1/06-15	6,940,000	e
Total General Bonds - Limited Tax						\$ 382,045,000	
Total General Bonds						\$ 671,895,000	
Detroit Building Authority Bonds	District Court Mission Center Project Series 1996 A	2,770,000	6.15	6.15	7/1/06/06	1,045,000	e
	Series 1996 B	72,300,000	6.15	6.15	7/1/07-11	72,300,000	e
	Series 1996 B	1,000,000	Variable	Variable	7/1/11	1,000,000	e
	Series 1996 B	6,910,000	7.97	7.97	7/1/06-06	6,910,000	e
	Total Detroit Building Authority Bonds						\$ 921,563
Total General Obligation Bonds						\$ 773,458,563	
Revenue Bonds						\$ 507,895,000	
Convention Facility Limited Tax Revenue Bonds-Cobo Hall Expansion						\$ 34,165,000	
Series 1993	167,000,000	5.10	5.125 to 5.25	9/1/93	9,900,000	e	
Series 2003	90,831,138	2.00	3.00 to 5.00	9/18-03	9,900,000	e	
Total Convention Facility Limited Tax Revenue Bonds-Cobo Hall Expansion						\$ 19,800,000	
Total Bonds						\$ 1,023,830,563	

e - indicates bonds are callable under terms specified in the indenture all other bonds are noncallable

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

Retired Year Ended  
June 30, 2005

Business Type Activities	Bond Date	Amount Issued	Interest Rate	Outstanding June 30, 2005	
				Account	Minority Interest

Business Type Activities	Bond Date	Amount Issued	Interest Rate	Account	Minority Interest
<b>Water Supply System Revenue Bonds (Note A)</b>					
Series 1995-A	10-15-95	\$ 38,225,000	4.75%	\$ 2,455,000	\$ 711,615
Series 1995-B	10-15-95	102,100,000	4.80	2,455,000	711,615
Series 1995-C	10-15-95	60,485,000	4.80	5,005,535	1,025,122
Series 1995-D	8-1-97	29,980,000	5.00	3,155,000	54,800,000
Series 1997-A	8-1-97	186,230,000	5.25	4,010,000	1,645,000
Series 1997-B	8-1-97	30,555,000	4.80 to 5.25	69,215,000	116,935,000
Series 1997-C	8-1-97	18,900,000	6.00	6,985,000	15,055,000
Series 1999-A	11-1-99	18,900,000	4.50	2,000,000	10,900,000
Series 2001-A	5-1-01	218,240,000	Variable	56,700,000	7,200,000
Series 2001-B	5-1-01	302,485,000	4.50 to 5.75	-	108,981,000
Series 2001-C	6-7-01	182,935,000	Variable	385,000	191,900,000
Series 2001-D	1-28-03	254,205,000	4.75 to 5.25	-	294,825,000
Series 2001-E	1-28-03	172,945,000	4.00 to 5.25	-	172,945,000
Series 2001-F	1-28-03	461,335,000	2.00	3,410,000	19,844,000
Series 2001-G	1-28-03	151,770,000	Variable	405,000	150,810,000
Series 2004-A	5-04-04	770,010,000	Variable	-	163,940,000
Series 2004-B	5-04-04	163,900,000	Variable	-	163,900,000
Series 2006-A	3-11-06	187,335,000	3.85 to 5.00	-	86,375,000
Series 2006-B	3-11-06	187,335,000	Variable	-	198,000,000
Series 2006-C	3-11-06	187,335,000	Variable	-	198,000,000
Series 2006-D	3-11-06	187,335,000	3.00 to 5.00	-	26,000,000
Series 2006-E	3-11-06	187,335,000	5.00	-	99,335,000
<b>Total Water Supply System Revenue Bonds</b>				<b>\$ 1,991,815,000</b>	

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

Retired Year Ended  
June 30, 2005

Business Type Activities	Bond Date	Amount Issued	Interest Rate	Account	Minority Interest
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Business Type Activities	Bond Date	Amount Issued	Interest Rate	Account	Minority Interest
<b>Automobile Parking Fund</b>					
Detroit Building Authority Bonds - Revenue Refunding Bonds					
Parking & Arena System-Series 1997	2-15-97	\$ 3,050,000	4.625%	\$ 355,000	\$ 71,025-06
Parking & Arena System-Series 1997	2-15-97	31,695,000	6.68	4,335,000	6,88 to 6.79
Parking & Arena System-Series 1998	7-1-98	8,385,000	4.50	965,000	4.50 to 5.25
Parking & Arena System-Series 1998	7-1-98	18,615,000	Variable	-	71,025-07
Parking & Arena System-Series 1999	10-22-99	29,900,000	Variable	400,000	71,028-19
<b>Total Detroit Building Authority Revenue Refunding Bonds</b>				<b>\$ 4,708,000-571</b>	
<b>Total Business-type Bonds</b>				<b>\$ 2,000,000,000</b>	

Note A: Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Fund Loan Program. At the System shows additional amount from time to time thereafter, the outstanding principal amount of such bonds will correspondingly increase.

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

Retired Year Ended  
June 30, 2005

Business Type Activities	Bond Date	Amount Issued	Interest Rate	Account	Minority Interest
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Business Type Activities	Bond Date	Amount Issued	Interest Rate	Account	Minority Interest
<b>Sewerage Disposal Fund</b>					
Sewer Disposal System Revenue Bonds (note B)					
Series 1992-A-SRF (9/64-01)	9-10-92	\$ 43,060,000	2.00%	\$ 290,000	\$ 1,035,000
Series 1992-B-SRF (9/70-01)	9-30-91	1,915,000	2.00	94,000	2,00
Series 1992-C-SRF (9/70-01)	9-30-91	6,693,996	2.00	320,000	10,010-13
Series 1992-D-SRF (9/70-01)	11-1-94	122,030,000	5.00	6,270,000	10,010-14
Series 1995-A	11-1-95	65,880,000	Variable	61,215,000	2,665,000
Series 1995-B	11-1-95	55,625,000	6.00	4,690,000	71,065-31
Series 1997-A	6-15-97	206,699,000	Variable	22,385,000	31,235,000
Series 1997-B-SRF (5/12-01)	9-30-97	5,602,174	2.25	240,000	71,065-32
Series 1997-C	12-10-98	69,000,000	4.51	400,000	71,065-33
Series 1998-A	12-10-98	66,935,000	4.51	300,000	71,065-34
Series 1998-B	6-30-99	21,475,000	2.50	925,000	41,065-30
Series 1999-SRF-1 (5/13-01)	9-30-99	46,000,000	2.50	1,840,000	10,065-30
Series 1999-SRF-2 (5/14-01)	9-30-99	31,000,000	2.50	1,305,000	10,065-30
Series 1999-SRF-3 (5/14-01)	9-30-99	40,855,000	2.50	1,710,000	34,065,000
Series 1999-A	12-1-99	725,000	Variable	-	15,155,000
Series 1999-B	12-1-99	294,770,178	Variable	3,940,000	34,068,179
Series 2000-SRF-1 (5/14-07)	9-30-00	51,675,000	2.50	21,400,000	42,628,275
Series 2000-SRF-2 (5/15-03)	9-30-00	65,000,000	2.50	2,600,000	50,941,582
Series 2001-SRF-1 (5/15-03)	6-28-01	82,300,000	2.50	10,005,34	82,300,000
Series 2001-SRF-2 (5/15-04)	6-28-01	51,193,868	2.50	10,005-34	93,850,000
Series 2001-A	9-15-01	763,735,000	5.00 to 6.13	-	763,735,000
Series 2001-B	9-15-01	110,540,000	Variable	-	110,540,000
Series 2001-C(1)	9-23-01	127,185,000	Variable	360,000	196,230,000
Series 2001-C(2)	9-23-01	52,450,000	Variable	235,000	124,940,000
Series 2001-D	9-23-01	139,880,000	Variable	-	92,950,000
Series 2001-E	10-27-01	16,983,000	2.50	760,000	19,080,000
Series 2002-SRF-1 (5/14-01)	10-27-01	1,970,000	2.50	80,000	17,980,000
Series 2002-SRF-2 (5/14-01)	10-27-01	43,740,000	2.50	1,010,000	1,980,249
Series 2002-SRF-3 (5/15-03)	12-1-02	159,000,000	3.00	21,560,000	12,555,979
Series 2003-A	5-22-03	441,380,000	5.00	16,685,000	13,333,000
Series 2003-B	5-22-03	150,000,000	Variable	-	43,655,000
Series 2003-C	5-22-03	35,800,000	2.50	-	150,000,000
Series 2003-D	9-25-03	101,635,000	2.00	570,000	29,529,874
Series 2004-A	1-14-04	29,010,000	2.125	-	18,298,014
Series 2004-SRF-1 (5/14-05)	6-24-04	18,690,000	2.125	-	10,655,000
Series 2004-SRF-2 (5/14-05)	6-24-04	12,920,000	2.125	-	6,064,547
Series 2005-A	3-17-05	3,765,000	2.75 to 3.70	-	4,691,474
Series 2005-B	3-17-05	269,290,000	3.75 to 5.125	-	3,765,000
Series 2005-C	3-17-05	40,215,000	2.40 to 5.00	-	369,590,000
Series 2005-D	3-17-05	27,665,000	2.40 to 5.00	-	40,215,000
Series 2005-E	3-17-05	41,295,000	5.00	-	22,035,000
<b>Total Sewerage Disposal System Revenue Bonds</b>				<b>\$ 2,663,336,571</b>	

e - indicates bonds are callable under terms specified in the indentures; all other bonds are noncallable

b. The following is the schedule of Notes Payable at June 30, 2005:

Governmental Activities/Notes Payable	Issue Date	Interest Rate	Maturity Date	Amount Outstanding June 30, 2005
Urban Renewal Fund				
Curse Parametrical Project (Secured by Future Block Grant Revenue)	8/1/2003	1.25 to 4.16 %	8/1/2008	\$ 3,350,000
Ferry Street Project (Secured by Future Block Grant Revenue)	4/18/1999	5.28 to 6.12	8/1/04-19	3,415,000
Garfield Project (Secured by Future Block Grant Revenue)	6/5/1996	6.47 to 7.60	8/1/03-15	1,840,000
Riverfront Project (Secured by Future Block Grant Revenue)	6/5/1995	6.29 to 7.60	8/1/03-15	605,000
Riverview Project (Secured by Future Block Grant Revenue)	10/26/1997	6.11 to 7.08	8/1/03-16	408,000
Stuwestone Project (Secured by Future Block Grant Revenue)	8/1/1993	6.11 to 7.10	8/1/03-16	315,000
New Amherst Project (Secured by Future Block Grant Revenue)	8/1/1993	4.18 to 6.12	8/1/03-16	9,700,000
McIntosh Wellness Center Project (Secured by Future Block Grant Revenue)	1/12/2005	1.00% Pw 2%	8/1/03-14	7,789,500
Total Notes Payable				\$ 27,993,500

c. The following is the schedule of Loans Payable at June 30, 2005:

Governmental Activities/Loans Payable	Issue Date	Interest Rate	Maturity Date	Amount Outstanding June 30, 2005
Downtown Development Authority				
Loans Payable - 000	1/24/1997	%	7/1/05-2/1/09	\$ 3,600,000
Loans Payable - 010	10/20/2003	1.50	7/1/05-11/1/08	1,891,116
Loans Payable - 011	10/20/2003	1.80	7/1/05-11/1/08	7,459,520
Loans Payable - 012	11/15/2003	3.65	8/1/05-4/1/09	381,401
Loans Payable - 013	4/2/2004	3.61	7/1/05-6/1/14	1,178,881
Loans Payable - 014	4/2/2004	4.07	7/1/05-6/1/09	438,895
Loans Payable - 015	5/14/2004	4.07	7/1/05-11/1/07	1,215,556
Loans Payable - 021	5/1/2005	4.08	7/1/05-3/1/08	153,181
Total Loans Payable				\$ 13,327,550

d. The following is the schedule of Bonds Authorized and Unissued at June 30, 2005:

Authorized (Not A)	Authorized Amount	Unissued Amount
General Obligation Bonds (Tax Supported)		
Sewer Construction	8/2/1960	\$ 50,000,000
Public Safety	11/4/1977	15,000,000
Public Safety	11/7/2000	12,000,000
Public Safety	11/2/2004	120,000,000
Municipal Facilities	11/7/2000	18,000,000
Neighborhood/Economic Development	11/7/2000	30,000,000
Public Lighting	11/2/2004	19,000,000
Recreation, Zoo, Cultural	11/7/2000	30,000,000
Public Lighting	11/2/2004	17,000,000
Recreation, Zoo, Cultural	11/2/2004	42,000,000
Institute of Art	11/2/2004	23,000,000
Riverfront	11/6/2001	23,000,000
Museum of African American History	4/29/2003	6,000,000
Transportation	11/2/2004	32,000,000
Total Bonds Authorized - Unissued		\$ 300,000,000

Note A - The structure reported in the schedule for the Street Construction (See Schedule (A) December 1, 1975) has been reported in the schedule of Bonds Authorized and Unissued as of December 1, 2005. The liability in the schedule is based on the amount of principal outstanding as of December 1, 2005.

e. Summary of Annual Principal and Interest Requirements for Bonds, Notes, and Other Debt Payable:

Year Ending	Primary Government Principal				Business-type Activities				Total
	Governmental Activities	Sewage Disposal	Water	Autonomous	Governmental	Sewage Disposal	Water	Autonomous	
2006	\$ 85,386,083	\$ 500,035,000	\$ 24,595,000	\$ 166,811,083	\$ 85,386,083	\$ 500,035,000	\$ 24,595,000	\$ 166,811,083	
2007	86,524,015	511,800,000	25,335,000	170,369,015	86,524,015	511,800,000	25,335,000	170,369,015	
2008	91,540,094	51,180,000	25,970,000	170,369,094	91,540,094	51,180,000	25,970,000	170,369,094	
2009	119,400,236	59,449,128	34,653,000	213,502,364	119,400,236	59,449,128	34,653,000	213,502,364	
2010	120,400,246	59,685,152	211,423,000	211,423,000	120,400,246	59,685,152	211,423,000	211,423,000	
2011-2015	378,447,684	312,348,398	261,685,000	952,481,082	378,447,684	312,348,398	261,685,000	952,481,082	
2016-2020	186,118,196	352,125,636	261,685,000	799,928,832	186,118,196	352,125,636	261,685,000	799,928,832	
2021-2025	107,935,000	391,953,259	318,663,000	818,551,259	107,935,000	391,953,259	318,663,000	818,551,259	
2026-2030	-	568,030,000	437,670,000	1,005,700,000	-	568,030,000	437,670,000	1,005,700,000	
2031-2035	-	660,365,000	504,765,000	1,165,130,000	-	660,365,000	504,765,000	1,165,130,000	
2036	-	95,240,000	121,580,000	216,820,000	-	95,240,000	121,580,000	216,820,000	
Total	\$ 1,178,995,624	\$ 2,653,826,573	\$ 1,991,616,000	\$ 5,824,438,197	\$ 1,178,995,624	\$ 2,653,826,573	\$ 1,991,616,000	\$ 5,824,438,197	

Year Ending	Interest				Business-type Activities				Total
	Governmental Activities	Sewage Disposal	Water	Autonomous	Governmental	Sewage Disposal	Water	Autonomous	
2006	\$ 39,460,814	\$ 90,230,074	\$ 6,000,412	\$ 135,691,300	\$ 39,460,814	\$ 90,230,074	\$ 6,000,412	\$ 135,691,300	
2007	51,431,721	102,210,480	61,891,173	215,533,374	51,431,721	102,210,480	61,891,173	215,533,374	
2008	52,531,115	98,027,232	67,296,676	217,855,023	52,531,115	98,027,232	67,296,676	217,855,023	
2009	47,029,128	98,027,232	66,688,355	211,744,715	47,029,128	98,027,232	66,688,355	211,744,715	
2010	41,913,593	95,677,200	66,023,355	203,614,148	41,913,593	95,677,200	66,023,355	203,614,148	
2011-2015	136,000,058	443,983,637	317,597,299	897,580,994	136,000,058	443,983,637	317,597,299	897,580,994	
2016-2020	54,803,859	412,220,438	278,601,023	1,245,635,320	54,803,859	412,220,438	278,601,023	1,245,635,320	
2021-2025	9,933,333	316,014,823	236,487,594	562,435,750	9,933,333	316,014,823	236,487,594	562,435,750	
2026-2030	-	221,539,056	171,383,750	392,922,806	-	221,539,056	171,383,750	392,922,806	
2031-2035	-	82,278,407	64,708,680	147,000,000	-	82,278,407	64,708,680	147,000,000	
2036	-	1,642,000	1,853,380	3,495,380	-	1,642,000	1,853,380	3,495,380	
Total	\$ 460,207,628	\$ 1,928,798,441	\$ 1,303,134,892	\$ 4,692,171,841	\$ 460,207,628	\$ 1,928,798,441	\$ 1,303,134,892	\$ 4,692,171,841	

The City entered into a loan payable with the Downtown Development Authority, a component unit, for \$33.6 million. The loan was used to cover cost related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest and will be repaid by the City as general operating funds become available. As such, the loan payable has not been included in either of the governmental activities annual principle or interest requirements.

Year Ending	Principal	Interest
2006	\$ 107,887,281	\$ 5,325,551
2007	110,371,884	5,325,551
2008	112,856,487	5,325,551
2009	115,341,090	5,325,551
2010	117,825,693	5,325,551
2011-2015	1,245,635,320	5,325,551
2016-2020	1,245,635,320	5,325,551
2021-2025	1,245,635,320	5,325,551
2026-2030	1,245,635,320	5,325,551
2031-2035	1,245,635,320	5,325,551
2036	1,245,635,320	5,325,551
Total	\$ 10,336,171,841	\$ 53,255,551



f. Pension Obligation Certificates of Participation (POC's)

On June 2, 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000 (\$660 million of taxable fixed rate, Series A and \$880 million of taxable floating rate, Series B) of taxable Pension Obligation Certificates of Participation (POCs). The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement Systems (PFRS), Corporation (PFRS-C), both blended component units of the City. The City entered into service contracts with the GRSSC and the PFRS-C to facilitate the transaction. The POCs represent undivided proportionate interests in the rights to receive the payments from the City under its service contracts with the GRSSC and the PFRS-C.

The POCs were issued for the purpose of the funding certain unfunded accrued actuarial liabilities (UAL) of the two retirement systems of the City, which include the General Retirement System (GRS), and the Police & Fire Retirement Systems (PFRS), and a portion of the current normal contribution. The UAL is a liability of the City for past services rendered by its employees in which Michigan state law and the Michigan Constitution require that a portion be annually paid. The GRS includes employees and retirees of certain governmental funds, proprietary funds and the Detroit Public Library, a discretely presented component unit.

The amount of \$46,362,475 out of the total proceeds of \$1,440,000,000 relates to issuance costs that are recorded as an asset on the government's side and the proprietary fund financial statements and will be amortized over 20 years, the life of the POCs. \$739,703,887 of the proceeds were contributed to the GRS, which included \$52,503,654 of annual required contributions for June 30, 2005. The remaining amount of \$687,290,243 resulted in a net pension asset. \$630,809,186 of the proceeds were contributed to the PFRS, which included \$98,642,201 of annual required contributions for June 30, 2005. The remaining amount of \$531,986,927 resulted in a net pension asset.

Interest payments for Series A will commence on December 15, 2005 and are due semi-annually while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. Interest payments for Series B will commence on September 15, 2005 and are due quarterly through 2025 while the first principal payment is payable June 15, 2007, due annually, and are payable through 2025. The interest rates on the outstanding obligations range from 4.004% and 4.94-8%.

The redemption dates and aggregate principal and interest amounts for each such redemption date are as follows:  
 Summary of Annual Principal and Interest Requirements for Pension Obligation Certificates:

Maturity Dates (1)	Principal		Interest		Total
	Governmental Activities	Sever Dupont	Transportation	Water	
2006	\$ 23,571,434	\$ 19,948	\$ 2,117,344	\$ 3,236,054	\$ 29,105,000
2007	24,856,932	220,396	2,192,102	3,561,650	31,631,000
2008	34,716,390	265,486	3,131,820	4,774,304	41,940,000
2009	41,090,241	313,686	3,690,957	5,641,106	50,736,000
2010	319,477,917	2,438,918	28,697,386	43,859,779	394,474,000
2011-2015	396,443,778	3,026,492	35,611,078	54,426,291	489,509,000
2016-2020	326,389,090	2,315,985	27,239,896	41,649,030	397,605,001
2021-2025	1,170,607,422	\$ 8,760,811	\$ 103,083,253	\$ 157,248,214	\$ 1,440,000,000

Primary Government

Maturity Dates (1)	Governmental Activities		Business Type Activities		Total
	Sever Dupont	Transportation	Water	Other	
2006	\$ 30,729	\$ 3,372,819	\$ 5,461,269	\$ 4,123,255	\$ 69,433,011
2007	430,663	5,063,026	7,741,212	7,598,036	68,140,013
2008	432,539	4,971,778	7,423,332	6,650,313	66,563,013
2009	412,735	4,864,411	7,208,619	6,483,176	64,834,176
2010	400,151	4,716,588	7,086,619	6,379,053	63,137,053
2011-2015	1,739,683	20,469,900	31,265,264	18,149,287	163,137,051
2016-2020	1,199,247	11,875,247	18,149,287	7,104,735	63,899,633
2021-2025	395,075	4,648,617	7,104,735	871,922,204	871,922,204

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
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City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

B. Long-term Obligations activity for the Year Ended June 30, 2005:

Governmental Activities:	Balance June 30, 2004	Increase	Decrease	Balance June 30, 2005	Amount Due Within One Year
Long-Term Obligations, Notes, Loans and POCs:					
Convention Facility-Cover	\$ 135,568,138	\$ -	\$ 103,555,049	\$ 125,013,138	\$ 10,876,000
Expenditure Revenue Bonds	11,413,826	1,491,873	-	9,921,953	1,590,790
Debt Refunding Authority Bonds	47,295,000	105,400,000	-	36,755,000	-
Madison Center Project	98,895,000	63,285,000	-	161,180,000	14,885,000
Shareable Base Aid Bonds	523,535,000	192,750,000	184,400,000	531,685,000	30,655,000
Subsidiary Limited Tax Bonds	157,825,000	98,815,000	18,365,000	238,275,000	22,795,000
General Obligation Tax Bonds	974,151,964	353,850,000	224,151,973	1,103,850,091	80,664,790
Total general fund bonds	5,208,000	-	942,000	4,266,000	950,000
Federal Note - County Pharmaceutical Project	2,900,000	-	65,000	2,835,000	90,000
Federal Note - Ferry Project	1,945,000	-	105,000	1,840,000	105,000
Federal Note - Coniford Project	1,290,000	-	1,290,000	-	-
Federal Note - Michigan Reproducting Project	1,150,000	-	80,000	1,070,000	80,000
Federal Note - Riverview Project	310,000	-	15,000	295,000	15,000
Federal Note - Substation Project	9,700,000	7,789,000	-	17,489,000	-
Federal Note - New American Project	-	-	-	-	-
Federal Note - Macombtown Welcome Center	-	-	-	-	-
Loan Payable to Downtown	33,650,000	-	-	33,650,000	492,242
Development Authority	2,327,537	435,555	-	1,892,182	39,654
Loan Payable-GE Capital - Schedule-00	176,130	34,384	-	141,746	2,672,231
Loan Payable-GE Capital - Schedule-010	14,520,318	6,680,798	-	7,839,520	95,235
Loan Payable-GE Capital - Schedule-011	491,400	106,899	-	384,501	111,474
Loan Payable-GE Capital - Schedule-012	1,285,009	104,148	-	1,180,861	103,018
Loan Payable-GE Capital - Schedule-013	529,661	90,765	-	438,896	48,902
Loan Payable-GE Capital - Schedule-014	-	149,320	-	149,320	53,728
Loan Payable-GE Capital - Schedule-015	-	166,021	-	166,021	-
Loan Payable-GE Capital - Schedule-020	75,253,075	8,104,550	10,192,463	73,165,162	4,921,293
Total Long-Term Bank Notes, Loans, and Pension Obligations Certificates	\$ 1,049,405,039	\$ 1,532,541,772	\$ 2,255,944,336	\$ 2,346,602,476	\$ 85,586,083
Total Long-Term Bank Notes, Loans, and Pension Obligations Certificates	140,471,015	19,527,892	5,000,713	154,998,894	112,461,028
Accrued Compensated Absences	121,872,574	26,419,251	95,999,644	152,292,181	5,035,133
Claims and Judgments	65,472,578	11,939,499	12,657,646	64,754,431	12,080,784
Workers' Compensation	372,760,967	51,886,242	24,007,403	399,639,706	129,516,945
Total Other Long-Term Obligations	\$ 1,377,165,008	\$ 1,584,428,014	\$ 260,251,859	\$ 2,201,242,107	\$ 215,103,026

(Continued)

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

	Balance June 30, 2004	Increase	Decrease	Balance June 30, 2005	Amount Due Within One Year
Ballistics/AE/AD/IBS/					
Light Rail:					
Long-term Debt and Obligations	2,274,332,999	420,034,974	(101,345,000)	2,593,022,973	300,032,000
Severance Payroll Fund:	87,908,111	87,908,111	-	175,816,222	87,908,111
Bonds Payable	13,148,203	2,250,076	(495,531)	12,902,748	5,056,011
Pension Obligation Certificates Payable	3,206,681	472,827	(694,442)	3,085,066	694,115
Accrued Compensated Absences	33,102,576	33,102,576	-	66,205,152	2,772,268
Annual Public Liability and Workers' Compensation	101,083,533	89,003	-	101,172,536	101,083,533
Transportation Fund:	9,603	9,603	-	19,206	3,036,331
Capital Lease Debt	3,740,161	-	-	3,740,161	-
Pension Obligation Certificates Payable	3,548,100	1,311,846	(118,586)	4,741,360	992,372
Accrued Public Liability and Workers' Compensation	1,377,433,000	436,662,000	(148,453,000)	1,665,642,000	24,999,000
Bonds Payable	15,989,511	4,203,965	(13,798,814)	6,394,662	8,604,760
Accrued Compensated Absences	15,782,354	2,183,432	(4,340,520)	13,625,266	3,470,751
Annual Public Liability and Workers' Compensation	61,000,000	360,000	(6,611,000)	54,749,000	66,155,000
Accrued Public Liability and Workers' Compensation	441,693	112,598	-	554,291	311,656
Accrued Compensated Absences	462,728	11,154	(108,899)	364,983	62,656
Annual Public Liability and Workers' Compensation	127,459	10,463	(53,226)	84,696	21,796
Total Bonds and Lease Payable	4,155,647,999	879,184,920	(296,391,000)	4,738,441,919	63,832,808
Total POC Payable	369,392,578	369,392,578	-	738,785,156	369,392,578
Total Accrued Compensated Absences	33,973,316	6,653,296	(1,594,321)	39,032,291	151,437
Total Public Liability and Workers' Compensation	34,674,687	9,172,118	(1,586,871)	42,260,934	5,779,973
Total Long-Term Debt and Obligations	\$ 4,311,273,602	\$ 1,164,489,993	\$ (201,846,119)	\$ 5,273,917,476	\$ 108,518,679
Contract Obligations:					
School District of the City of Detroit:					
Bonds and Lease Payable	1,499,246,699	3,097,243	(68,913,100)	1,471,430,842	\$ 47,731,281
Accrued Compensated Absences	141,682,884	348,100	(33,146,939)	111,884,045	6,300,877
Annual Public Liability and Workers' Compensation	56,401,699	146,785,611	(105,087,661)	147,109,649	16,998,813
Other Contract Liabilities	1,791,326,992	33,529,854	(371,306,668)	1,453,550,278	70,331,071
Total Contract Liabilities	3,988,658,274	3,583,468,569	(219,454,368)	4,352,672,475	171,362,042
Other Contract Liabilities	799,152,416	1,003,002	(71,969,101)	728,186,317	64,444,423
Bonds and Lease Payable	518,104	1,003,002	-	519,107	41,862
Accrued Compensated Absences	507,812	-	(17,931)	489,881	152,136
Annual Public Liability and Workers' Compensation	164,233,337	1,003,002	(17,931)	165,218,408	67,318,461

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City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

5. Derivatives not reported at fair value

The City is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate financings to fixed-rate financings. These are not reported at fair value on the Statement of Net Assets at June 30, 2005.

**Objective of the swaps.** In order to better manage its interest rate exposure and to reduce the overall costs of its financings the City has entered into 31 separate fixed-payor interest rate swaps.

**Terms, fair values, and credit risk.** Certain key terms, fair market values, and counterparty credit ratings relating to the outstanding swaps as of June 30, 2005, are presented below. The notional amounts of the swaps, except those with effective dates of 9/1/06, and 3/1/07 match the principal amounts of the outstanding financings. The swaps with effective dates of 9/1/06, and 3/1/07, were entered into to hedge future interest rate risk and will be associated with financings expected to be issued prior to the effective dates. Except as discussed under rollover risk, the City's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

**Market access risk.** The City is exposed to market access risk on its hedge swaps or forward starting swaps in the event that it will not be able to enter credit markets or in the event that the credit will become more costly.

City of Detroit, Michigan  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005

Associated Financing Issue	Notional Amounts (\$)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Fiscal Year of Maturity	Counterparty Credit Rating
Building Authority Senior 1999-A	\$38,300,000	10/23/1999	7.40%	LIBOR BBA \$	\$ -12,941,118	7/1/2009	7/1/2009	A1/A++/AAA
Swap 1998-A	68,000,000	12/01/1998	4.51%	BMA (2)	85,444,876	7/1/2003	7/1/2003	A3/AA+/AA-
Swap 1998-B	47,313,000	6/7/2001	4.07%	BNA	-4,370,300	7/1/2003	7/1/2003	A3/AA+/AA-
Water 2001-C (1)	30,032,000	6/7/2001	4.70%	BGA	-699,037	7/1/2003	7/1/2003	A3/AA+/AA-
Water 2001-C (2)	47,838,000	1/1/2006	5.47%	BGA	2,830,915	7/1/2011	7/1/2011	A3/AA+/AA-
Water 2001-C	114,150,000	6/7/2001	5.97%	BGA	4,482,448	7/1/2003	7/1/2003	A3/AA+/AA-
Swap 2001-C1	156,500,000	10/23/2001	4.41%	BGA	-30,166,718	7/1/2003	7/1/2003	A3/AA+/AA-
Swap 2001-C2	151,500,000	10/23/2001	4.41%	BNA	-21,154,238	7/1/2003	7/1/2003	A3/AA+/AA-
Water 2003-B	2,590,000	1/30/2003	3.02%	CP1 + 1.01%	-18,782,300	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-B	2,590,000	1/30/2003	3.11%	CP1 + 1.12%	-48,204	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-B	2,590,000	1/30/2003	3.55%	CP1 + 1.23%	37,687	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-B	2,115,000	1/30/2003	3.74%	CP1 + 1.24%	-26,116	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-B	3,400,000	1/30/2003	3.87%	CP1 + 1.19%	15,814	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-B	3,305,000	1/30/2003	4.00%	CP1 + 1.36%	23,993	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-C	2,310,000	1/30/2003	3.87%	CP1 + 1.24%	30,815	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-C	2,310,000	1/30/2003	4.00%	CP1 + 1.26%	15,887	7/1/2009	7/1/2009	A3/AA+/AA-
Water 2003-D	150,965,000	5/22/2003	4.06%	BMA	-981	7/1/2004	7/1/2004	A3/AA+/AA-
Swap 2003-B	150,900,000	5/22/2003	4.14%	BNA	-15,999,335	7/1/2003	7/1/2003	A3/AA+/AA-
Water 2004-A	77,010,000	3/1/2004	3.94%	BNA	4,737,865	7/1/2003	7/1/2003	A3/AA+/AA-
Water 2004-B	163,590,000	3/1/2004	3.85%	BNA	-4,114,663	7/1/2003	7/1/2003	A3/AA+/AA-
Swaps Hedge Swap	135,000,000	9/1/2006	4.99%	BNA	-10,637,682	7/1/2003	7/1/2003	A3/AA+/AA-
Pension Obligation	161,400,000	6/2/2003	5.12%	3 MTH LIBOR + .25%	31,133,000	7/1/2006	7/1/2006	NA A3/AA+/AA-
Pension Obligation	153,169,000	6/2/2005	4.64%	3 MTH LIBOR + .18%	6,135,075	6/15/2013	6/15/2013	A3/AA+/AA-
Pension Obligation	168,331,000	6/2/2005	4.98%	3 MTH LIBOR + .28%	2,096,442	6/15/2014	6/15/2014	A3/AA+/AA-
Pension Obligation	53,000,000	6/2/2005	5.17%	3 MTH LIBOR + .21%	4,783,233	6/15/2018	6/15/2018	A3/AA+/AA-
Pension Obligation	50,113,000	6/2/2005	4.64%	3 MTH LIBOR + .18%	-2,027,204	6/15/2015	6/15/2015	A3/AA+/AA-
Pension Obligation	50,113,000	6/2/2005	4.98%	3 MTH LIBOR + .24%	-700,303	6/15/2014	6/15/2014	A3/AA+/AA-
Pension Obligation	53,000,000	6/2/2005	5.12%	3 MTH LIBOR + .21%	-1,581,124	6/15/2018	6/15/2018	A3/AA+/AA-
Pension Obligation	50,113,000	6/2/2005	4.64%	3 MTH LIBOR + .18%	-3,033,107	6/15/2015	6/15/2015	A3/AA+/AA-
Pension Obligation	50,113,000	6/2/2005	4.98%	3 MTH LIBOR + .24%	-639,624	6/15/2014	6/15/2014	A3/AA+/AA-
Pension Obligation	56,017,000	6/2/2005	4.98%	3 MTH LIBOR + .24%	-1,533,660	6/15/2018	6/15/2018	A3/AA+/AA-

1. Notional amount balance as of July 1, 2005
2. The Bond Market Association Municipal Swap Index
3. Denotes that the swap termination date does not match the final maturity of the financings.

Fair Value: Because interest rates have generally declined since the time the swaps were negotiated, many of the City's swaps have a negative fair value as of June 30, 2005. The negative fair values may be countered by lower total interest payments required under the variable-rate financing, creating lower synthetic interest rates.

The revenue bond documents specify that additional bonds may be issued by the Fund for the purpose of financing additional, replacements, and improvements to the City of Detroit Building Authority Parking Area System, provided that the trustee shall have received all legally required authorized opinions and certificates and that the estimated gross revenues (as defined in the bond authorizing documents) for the five years following completion of the facilities will be at least (1) 125% of annual debt service on all parity outstanding bonds, or (2) the sum of annual debt service on all parity outstanding bonds (including the Additional Bonds) plus the amount necessary to make all required payments to the various funds maintained by the trustee, whichever is greater. Other than as described above, the Parking Fund may not issue any obligations secured by gross revenues from the System unless any resulting lien on the System's gross revenues is expressly subordinate to liens for the bondholders' or bank's benefit as described above.

**Sewage Disposal and Water Funds Construction Programs**

The Sewage Disposal Fund is engaged in a variety of projects that are part of a five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately \$2.1 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Sewer Fund and proceeds from the issuance of revenue bonds.

The Sewage Disposal Fund total construction contract commitments outstanding at June 30, 2005, were approximately \$453 million.

The Water Fund is engaged in a variety of projects that are part of its Program. The total cost of this Program is anticipated to be approximately \$1.6 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Water Fund and proceeds from the issuance of revenue bonds.

The Water Fund total construction contract commitments outstanding at June 30, 2005, were approximately \$101 million.

**Pension Plans:**

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908, and Detroit, Michigan 48226.

These plans are administered in accordance with the City Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State Public Act 314 of 1965, as amended.

The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at last reported sales price at current exchange rates. Similar investments are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value.

The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. The current rate is up to 27.34% of active annual payroll for the General Retirement System (depending on the bargaining unit) and 27.68% of active annual payroll for the Policemen and Firemen Retirement System. Contributions from City funds and the Detroit Public Library fund, including accounts receivable for the year ended June 30, 2005, amounted to \$776,281,023 and \$693,967,089 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

**Credit Risk:** As of June 30, 2005, the City was not significantly exposed to net credit risk as the majority of the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' positive fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's, and/or Moody's Investor Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

**Basis Risk:** The City is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the BMA index. The CPI indexed swaps are associated with CPI indexed financings and thus create no basis risk. The LIBOR based swap has basis risk on \$38.3 million of swaps.

**Termination Risk:** The City or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the City may owe or be due a termination payment depending on the value of the swap at that time. In addition, the City is exposed to termination risk, but not termination payments, on certain of the City's swaps related to Water Series 2001C, Water Series 2003D, Water Series 2004A, Water Series 2004B, Sewer Series 1998A, Sewer Series 1998B, Sewer Series 2001C-1, Sewer Series 2001C-2, and Sewer Series 2003B. These swaps provide the counterparty with the option to terminate the swap agreement beginning on 1/01/2010, 7/02/2011, 7/01/2005, 7/01/2005, 7/01/2008, 7/01/2010, 1/01/2010, and 7/01/2013, respectively, upon the passing of certain BMA thresholds. If any of these swaps are terminated, the associated variable-rate financings would no longer carry synthetic interest rates, but there would be no termination payment.

**Roll-over Risk:** The City is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the City will not realize the synthetic rate offered by the swaps on the underlying issues.

**Swap Termination Payment:** During the year ended June 30, 2005, the Sewage Disposal Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund paid a termination payment in the amount of \$11,750,000 that has been reserved to offset future debt service. The payment will be recognized over the life of the debt using the straight-line method.

**6. Other Information**

**Automobile Parking Fund**

The City has covenanted in bond authorizing documents to charge for the use of fund and services provided by the City of Detroit Building Authority Parking Area System (the System) for each fiscal year of the City until the gross revenues collected and remitted to the issuer (1) will be at least sufficient to at all times pay when due the principal, interest, and sinking fund installments on the revenue bonds without recourse to the Debt Reserve Account, to pay or provide for all operating expenses to maintain the System in good repair without recourse to the Operating and Contingency Reserve Fund, and to replenish the Debt Reserve Account (so as to satisfy the corresponding reserve requirement) and the Operating and Maintenance Reimbursement Fund, and (2) will, after replenishment of any deficit in the Debt Reserve Account, Operating and Contingency Reserve Fund, and the Operating and Maintenance Reimbursement Fund, be equal to or greater than 175% of the amount payable in such fiscal year as the principal of sinking fund installments for the interest on all revenue bonds, net of amounts capitalized for interest payable during the construction period.

The City has covenanted further that if the fees and charges collected in any fiscal year are not sufficient to produce such revenues, the City will employ a consulting expert to submit recommendations as to revision of the schedule of fees then in effect and the City will thereafter charge and collect fees in accordance with such recommendations. The schedule of charges for the System may not be revised for a period of two years unless (1) such revision is for purpose or compliance with the aforesaid rate covenant or, simultaneous with such revision, there is filed with the trustee a certificate of the consulting expert stating the opinion that if such revision had been in effect during the whole of the fiscal year immediately prior thereto, the revenues collected during such fiscal year would not have been diminished, and (2) at the time of any reduction in charges, the amount in the Debt Reserve Account and Operating and Contingency Reserve Fund equal or exceed the reserve requirements.

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

The annual pension costs and net pension assets as of the City June 30, 2005 are as follows:

	GRS Business Year Activities				Total Private Government
	GRS Governmental Activities	Transportation Fund	Sewer Disposal Fund	Water Fund	
Annual required contributions (ASC)	\$ 98,892,261	\$ 61,459,814	\$ 15,972,663	\$ 12,571,543	\$ 222,177,003
Annual pension cost	98,892,261	61,459,814	15,972,663	12,571,543	222,177,003
Contributions made (employer)	69,582,289	48,048,807	14,210,000	8,635,661	1,670,948,114
Changes in net pension asset	595,144,223	416,577,988	98,005,595	1,504,652,508	1,258,001,111
Net pension asset, beginning of year	—	—	—	—	—
Net pension asset, end of year	\$ 595,144,223	\$ 416,577,988	\$ 98,005,595	\$ 1,504,652,508	\$ 1,258,001,111

The annual pension costs and net pension assets of the component units of the City as of June 30, 2005 are as follows:

Component Unit	Defined Benefit GRS	Defined Annuity Contributions PFRS
Detroit Public Library (GRS)	\$ 2,990,354	—
Annual pension cost	2,990,354	—
Contributions made (employer)	25,643,892	—
Changes in net pension asset	22,653,538	—
Net pension asset, beginning of year	—	—
Net pension asset, end of year	\$ 22,653,538	—

	Defined Benefit GRS	Defined Annuity Contributions PFRS
Retirees and beneficiaries receiving benefits	11,996	8,465
Terminated plan members entitled to but not yet receiving benefits	1,109	25
Active plan members	9,820	4,652

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City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

Employee contributions for annuity savings are as follows:

- General Retirement System — Employees may elect to contribute 3%, 5%, or 7% of the first \$87,900 of annual compensation and 5% or 7% of any excess over \$87,900. Contributions are voluntary for all union and non-union employees.
- Policemen and Fireman Retirement System — Mandatory contributions are 5% of base compensation until eligibility for retirement is reached.

Contributions received from employees during the year ended June 30, 2005 amounted to \$22,648,662 and \$10,430,854 respectively.

The contribution requirements of plan members and the City are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

Members may retire with full benefits after attaining 30 years of service, age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service.

Members of the General Retirement System who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an annuity clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after 25 years of service with full benefits and a yearly cost-of-living adjustment of 2.25%. For those members of the PFRS who were hired after January 1, 1969, pension benefits are increased annually by 2.25% of the original pension. Police officers and firefighters hired before January 1, 1969 may elect at retirement increases based upon pay increases of active members or annual increases of 2.25% of the original pension.

Members of the Policemen and Fireman Retirement System who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Employee contributions to both systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees in both systems may withdraw their annuity balance if they have accumulated 25 years of service. The following details the schedule of employee contributions (in millions):

Year Ended June 30	General Retirement System		Policemen and Fireman Retirement System	
	Annual Contribution	Net Pension Asset	Annual Contribution	Net Pension Asset
2003	72.9	100	66.8	100
2004	95.9	100	69.5	100
2005	106.4	754	98.8	754
		\$695.6		\$595.1

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City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

Significant actuarial assumptions used in preparing the accompanying Systems' financial statements for the year ended June 30, 2005 (the latest date available) are as follows:

	General Retirement System	Police and Firemen Retirement System
Valuation Date (latest date available)	June 30, 2005	June 30, 2005
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent	Level Percent
Remaining Amortization Period	20 years	12 years closed
Asset Valuation Method	3-year Smoothed Market	3-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.5%	7.5%
Projected Salary Increases	4.0% - 9.5%	5.8% - 10.8%
Includes Inflation at	4.0%	4.3%
Cost-of-Living Adjustments	2.25%	2.25%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.

Investment loss presented in the Statements of Net Assets in Fiduciary Funds for the Retirement Systems consist of interest income, dividend income, net depreciation, and investment expenses. GRS and PFRS were unable to break down each component by reserve fund as required in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; however, the Systems were able to present components in total:

	GRS	PFRS
Investment Gain, Net:		
Dividend Income	\$ 18,472,422	\$ 33,856,957
Interest Income	(10,870,114)	97,801,386
Net Appreciation	(80,852,269)	140,792,494
Investment Expense	(13,780,153)	(12,581,933)
Total	\$ 276,414,652	\$ 259,868,904

Other Post-employment Benefits: In addition to the pension benefits described above, the City provides post-retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees as of June 30, 2005 is 22,451. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Post-retirement Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2005, are as follows:

	City Cost	Retiree Cost	Total Cost
Hospitalization	\$ 137,864,782	\$ 13,960,235	\$ 151,825,017
Dental	5,547,455	—	5,547,455
Eye Care	2,134,951	—	2,134,951
Life Insurance	167,444	—	167,444
Total	\$ 145,714,632	\$ 13,960,235	\$ 159,674,867

The GDRRA is authorized to charge user fees for services provided to residents in the event either the tipping fees or supplemental tipping fees paid by the City and other revenues generated are not sufficient in each operating year to produce revenues equal to at least 100% of the maximum annual debt service requirement, lease obligations, and operating costs.

City of Detroit, Michigan  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2005

Supplemental tipping fees are provided from certain taxes collected by the State of Michigan which are payable to the City (Distributable AID). The City's obligation to pay tipping fees and supplemental tipping fees is a full faith and credit limited tax general and unconditional obligation whether or not the facility is operating. For the year ended June 30, 2005, tipping fees and supplemental tipping fees paid by the City to the GDRRA are as follows:

Tipping Fees	\$ 65,693,555
Supplemental Tipping Fees	16,530,000
Total	\$ 82,223,555

**NOTE IV. SUBSEQUENT EVENTS**

On July 7, 2005, the Mayor signed a Cooperative Evidentiary Agreement with the United States Department of Housing and Urban Development (HUD) for the benefit of the Detroit Housing Commission (DHC). The agreement calls for the City to transfer all of DHC's assets, projects, and programs to HUD and for HUD to manage the day-to-day operations and reporting requirements of the DHC. The agreement dissolves the DHC's Board of Commissioners. The agreement has an initial term of two years, and is renewable in one-year increments thereafter. The Detroit Housing Commission will not be presented in the City's CAFR for the fiscal year ending June 30, 2006.

On September 22, 2005 the Water Supply System issued \$24,975,000 SRF Junior Lien Revenue Bonds. The bonds begin to mature October 1, 2007 and will be fully matured in the year 2026.

In November 2005, Standard & Poor's revised the City's Unlimited Tax General Obligation Bond rating from BBB+ to BBB, the City's Limited Tax General Obligation Bond rating from BBB to BBB-, and revised the outlook from stable to negative.

In November 2005, Moody's Investors Service revised the City's Unlimited Tax General Obligation Bonds rating from Baa1 to Baa2, the City's Limited Tax General Obligation Bond rating from Baa2 to Baa3 and revised the outlook from negative to stable.

In November 2005, a general election referendum was passed which transfers control of the School District of City of Detroit to a newly elected eleven (11) member School Board, effective January 1, 2006. The 11 Board members will consist of 7 members, one from each district, who will serve 2-year terms, and 4 at-large members representing the entire city who will serve 4-year terms. Thus the District will not be presented in the City's CAFR for June 30, 2006.

In December 2005, Fitch Ratings revised the City's Unlimited Tax General Obligation Bond rating from BBB+ to BBB, the City's Limited Tax General Obligation Bond rating from BBB- to BBB and revised the outlook from stable to negative.

In December 2005, the City issued \$82,565,000 Unlimited Tax General Obligation Bonds and Unlimited Tax General Obligation Refunding Bonds. Proceeds of \$29.9 million were used to refund previously issued debt, resulting in present value savings of \$913,916 or 3.0% of the refunded par amount. The bonds mature beginning April 1, 2006 and will be fully matured in the year 2025.

On March 1, 2006 the City entered into an agreement with the Detroit Zoological Society, a Michigan nonprofit corporation, to manage the operations of the Detroit Zoological Institute through June 30, 2020, a period of fifteen (15) years, with an option to renew for ten (10) years. The City retains ownership of all assets of the Detroit Zoological Institute, which includes the Detroit Zoological Park and the Belle Isle Nature Zoo. The agreement between the City and Zoological Society provides for the payment of capital funds in the amount of five million dollars (\$5,000,000) in fiscal year 2006 and an additional five million dollars (\$5,000,000) in fiscal year 2007. Upon transfer of the \$5,000,000 payment in fiscal year 2006, the Zoological Society will transfer ownership of the new Ford Education Center to the City. The City also agreed to pay an operating subsidy for certain operating costs, insurance and security, totaling \$900,000 per year for the first 2-years of the agreement, fiscal year 2006 and fiscal year 2007.

On March 22, 2006, the City entered into an agreement with the Detroit Historical Society, a Michigan nonprofit corporation, to manage the operations of the Detroit Historical Museums through June 30, 2015, a period of ten (10) years, with an option to renew for ten years. The City retains ownership of all the assets of the Detroit Historical Museums, which includes the

(Continued)

Detroit Historical Museum, the Dossin Great Lakes Museum and Historic Fort Wayne (including the Collections Resources Center). The City will retain the management of the operations of Historic Fort Wayne. The agreement between the City and Society provides for an annual operating subsidy of five hundred thousand dollars (\$500,000) for the first three fiscal years of the agreement, fiscal years 2006, 2007 and 2008. For fiscal year 2006, the City agreed to pay all outstanding contractual obligations for operating services at the time of the transfer. The City also grants the Historical Society access to capital funds through the City's annual capital budget process. Currently, the City has authorization from the electorate to sell up to \$20.02 million in general obligation bonds for capital improvements to the Detroit Historical Museum facilities.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION  
OTHER THAN  
MANAGEMENT'S  
DISCUSSION &  
ANALYSIS  
(MD&A)**

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(Continued)

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**REQUIRED**

**SUPPLEMENTARY**

**INFORMATION-**

**GENERAL FUND**

**STATEMENT OF REVENUES  
 AND EXPENDITURES**

**-BUDGET TO ACTUAL**

City of Detroit  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE—BUDGET AND ACTUAL  
 GENERAL FUND

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance Actual Over (Under) Budget
	Original	Final		
<b>REVENUES:</b>				
<b>Taxes:</b>				
Property Taxes.....	\$ 215,696,948	\$ 215,696,948	\$ 178,971,463	\$ (36,719,485)
Municipal Income Tax.....	319,008,000	319,008,000	287,501,875	(31,496,125)
Utility Users' Tax.....	55,000,000	55,000,000	52,919,819	(2,080,181)
Wageing Taxes.....	117,600,000	117,600,000	137,970,347	20,370,347
Other Taxes and Assessments.....	11,567,766	11,567,766	10,964,866	(602,880)
Interest and Penalties on Taxes.....	9,800,000	9,800,000	11,931,470	2,131,470
Total Taxes, Assessments, Interest and Penalties	728,674,714	728,674,714	678,882,861	(49,791,853)
<b>Licenses, Permits and Inspection Charges:</b>				
Business Licenses.....	1,995,585	1,839,155	1,892,283	53,128
Permits.....	1,255,832	1,255,832	1,697,773	441,941
Inspection Charges.....	9,866,419	9,866,419	7,441,358	(2,424,861)
Other Licenses.....	96,157	96,157	28,641	(67,516)
Total Licenses, Permits and Inspection Charges	12,813,993	13,057,553	11,061,455	(1,796,508)
<b>Shared Taxes:</b>				
Liquor and Beer License.....	545,000	545,000	601,582	57,582
State Shared Tax.....	286,938,418	286,938,418	282,914,217	(4,024,201)
Total Shared Taxes.....	287,483,418	287,483,418	283,515,799	(3,967,619)
<b>Intergovernmental:</b>				
Federal.....	5,402,293	5,029,661	7,632,887	2,149,226
State.....	54,495,391	17,215,431	23,511,341	(10,775,810)
State Equity Grant.....	1,170,400	1,170,400	1,876,931	(9,469)
Other Grants.....	3,739,549	178,117,798	16,241,773	(181,771,015)
Total Grants.....	64,808,103	198,033,290	27,422,832	(136,595,485)
<b>Sales and Charges for Services:</b>				
Maintenance and Construction.....	1,234,846	1,234,846	1,509,134	274,288
Other Labor and Materials.....	300,000	300,000	347,868	47,868
Electrical.....	47,840,000	47,840,000	40,596,888	(7,243,112)
Steam.....	955,000	955,000	851,310	(103,690)
Sanitation Charges.....	823,897	823,897	662,841	(161,056)
Recycling Fees.....	7,020,797	7,020,797	5,175,375	(1,845,422)
Collection Fees.....	7,284,190	7,314,190	7,076,021	(238,169)
Other Fees.....	39,440,796	42,900,796	48,109,965	5,209,169
Personal Services.....	61,891,218	62,158,133	57,761,983	(4,396,150)
Sales of Non-Capital Assets.....	30,047,894	37,317,941	24,169,895	(13,148,046)
Other Departmental Sales.....	196,788,648	207,935,600	178,109,283	(29,826,317)
Total Sales and Charges for Services.....	29,504,678	27,219,663	23,271,726	(6,942,952)
<b>Ordinance Fines.....</b>				
Revenue from Use of Assets:				
Earnings on Investment.....	3,067,900	2,801,531	2,389,653	(419,878)
Real Estate Rentals.....	2,166,886	3,160,886	2,414,297	(746,589)
Concessions.....	5,954,456	5,954,456	2,837,934	(3,116,522)
Sale of Real Property.....	33,410,000	33,410,000	6,013,791	(27,396,209)
Total Revenue from Use of Assets.....	50,712,242	50,226,873	18,455,675	(32,256,567)
Other Revenue.....	40,813,259	60,388,979	100,114,090	59,294,811
Total Revenues.....	1,411,569,555	1,573,346,100	1,357,823,161	(215,523,389)

(Continued)



City of Detroit  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -- BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2005

City of Detroit  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE -- BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2005

	Budgeted Amount		Actual Amount	Variance Actual Over (Under) Budget
	Original	Final		
Debt Service:				
Bond Issuance Costs.....	24,000	24,000	5,192,701 <sup>1)</sup>	5,168,701
Total Debt Service.....	24,000	24,000	5,192,701	5,168,701
Total Expenditures.....	1,866,794,830	1,743,651,270	1,492,451,332	(240,999,938)
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(52,723,715)	(160,211,170)	(135,428,171)	24,792,999
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers from Other Funds:				
Transfers In.....	119,091,664	121,743,983	33,051,546	(88,692,437)
Proceeds of Capital Lease.....	316,351	316,351	316,351	
Premium on Capital Related Debt.....	5,974,832	5,974,832	5,974,832	
Sale of General Obligation Bonds.....	141,215,235	223,167,813	242,150,000	18,982,987
Total Other Financing Sources.....	266,597,182	351,203,179	281,493,179	(85,103,999)
Uses:				
Transfers to Other Funds:				
Transfers Out.....	182,677,300	182,377,848	136,651,953	(45,716,815)
Principal Paid to Bond Agent for Refunded Bonds.....	57,357,145	57,357,145	97,640,860	35,283,855
Interest Paid On Refunded Bonds.....	4,213,245	4,131,379	4,213,245	81,466
Total Other Financing Uses.....	244,247,690	243,866,372	238,516,058	(4,731,632)
Total Other Financing Sources and Uses.....	22,349,492	107,936,807	47,978,021	(65,639,316)
Net Change in Fund Balance.....	(30,374,223)	(52,274,363)	(87,441,140)	(34,566,917)
Fund Balance at Beginning of Year.....	52,876,383	52,876,383	69,716,269	16,339,886
Increase (Decrease) in Inventories.....			(15,169,316)	(15,169,316)
Fund Balance at End of Year.....	\$	\$	\$ (3,397,437)	\$ (3,397,437)

See accompanying independent auditors' report

	Budgeted Amounts		Actual Amounts	Variance Actual Over (Under) Budget
	Original	Final		
EXPENDITURES:				
Public Protection:				
Consumer Affairs.....	1,314,854	1,556,813	1,210,811	(346,002)
Fire.....	207,441,391	209,976,311	203,172,068	(7,794,143)
Human Rights.....	2,359,312	2,352,587	2,081,368	(77,1219)
Ombudsman.....	1,457,978	1,457,093	1,457,015	4,972
Parking Enforcement.....	9,793,895	9,704,241	9,074,181	(626,066)
Police.....	475,324,439	507,793,222	454,600,253	(53,192,969)
Detroit Office of Homeland Security.....	602,254	8,664,317	671,940	(7,982,377)
36th District Court.....	49,470,064	49,511,893	45,454,181	(4,057,712)
Total Public Protection.....	747,691,387	790,957,383	716,727,817	(74,229,566)
Department of Health.....	97,473,647	108,732,152	87,862,830	(12,869,322)
Recreation and Culture:				
Culture, Arts and Tourism.....	1,681,885	2,398,072	1,162,913	(1,235,159)
Historical.....	3,579,640	3,566,321	2,995,693	(570,628)
Recreation.....	50,042,927	47,416,336	49,924,914	2,508,578
Senior Citizens.....	1,294,920	2,138,068	932,842	(1,206,026)
Zoological Institute.....	14,029,400	14,257,811	12,492,833	(1,766,178)
Total Recreation and Culture.....	70,628,772	69,875,508	67,499,195	(2,371,413)
Economic Development -- Civic Center.....	26,863,469	25,310,350	23,541,123	(1,769,217)
Housing Supply and Conditions:				
Planning and Development.....	11,433,365	21,273,549	12,486,977	(11,286,572)
Total Housing Supply and Conditions.....	11,433,365	21,273,549	12,486,977	(11,286,572)
Physical Environment:				
Environmental Affairs.....	2,944,658	4,503,223	2,319,583	(2,183,640)
Public Lighting.....	65,907,104	65,462,349	69,060,774	3,598,425
Public Works.....	183,411,745	181,717,019	185,239,556	1,522,537
Total Physical Environment.....	251,913,507	251,682,591	256,619,913	2,937,322
Development and Management:				
Auditor General.....	3,299,400	3,298,236	2,669,338	(628,898)
Budget.....	3,426,505	3,423,157	3,084,853	(338,805)
City Clerk.....	4,417,596	4,373,775	3,770,777	(602,998)
City Council.....	18,019,661	18,083,380	14,780,744	(3,302,636)
Communications & Creative Services.....	2,906,588	2,899,883	2,467,503	(432,380)
Elections.....	10,773,348	10,794,128	10,551,156	(152,972)
Finance.....	48,900,999	49,876,491	40,501,332	(9,374,681)
Law.....	27,121,937	28,398,385	26,886,367	(1,511,318)
Mayor's Office.....	11,356,692	11,595,397	9,653,665	(1,941,732)
Human Resources.....	32,330,117	32,291,316	25,904,262	(6,387,054)
Information Technology Services.....	31,361,754	31,385,622	24,294,443	(7,091,179)
Board of Zoning Appeals.....	973,677	971,884	844,025	(127,859)
Detroit Workforce Development Department.....	2,000	686,311	1,124	(604,187)
Dept. of Administrative Hearings.....	2,265,667	2,266,167	898,772	(1,267,395)
Non Departmental.....	14,164,289	171,393,692	31,501,316	(139,890,776)
Total Development and Management.....	211,220,610	371,563,716	197,408,776	(173,754,934)
Capital Outlay.....	69,436,133	97,531,721	124,772,800	27,181,079

**REQUIRED SUPPLEMENTAL INFORMATION**  
**HISTORIC PENSION DATA - UNAUDITED**

**Schedule of Employer Contributions (In millions):**

Year Ended June 30	General Retirement System		Police and Firemen Retirement System		Net Annual Contributions	Percentage of Payroll	Net Pension Asset
	Required	Contributed	Year Ended June 30	Required Contributions			
2001	\$68.1	100%	2001	14.4	8.4	100%	
2002	67.8	100	2002	8.4	8.4	100	
2003	72.9	100	2003	66.8	66.8	100	
2004	95.9	100	2004	69.5	69.5	100	
2005	106.4	75%	2005	98.8	98.8	702	\$595.1

**REQUIRED**

**Schedule of Funding Progress (In millions):**

Actuarial Valuation Date June 30	General Retirement System		Police and Firemen Retirement System		UAAL as a Percentage of Payroll
	Actuarial Value of Assets	Actuarial Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	
2001 (a) (b)	\$2,912.1	\$3,179.6	91.6%	\$267.5	60.8%
2002	2,761.2	3,276.6	84.3	515.4	117.0
2003	2,537.7	3,270.6	77.6	733.0	163.4
2004	2,470.2	3,383.9	73.0	913.7	205.5
2005	3,222.4	3,347.4	96.3	125.0	32.0

**SUPPLEMENTARY**

**INFORMATION-**

**HISTORIC PENSION DATA**

**Schedule of Funding Progress (In millions):**

Actuarial Valuation Date June 30	Police and Firemen Retirement System		Police and Firemen Retirement System		UAAL as a Percentage of Payroll
	Actuarial Value of Assets	Actuarial Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	
2001 (a) (b)	\$3,900.0	\$3,463.2	112.0%	\$(436.8)	253.3
2002 (a)	3,635.1	3,523.4	103.2	(111.7)	248.7
2003	3,205.5	3,721.6	86.1	516.1	248.7
2004	3,074.5	3,857.5	79.7	783.0	302.7
2005	3,757.9	3,780.4	99.0	22.6	250.5

a) After changes in actuarial assumptions.  
 b) Plan amended.

See accompanying independent auditors' report.

**COMBINING**

**FINANCIAL**

**INFORMATION -**

**NON-MAJOR**

**GOVERNMENTAL**

**FUNDS**

**SPECIAL REVENUE FUNDS**

**ARE ESTABLISHED TO ACCOUNT FOR THE PROCEEDS OF SPECIFIC REVENUE SOURCES (OTHER THAN CERTAIN MAJOR CAPITAL FACILITIES) THAT ARE RESTRICTED BY LAW AND ADMINISTRATIVE ACTION TO EXPENDITURES FOR SPECIFIED PURPOSES**

Community Development Block Grant Funds	To account for activities financed by Federal Government Grants under Title I of the Housing and Community Development Act of 1974.
Construction Code Fund	In accordance with State of Michigan Public Act No. 245 of 1999, to account for financing activities related to the acts and services performed by the Building and Safety Fund including, without limitation, issuance of building permits, examination of plans and specifications, inspection of construction undertaken pursuant to a building permit, the issuance of certificates of use and occupancy, and hearing appeals in accordance with this act.
Detroit Building Authority Fund	To account for financing activities associated with acquiring, improving, operating and maintaining buildings and other structures for public purposes.
Drug Law Enforcement Fund	To account for forfeited narcotics proceeds that are used for the enhancement of narcotics enforcement.
Employment Zone Fund	To account for activities financed by Federal Government Grants under provisions of Section 2007 of TITLE XX of the Social Security Act as amended.
Detroit Workforce Development Department	To account for employment and training program grants received from government sources.
Human Services Fund	To account for Federal and State Grant revenues that are used to finance certain social service programs.
General Retirement Systems Service Corporation	To account for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005.
Police and Fire Retirement Systems Service Corporation	To account for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005.
Major and Local Street Funds	To account for Michigan State Gas and Weight Tax revenues and other related grants used for the construction and maintenance of major and local streets.
Supportive Housing Programs and Homeless Initiatives Funds	To account for financing activities of Supportive Housing Programs for the Homeless received from the Federal Government.
Targeted Business Development Fund	To account for revenues received via the casino development agreements earmarked to foster the presence of minority businesses in the City.

**CAPITAL PROJECTS FUNDS**

**CAPITAL PROJECTS FUNDS ARE ESTABLISHED TO ACCOUNT FOR FINANCIAL RESOURCES TO BE USED FOR THE ACQUISITION OR CONSTRUCTION OF MAJOR CAPITAL FACILITIES (OTHER THAN THOSE FINANCED BY SPECIAL REVENUE FUNDS AND PROPRIETARY FUNDS)**

**Capital Projects Fund**

To account for all funds used for the construction, acquisition and renovation of Capital facilities by the General Fund.

**Urban Renewal Fund**

To account for funding received from the City of Detroit and the Federal Government earmarked for the acquisition and site preparation of property for future development.

**DEBT SERVICE FUND**

**DEBT SERVICE FUND IS ESTABLISHED TO ACCOUNT FOR THE ACCUMULATION OF RESOURCES FOR THE PAYMENT OF DEBT AND PRINCIPAL AND INTEREST OF CERTAIN PROPRIETARY FUNDS' GENERAL OBLIGATIONS.**

**PERMANENT FUNDS**

**ACCOUNT FOR PRINCIPAL TRUST AMOUNTS RECEIVED AND RELATED INTEREST INCOME. THE INTEREST PORTION OF THE TRUST IS USED TO MAINTAIN THE COMMUNITY CEMETERY.**

**PERPETUAL CARE — BEQUEST FUND  
TO ACCOUNT FOR INCOME AND DISBURSEMENTS OF BEQUESTS ACCEPTED BY THE CITY.**

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City of Detroit, Michigan  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
 June 30, 2005

City of Detroit, Michigan  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
 For the Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds		Total
				Request	Fund	
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash	\$ 20,691,161	\$ 7,680	\$ 1,231,947	\$ 47,344	\$	\$ 22,971,132
Investments	85,612,236	1,000,865	13,603,096			100,216,207
Accounts and Contracts Receivable				1,903,814		1,903,814
Due from Other Funds	6,629,195		1,977,302			8,606,497
Due from Other Governmental Agencies	30,515,501		561,116			31,076,617
General Tax Receivable on Real and Personal Property (RTD)	20,478,737					20,478,737
Other Receivables	1,235,824	28,478,737	35,558			29,750,120
Tax Accounts and Contracts Receivable	58,779,457	28,478,737	2,999,976			89,258,170
Allowance for Uncollectible Accounts	(625,527)	(16,475,000)	(188,080)			(16,288,607)
Total Accounts and Contracts Receivable - Net	58,153,930	28,478,737	2,811,896			89,444,563
Taxes, Interest and Penalties-Net	35,073,212	2,005,000				37,078,212
Current Special Assessments Receivable	347,225					347,225
Prepaid Expenditures	127,636					127,636
Inventory-Ferried Property	29,975					29,975
Other Inventory	67,238					67,238
Total Current Assets	145,583,149	31,172,269	14,534,149	1,145,158		192,434,725
<b>Non-Current Assets</b>						
Grants	1,801,831	31,203,497	30,234,836	188,465		63,580,629
Total Assets	\$ 147,384,980	\$ 62,375,766	\$ 171,578,985	\$ 1,333,623	\$	\$ 352,673,354
<b>Liabilities</b>						
Accounts and Contracts Payable	9,901,480	2,128,825	4,183,435			16,213,740
Due to Other Funds	145,674		850,000			995,674
Advances from Other Funds	5,196,450	704,821				5,901,271
Due to Other Governmental Agencies	2,847,640					2,847,640
Deposits from Vendors and Customers	1,931,814					1,931,814
Accrued Salaries and Wages Payable	13,564,749					13,564,749
Accrued Liabilities	1,549,110		124,113			1,673,223
Other Liabilities	2,398,483	27,857,337	256,050			30,511,870
Deferred Revenue	54,541,872	10,359,383	31,765,123			96,666,378
Total Liabilities	92,568,038	43,589,466	47,038,751			183,196,255
<b>Fund Balances</b>						
Reserved for Inventory	14,015,549					14,015,549
Reserved for Encumbrances						
Reserved for Encumbrances and Trusts						
Reserved for Debt Service	79,081,406			1,251,603		80,333,009
Reserved for Capital Projects			1,199,872,882			1,199,872,882
Unassigned	55,896,446	39,450,387	129,812,882	1,251,603		197,411,318
Due to Other Funds	31,243,277	39,450,387	31,753,805	1,251,603		103,703,072
Total Liabilities and Fund Balances	\$ 147,384,980	\$ 62,375,766	\$ 171,578,985	\$ 1,333,623	\$	\$ 352,673,354

See accompanying independent auditor's report.

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds		Total
				Request	Fund	
<b>REVENUES:</b>						
<b>Taxes:</b>						
Property Taxes	\$	\$ 93,813,579	\$	\$	\$	\$ 93,813,579
Other Taxes and Assessments			1,280,221			1,280,221
Licenses, Permits and Inspection Charges	33,945,463					33,945,463
Intergovernmental:						
Federal	215,712,322		2,683,235			218,395,557
State	13,263,514					13,263,514
Gas and Utility Tax	6,476,135					6,476,135
Sales and Charges for Services	5,815,630					5,815,630
Ordinance Fines	4,207,916					4,207,916
Revenue from User Assets	1,018,416		9,571,567			10,589,983
Grant on Investment	1,346,879		2,466,164			3,813,043
Other	3,313,774		26,313,844			29,627,618
Total Revenues	\$ 339,750,104	\$ 93,813,579	\$ 66,433,644	\$ 20,800	\$ 20,800	\$ 420,838,527
<b>EXPENDITURES:</b>						
<b>Current:</b>						
Public Protection	\$ 38,199,175					\$ 38,199,175
Health	81,701,875					81,701,875
Economic Development	66,937,949	4,155,960				71,093,909
Educational Development	71,807,899					71,807,899
Housing and Community	15					15
Debt Service	46,271,594					46,271,594
Prisons		73,544,336				73,544,336
Interest		51,462,415				51,462,415
Bond Interest Cost		2,299,818				2,299,818
Capital Outlay		168,132,726				168,132,726
Total Expenditures	\$ 315,786,457	\$ 129,127,251	\$ 69,707,660	\$ 20,800	\$ 20,800	\$ 514,642,968
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 24,963,647	\$ 64,746,328	\$ 96,735,984	\$ 19,980	\$ 19,980	\$ 106,486,563
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfer In:						
General Fund	8,334,809	3,830,659				12,165,468
Special Revenue Funds			37,469,125			37,469,125
Special Projects Fund	19,568,260	3,811,110				23,379,370
Total Transfers In	\$ 27,903,069	\$ 41,502,869	\$ 37,469,125			\$ 106,875,063
Proceeds from Federal Note	7,789,260					7,789,260
Proceeds from Capital Related Debt Issuance			111,489,800			111,489,800
Proceeds from General Obligation Bonds Issued			2,939,843			2,939,843
Total Other Financing Sources	\$ 35,692,329	\$ 45,302,739	\$ 153,918,768			\$ 234,913,836
<b>Net Change in Fund Balances</b>	\$ 13,671,320	\$ 10,443,589	\$ 32,717,224	\$ 19,980	\$ 19,980	\$ 56,952,113
<b>Fund Balances at End of Year</b>	\$ 133,712,829	\$ 52,931,177	\$ 138,761,761	\$ 1,313,643	\$ 1,313,643	\$ 326,721,013

See accompanying independent auditor's report.

City of Detroit, Michigan  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
 June 30, 2005

ASSETS	Community Development Fund	Community Code Fund	Detroit Building Agency Fund	Drug Law Enforcement Fund	Employment Zone Fund	Detroit Workforce Development Department	Bureau Services Fund	Street Fund	Supervise Hoarding Problems and Harass Infract Fund	Targeted Business Development Fund	Total
<b>Current Assets:</b>											
Cash	1,388,495	3,003,515	2,146,203	355,187	1,151,520	5,472,405	5,613,144	1,371,702	99,000	31,590,000	20,097,161
Investments				17,117,236				34,000,000			88,647,236
Accounts and Contracts Receivable:											
Due from Other Funds	2,087,629	340,209	179,285		61,189	206,080	1,674,934	93,667			4,651,893
Due from Other Governmental Agencies	7,522,432	58,077			4,800,196	5,183,204		11,936,351	485,715		29,968,385
Other Receivables	401,667	419,257	179,285		4,803,385	5,309,384	1,674,934	66,442			81,466
Total Accounts and Contracts Receivable	18,011,728	817,543	179,285		4,803,385	5,309,384	1,674,934	12,097,660	465,715		35,591,744
Allowance for Uncollectible Accounts	(37,608)	(480,443)	179,285		4,803,385	5,309,384	1,674,934	(45,726)	465,715		(421,632)
Total Accounts and Contracts Receivable - Net	9,974,130							12,045,336	465,715		35,073,212
Prepaid Expenditures											
Inventory - Forfeited Property		48,009		230,875							137,646
Other Inventory		3,530,967	2,236,388	17,753,288				629,109			294,875
Total Current Asset	11,367,615	3,530,967	2,236,388	17,753,288	6,020,905	10,989,325	7,286,078	51,046,237	565,615	31,500,000	145,300,218
Restricted Assets:											
Cash	1,001,831										1,001,831
Total Assets	12,369,446	3,530,967	2,236,388	17,753,288	6,020,905	10,989,325	7,286,078	51,046,237	565,615	31,500,000	147,381,149

LIABILITIES AND FUND BALANCES	Community Development Fund	Community Code Fund	Detroit Building Agency Fund	Drug Law Enforcement Fund	Employment Zone Fund	Detroit Workforce Development Department	Bureau Services Fund	Street Fund	Supervise Hoarding Problems and Harass Infract Fund	Targeted Business Development Fund	Total
<b>Liabilities:</b>											
Accounts and Contracts Payable	2,056,612	54,232	541,170	696,465	66,998	1,765,075	2,981,772	1,101,578	156,000		17,801,472
Due to Other Funds	4,759,090	1,233,248	912,027	31,670	953,677	848,283	828,102	499,743	23,710		9,901,449
Advances from Other Funds											
Due to Other Governmental Agencies											
Deposits from Vendors and Customers		4,487		2,841,153		1,363,971	421,962	3,404,514			5,196,459
Accrued Salaries and Wages Payable	571,097	632,165		31,189	20,397	412,607	280,519				2,497,640
Other Liabilities	3,654,644	1,576,946		300,246	4,968,833	438,481	573,220	1,865,743	388,815		13,564,719
Total Liabilities	11,344,973		222,837								15,471,110
Due to Other Funds											
Total Liabilities	11,344,973		1,476,034	3,092,433	6,020,905	10,989,325	7,286,078	8,871,576	565,615		54,541,872
<b>Fund Balances:</b>											
Reserved for Inventory		48,009		230,875							918,083
Reserved for Encumbrances		206,979		11,893,580							14,118,549
Undeveloped	979	979	830,254							31,500,000	76,898,445
Total Fund Balances	979	257,979	830,254	14,060,455						31,500,000	91,843,277
Total Liabilities and Fund Balances	12,369,446	3,530,967	2,236,388	17,753,288	6,020,905	10,989,325	7,286,078	51,046,237	565,615	31,500,000	147,381,149

See accompanying independent auditors' report.

City of Detroit, Michigan  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For the Year Ended June 30, 2005

	Community Development Block Grant Fund	Construction Code Fund	Demolition Building Authority Fund	Drug Law Enforcement Fund	Employment Zone Fund	Detroit Workforce Development Department	Human Services Fund	Street Funds	Supportive Housing Programs and Homeless Initiatives Funds	Targeted Business Development Fund	Total
<b>REVENUES:</b>											
Licenses, Permits and Inspection Charge	\$ 59,785,381	\$ 21,945,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,945,463
Intergovernmental:											
Federal:											
State:											
Gas and Weight Tax									5,795,915		5,795,915
Sales and Charges for Services		72,920						16,470,638			16,470,638
Ordinance Fines and Forfeitures	5,112,710							65,476,435			70,589,145
Earnings on Investments	584,880										584,880
Other Revenue			2,189,455					771,527			2,960,982
			2,189,455		300,000			654,846			1,028,618
			2,189,455					75,291,526			77,481,001
<b>Total Revenues</b>	<b>64,897,991</b>	<b>74,523,263</b>	<b>2,189,455</b>	<b>4,332,392</b>	<b>11,464,565</b>	<b>73,837,899</b>	<b>77,574,188</b>	<b>75,291,526</b>	<b>5,795,915</b>	<b>-</b>	<b>339,759,304</b>
<b>EXPENDITURES:</b>											
Current:											
Public Protection		35,411,872		2,745,603							38,157,475
Health							81,781,575				81,781,575
Economic Development	55,495,894		1,977,510		11,464,565	73,837,899					141,775,868
Educational Development											
Housing and Conditions									5,795,915		5,795,915
Transportation Facilities								46,321,586			46,321,586
Transportation								45,312,587			45,312,587
Total Expenditures	55,495,894	35,411,872	1,977,510	2,745,603	11,464,565	73,837,899	81,781,575	92,634,173	5,795,915		317,838,357
Excess (Deficiency) or Revenue Over (Under) Expenditures	9,402,097	(1,039,309)	211,945	(1,413,211)			(4,207,387)	29,021,462			24,996,447
Other Financing Sources:											
Transfers In:											
Federal:											
General Fund	7,789,000										7,789,000
Community Development Block Grant Fund		461,106								2,506,400	3,428,512
Capital Projects Fund		10,681,246									10,681,246
Major Street Fund											
Total Other Financing Sources	7,789,000	11,142,352								2,506,400	20,437,752
Other Financing Uses:											
Transfers Out:											
Construction Code Fund	10,668,260										10,668,260
General Fund	2,701,727										2,701,727
Local Street Fund	3,621,110										3,621,110
Total Other Financing Uses	16,991,097										16,991,097
Total Other Financing Sources (Uses)	(9,402,097)	11,142,352								2,506,400	2,506,400
Net Change in Fund Balances	239,057	4,218,021	(667,767)	1,467,789							5,257,000
Fund Balances (Deficits) at Beginning of Year				12,894,359							12,894,359
Increase (Decrease) in Inventory				(311,922)							(311,922)
Fund Balances at End of Year			850,254	14,060,455							14,910,709

See accompanying independent auditor's report.

City of Detroit, Michigan  
**COMBINING BALANCE SHEET**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
 June 30, 2005

ASSETS	Capital Projects	Urban Revenues	Total
Cash	\$ 1,111,215	\$ 1,110,727	\$ 2,221,942
Investments	120,124,776	159,402,230	136,063,006
Accounts and Contracts Receivable:			
Due from Other Funds	1,973,651	3,651	1,977,302
Due from Other Governmental Agencies	567,116	-	567,116
Other Receivables - Trade	354,558	-	354,558
Total Accounts and Contracts Receivable	2,895,325	3,651	2,898,976
Allowance for Uncollectible Accounts	(188,000)	-	(188,000)
Total Accounts and Contracts Receivable - Net	2,707,325	3,651	2,710,976
Current Special Assessments Receivable	347,125	-	347,125
Retierified Cash and Cash Equivalents	30,234,856	-	30,234,856
Total Assets	\$ 154,523,397	\$ 17,054,608	\$ 171,578,005

**LIABILITIES AND FUND BALANCES**

Liabilities:			
Accounts and Contracts Payable	\$ 25,845,179	\$ 507,345	\$ 26,352,524
Due to Other Funds	3,261,705	921,731	4,183,436
Advance from General Fund	850,000	-	850,000
Other Liabilities	34,376	89,737	124,113
Deferred Revenue	245,335	11,715	255,050
Total Liabilities	30,234,595	1,530,528	31,765,123
Fund Balances:			
Undesignated Fund Balance	124,288,802	15,524,080	139,812,882
Total Fund Balances	124,288,802	15,524,080	139,812,882
Total Liabilities and Fund Balances	\$ 154,523,397	\$ 17,054,608	\$ 171,578,005

See accompanying independent auditors' report.

City of Detroit, Michigan  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
 For the Year Ended June 30, 2005

	Capital Projects	Urban Revenues	Total
Revenues:			
Grants	\$ 967,891	\$ 21,669,344	\$ 22,637,235
Earning on Investments	1,808,745	7,864,822	9,673,567
Other Revenues	26,170,864	-	26,170,864
Total Revenues	28,947,500	31,534,166	60,481,666
Expenditures:			
Bond Issuance Cost	2,299,818	-	2,299,818
Capital Outlay	122,390,637	34,441,271	157,831,908
Total Expenditures	125,690,455	34,441,271	160,131,726
Excess (Deficiency) of Revenues Over (Under) Expenditures	(96,742,955)	(2,908,105)	(99,701,060)
Other Financing Sources:			
Transfers In	-	-	-
General Debt Service Fund	37,469,125	-	37,469,125
Proceeds from Bonds	111,680,000	-	111,680,000
Premium on Bonds Issued	7,039,843	-	7,039,843
Total Other Financing Sources	156,188,968	-	156,188,968
Other Financing Uses:			
Principal Paid to Bond Agent for Refunded Bonds	(9,160,000)	-	(9,160,000)
Interest Paid to Bond Agent for Refunded Bonds	(6,651,575)	-	(6,651,575)
Total Other Financing Uses	(15,811,575)	-	(15,811,575)
Total Other Financing Sources (Uses)	80,377,393	-	80,377,393
Net Change in Fund Balance	(16,415,562)	(2,908,105)	(19,323,667)
Fund Balances at Beginning of Year	140,704,364	18,432,185	159,136,549
Fund Balances at End of Year	\$ 124,288,802	\$ 15,524,080	\$ 139,812,882

See accompanying independent auditors' report.



City of Detroit, Michigan  
**COMBINING BALANCE SHEET**  
**NON-MAJOR PERMANENT FUNDS**  
**BEQUEST FUNDS**  
 June 30, 2005

	Permanent Funds			Total
	Other Trust	Cemetery Trust	Trust	
<b>ASSETS</b>				
Cash	\$ -	\$ 47,344	\$ 47,344	\$ 47,344
Restricted Cash		108,465	108,465	108,465
Investments	42,958	1,054,856	1,097,814	1,097,814
Total Assets	\$ 42,958	\$ 1,210,665	\$ 1,253,623	\$ 1,253,623
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Total Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Reserved for Restricted Assets	42,958	1,210,665	1,253,623	1,253,623
Total Fund Balances	42,958	1,210,665	1,253,623	1,253,623
Total Liabilities and Fund Balances	\$ 42,958	\$ 1,210,665	\$ 1,253,623	\$ 1,253,623

See accompanying independent auditors' report.

City of Detroit, Michigan  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR PERMANENT FUNDS**  
**BEQUEST FUNDS**  
 For the Year Ended June 30, 2005

	Permanent Funds			Total
	Other Trust	Cemetery Trust	Trust	
<b>Revenues:</b>				
Investment Income	\$ 814	\$ 19,989	\$ 19,989	\$ 20,803
Total Revenues	814	19,989	19,989	20,803
<b>Expenditures:</b>				
Total Expenditures	814	19,989	19,989	20,803
Total Revenues Over Expenditures	42,144	1,190,676	1,232,820	1,232,820
Fund Balance, Beginning	\$ 42,958	\$ 1,210,665	\$ 1,253,623	\$ 1,253,623
Fund Balance, Ending	\$ 42,958	\$ 1,210,665	\$ 1,253,623	\$ 1,253,623

See accompanying independent auditors' report.

**City of Detroit**  
**COMBINING STATEMENT OF NET ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**For the Year Ended June 30, 2005**

	Condemnation Awards Fund	Fire Insurance Escrow Fund	Other Agency Funds	Total
<b>ASSETS</b>				
Cash	\$ 1,425,578	\$ 351,816	\$ 733,223	\$ 2,510,618
Investments	-	8,639,787	-	8,639,787
Due to Other Funds	-	185,281	-	185,281
<b>Total Assets</b>	<b>\$ 1,425,578</b>	<b>\$ 9,176,895</b>	<b>\$ 733,223</b>	<b>\$ 11,335,695</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ 62,743	\$ -	\$ 62,743
Advances from Outside Sources	1,425,578	-	-	1,425,578
Escrow Payable	-	8,875,746	-	8,875,746
Due to Other Funds	-	238,405	733,223	971,628
<b>Total Liabilities</b>	<b>\$ 1,425,578</b>	<b>\$ 9,176,895</b>	<b>\$ 733,223</b>	<b>\$ 11,335,695</b>

See accompanying independent auditors' report.

**City of Detroit**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**For the Year Ended June 30, 2005**

	Balance June 30, 2004	Additions	Debits/Retirements	Balance June 30, 2005
<b>Condemnation Award Fund</b>				
<b>Assets</b>				
Cash	\$ 1,464,630	\$ -	\$ 39,052	\$ 1,425,578
<b>Total Assets</b>	<b>\$ 1,464,630</b>	<b>\$ -</b>	<b>\$ 39,052</b>	<b>\$ 1,425,578</b>
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ 1,464,630	\$ -	\$ 39,052	\$ 1,425,578
<b>Total Liabilities</b>	<b>\$ 1,464,630</b>	<b>\$ -</b>	<b>\$ 39,052</b>	<b>\$ 1,425,578</b>
<b>Fire Insurance Escrow Fund</b>				
<b>Assets</b>				
Cash	\$ 203,890	\$ 4,596,809	\$ 4,448,873	\$ 351,816
Investments	7,108,506	2,816,281	1,285,000	8,639,787
Due to Other Funds	185,281	-	-	185,281
<b>Total Assets</b>	<b>\$ 7,497,677</b>	<b>\$ 7,413,090</b>	<b>\$ 5,733,873</b>	<b>\$ 9,176,894</b>
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ 294,185	\$ 1,377,667	\$ 1,969,109	\$ 62,743
Due to Other Funds	117,215	167,377	46,186	238,405
Other Liabilities	2,086,276	3,538,731	1,749,261	3,875,746
<b>Total Liabilities</b>	<b>\$ 2,497,676</b>	<b>\$ 5,443,775</b>	<b>\$ 3,764,556</b>	<b>\$ 8,176,895</b>
<b>Other Agency Funds</b>				
<b>Assets</b>				
Cash	\$ 730,208	\$ 3,014	\$ -	\$ 733,222
<b>Total Assets</b>	<b>\$ 730,208</b>	<b>\$ 3,014</b>	<b>\$ -</b>	<b>\$ 733,222</b>
<b>Liabilities</b>				
Other Liabilities	\$ 730,208	\$ 3,014	\$ -	\$ 733,222
<b>Total Liabilities</b>	<b>\$ 730,208</b>	<b>\$ 3,014</b>	<b>\$ -</b>	<b>\$ 733,222</b>
<b>Total Agency Funds</b>				
<b>Assets</b>				
Cash	\$ 2,398,728	\$ 4,599,823	\$ 4,487,924	\$ 2,510,627
Investments	7,108,506	2,816,281	1,285,000	8,639,787
Due to Other Funds	185,281	-	-	185,281
<b>Total Assets</b>	<b>\$ 9,692,515</b>	<b>\$ 7,416,104</b>	<b>\$ 5,772,924</b>	<b>\$ 11,335,695</b>
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ 1,758,815	\$ 1,737,667	\$ 2,008,161	\$ 1,488,371
Due to Other Funds	117,215	167,377	46,186	238,405
Other Liabilities	7,816,484	3,541,745	1,749,261	9,608,948
<b>Total Liabilities</b>	<b>\$ 9,692,514</b>	<b>\$ 5,446,789</b>	<b>\$ 3,803,608</b>	<b>\$ 11,335,695</b>

See accompanying independent auditors' report.

# STATISTICAL

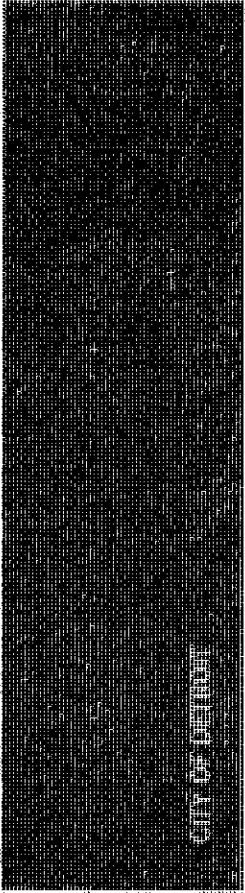
## The Statistical Section contains:

- General Governmental Revenues by Source— Last Ten Fiscal Years
- General Governmental Expenditures by Function—  
Last Ten Fiscal Years
- Property Tax Levies and Collections — Last Ten Fiscal Years
- Adjusted Tax Levies and Tax Collections by Levies —  
Last Ten Fiscal Years
- Assessed and Estimated Actual Value of Taxable Property —  
Last Ten Fiscal Years
- Property Tax Rates and Levies — All Overlapping Governments —  
Last Ten Fiscal Years
- Special Assessment Additions and Deductions — Last Ten  
Fiscal Years
- Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt  
per Capita — Last Ten Fiscal Years
- Legal Debt Margin
- Computation of Direct and Overlapping Debt—  
General Obligation Bonds
- Ratio of Annual Debt Service Expenditures for  
General Bonded Debt to Total General Governmental Expenditures  
— Last Ten Fiscal Years
- Revenue Bond Coverage — Last Ten Fiscal Years
- Real Property Value, Construction Permits and Bank Deposits —  
Last Ten Fiscal Years
- Principal Taxpayers
- Largest Private Employers
- Miscellaneous Statistics

In preparation for the Major League All-Star Game in July, emergency responders participate in a homeland security emergency response exercise in May at Comerica Park.



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Shoppers marvel at the breathtaking array of flowers at Eastern Market's Flower Day in May. Flower Day is a much-anticipated annual rite of spring for thousands of metro Detroiters.



Runners speed to the finish line at the Heart the Streets Run and Walk for Warmth last February to raise money to assist low-income residents with their utility costs.

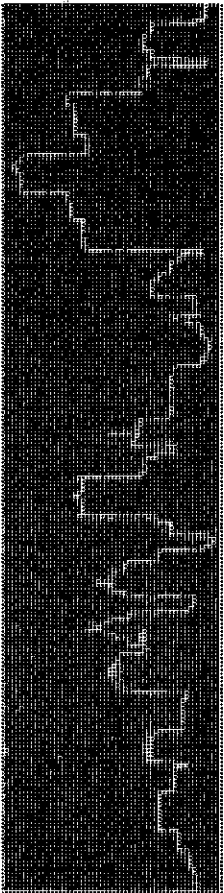




Table 3

City of Detroit, Michigan  
Property Tax Levies and Collections  
Last Ten Fiscal Years  
(Amounts Expressed in Thousands)  
Unaudited

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Current and Prior Years' Adjustments (2)	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1996 (1)	201,028	186,615	89.85	11,949	192,564	95.79	(13,380)	77,780	38.69
1997 (1)	288,546	189,097	90.67	15,028	204,125	97.18	(3,539)	78,642	37.71
1998 (1)	218,533	191,536	88.56	15,968	209,504	95.87	(6,188)	79,267	36.27
1999 (1)	224,248	199,594	89.01	14,302	213,896	95.38	(8,761)	80,858	36.06
2000 (1)	231,310	216,805	91.14	17,686	218,431	94.35	(8,939)	76,894	33.24
2001 (1)	254,397	218,915	86.05	18,854	234,769	92.28	(1,349)	95,285	37.46
2002 (1)	245,710	212,435	87.17	21,433	238,668	96.78	(16,926)	79,136	32.17
2003 (2)	246,384	207,628	84.30	16,663	224,291	91.07	(16,925)	90,204	36.63
2004 (2)	242,235	231,696	95.65	17,677	249,573	102.95	(2,845)	80,121	33.08
2005 (2)	254,533	238,059	93.53	8,942	247,001	97.04	(6,088)	81,545	32.04

(1) Includes General, Library and Debt Service Funds  
(2) Includes additions, deductions, cancellations and adjustments  
(3) Fiscal Years 2002-2005 do not include Library amounts.

Table 4

City of Detroit, Michigan  
Adjusted Tax Levies and Tax Collections by Levies  
Last Ten Fiscal Years  
(Amounts Expressed in Thousands)  
Unaudited

Fiscal Year	Total Tax Levy	Net Additions to (from) Tax Levy	Less: Cancellations and Adjustments	Net Taxes Receivable	Collections to June 30, 2005	Ratio to Adjusted Tax Levy
1996 (1)	201,028	-	(6,922)	195,106	193,450	99.15
1997 (1)	208,546	-	(4,995)	203,551	201,330	98.91
1998 (1)	218,533	-	(6,416)	212,117	209,368	98.78
1999 (1)	224,248	-	(5,327)	218,921	215,165	98.24
2000 (1)	231,310	-	4,508	235,818	229,885	97.48
2001 (1)	254,397	-	(6,480)	249,917	237,892	95.19
2002 (1)	245,710	-	(5,193)	238,517	225,277	94.45
2003 (2)	246,384	-	(8,181)	241,183	218,474	90.58
2004 (2)	242,235	-	(411)	241,824	231,696	95.81
2005 (2)	254,533	-	(3,977)	250,556	238,059	95.01

(1) Includes General, Library and Debt Service Funds  
(2) Fiscal Years 2002-2005 do not include Library amounts.

Table 5

City of Detroit, Michigan  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
 Last Ten Fiscal Years  
 (Amounts Expressed in Thousands)  
 Unaudited

Fiscal Year	State Equalized (Notes A and B)		Personal Property (Notes A, B and C)		Total (Notes A, B and C)		Estimated Actual Value
	Estimated Value	Actual Value	Estimated Value	Actual Value	Estimated Value	Actual Value	
1997	\$ 4,270,635	\$ 3,986,451	\$ 1,411,983	\$ 1,387,986	\$ 6,382,310	\$ 6,412,115	\$ 12,794,420
1998	4,471,218	4,000,759	1,603,311	1,566,902	6,954,316	6,972,377	13,926,692
1999	5,942,201	5,095,031	1,886,285	1,823,170	7,954,786	7,914,116	15,868,902
2000	6,990,961	5,319,490	1,837,487	1,714,984	8,258,144	8,066,882	17,238,888
2001	8,064,178	5,884,372	1,718,119	1,604,538	9,924,197	9,701,331	19,625,528
2002	9,370,564	5,983,307	1,664,438	1,512,208	11,037,976	10,716,541	21,754,517
2003	10,465,333	6,472,897	1,312,322	1,203,284	12,494,755	12,044,397	24,539,152
2004	11,172,215	6,812,591	1,507,199	1,381,498	13,684,113	13,135,794	26,819,907
2005	11,445,864	7,194,712	1,611,481	1,581,107	13,248,545	13,199,803	26,448,348

Note A — Excludes qualified real and personal properties exempted from ad valorem property taxes but subject to a specific Industrial Facilities tax under the State Plant Rehabilitation and Industrial Development District Act of 1974.

Note B — Beginning with fiscal year 1995/1996 taxable values cannot exceed the statewide rate of inflation of the prior year on a per parcel basis, except where increases are due to physical changes in the parcel (P.A.415 of 1994). This represents the taxable amount of the state equalized value.

Note C — Excludes inventories which are exempted from the assessed values by the State Single Business Tax Act of 1974.

Note D — State Equalized Value (50% of true cash value).

Note E — Assessment Date - December 31, preceding year of levy.

Table 6

City of Detroit, Michigan  
**PROPERTY TAX RATES AND LEVIES —**  
**ALL OVERLAPPING GOVERNMENTS**  
 Last Ten Fiscal Years  
 (Amounts Expressed in Thousands)  
 Unaudited

Fiscal Year	Tax Rates — Mills					Total
	City (Note A)	Library	School	County (Note B)	State	
1997	31.2800	2.6400	25.5900	11.3800	6.0000	76,6030
1998	31.2390	2.6400	25.5900	11.3700	6.0000	76,3030
1999	31.1750	2.6400	24.4500	11.3200	6.0000	75,9850
2000	31.0950	2.6400	23.9000	11.1300	6.0000	74,7740
2001	31.6783	3.4331	25.0000	11.0545	6.0000	77,5679
2002	31.9000	3.4331	28.5000	12.5395	6.0000	87,5776
2003	30.8780	3.4331	31.1900	13.9895	6.0000	85,6966
2004	30.8208	3.4331	31.8000	13.9886	5.0000	85,3025
2005	30.4359	3.4331	31.0000	13.9861	6.0000	85,0551
2006	30.0201	4.4307	30.6236	12.0950	6.0000	83,5484

Fiscal Year	Tax Levies					Total
	City (Note A)	Library	School	County (Note B)	State	
1997	\$ 191,316	\$ 16,250	\$ 116,318	\$ 69,940	\$ 36,885	\$ 431,719
1998	201,503	17,030	123,999	73,243	38,703	454,578
1999	206,741	17,507	119,413	75,870	39,790	469,221
2000	213,208	18,162	119,281	76,375	41,140	468,166
2001	238,223	26,174	132,788	79,655	43,216	510,066
2002	243,710	27,556	166,268	95,799	45,839	579,372
2003	246,284	28,977	191,401	111,581	47,856	628,699
2004	241,335	28,488	192,090	109,730	39,221	611,774
2005	254,533	30,284	258,489	116,585	50,015	709,916
2006	261,670	40,518	267,951	105,829	51,499	729,467

Note A — Includes millage to pay cash rentals to the City of Detroit Building Authority to cover principal and interest on authority bonds issued to finance construction of a new Detroit General Hospital and to pay Wayne County for debt service on County Drainage District Bonds issued for Detroit No. 1 thru 1994.

Note B — The County tax rates and tax levies shown are against properties situated within the City of Detroit. The total assessed valuation used in determining the County tax rate recognizes adjustments in assessed valuation made after the City tax rate is determined.

Table 7

City of Detroit, Michigan  
**SPECIAL ASSESSMENTS ADDITIONS AND DEDUCTIONS**  
 Last Ten Fiscal Years  
 Unaudited

Fiscal Year	Beginning Balance	Additions	Deductions		Ending Balance
			Collections	Concessions and Adjustments	
1996	2,064,651	149,276	58,180		1,857,495
1997	1,857,495	213,336	105,500		1,538,659
1998	1,538,659	231,733	84,970	22,655	1,662,767
1999	1,662,767	4,897,716	250,778	473,697	5,836,408
2000	5,836,408	39,622	19,811	152,117	5,704,102
2001	5,704,102	-	80,553	362,034	5,261,515
2002	5,261,515	19,427	118,793	184,202	4,987,947
2003	4,977,847	23,865,681	368,457	75,539	18,407,642
2004	28,407,642	593,969	340,892	800,396	27,796,423
2005	27,796,423	176,851	1,574,915		26,044,657

Table 8

City of Detroit, Michigan  
**RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA**  
 Last Ten Fiscal Years  
 (Dollars Expressed in Thousands)  
 Unaudited

Fiscal Year	Net Debt	Taxable Assessed Value (Note A)	Ratio of Net Debt to Taxable Assessed Value	Population (Note B)	Net Debt Per Capita
1996 (C)	\$ 1,170,872	\$ 5,883,724	19.04	1,000,272	\$ 1,171
1997 (C)	1,101,020	6,144,018	17.91	1,000,272	1,100.72
1998 (C)	1,086,948	6,450,376	16.56	1,000,272	1,067.76
1999 (C)	1,042,641	6,651,616	15.72	1,000,272	1,042.36
2000 (C)	1,021,005	6,856,682	14.89	951,270	1,073.31
2001 (C)	938,080	7,204,381	13.02	951,270	986.13
2002 (C)	965,133	7,659,805	12.59	951,270	1,011.42
2003 (C)	909,654	7,976,048	11.40	951,270	956.22
2004 (C)	1,104,034	7,844,210	14.07	951,270	1,160.60
2005 (C)	1,209,104	8,335,790	14.50	951,270	1,271.05

Note A - Assessed Values are the State equalized valuations.

Note B - Population estimates are from U.S. Department of Commerce, Bureau of Census, Current Population Reports. The population count for the City released by the U.S. Bureau of Census figure for 2000 was 951,270. Subsequent years are from the U.S. Census Bureau March census estimates. The 2005 population count not available.

Note C - Beginning with Fiscal Year 1995-96, taxable values cannot exceed the statewide rate of inflation of the prior year on a parcel basis, except where increases are due to physical changes in the parcel (P.A. 415 of 1994).



Table 9

City of Detroit, Michigan  
LEGAL DEBT MARGIN  
June 30, 2005  
Unaudited

	Net Debt	Percent of Assessed Value	Legal Limitation Amount	Legal Debt Margin
Assessed Value Fiscal Year 2004-05 (State Equalized)	\$ 12,713,648,477			
Allowance under Act 196, 11/16, 1974	361,731,928			
Allowance under Act 236, 3/16, 1975	718,498,590			
Allowance under Act 145, 1/16, 1992	26,932,784			
Allowance under Act 147, 1/16, 1994	96,672,803			
Total Assessed Value Fiscal Year 2004-05	\$ 13,897,485,572	10.06%	\$ 1,398,746,559	
Net Direct Debt Subject to General Debt Limitation:				
General Obligation Bonds (Note A)	\$ 579,850,000			
General Bonds - Limited Tax	337,460,000			
Limited Obligation Economic Development Bonds - District				
Comm. Mission Center Project	80,818,519			
Total Net Direct Debt Subject to General Debt Limitation	\$ 917,318,519		\$ 663,520,409	
Net Direct Debt Not Subject to General Debt Limitation (Note B):				
Direct Debt:				
General Obligation:				
United States Revenue Refunding Bonds	\$ 1,561,900,846			
Limited Obligation Economic Development Bonds	63,860,000			
Revenue Bonds	98,895,000			
Sole Purpose Bonds - Limited Tax				
Corpuscular Facility - Coble Center Expansion	95,403,208			
Bonds Building Authority - Parking and Areas System	52,665,216			
Leed Development Finance Authority Tax Increment	78,939,402			
Jefferson/Comer Reutilization Project	2,499,965,975			
Sewage Disposal System	142,818,501			
Water Supply System	1,845,116,314			
Downtown Development Authority - Trapper's Alley Project	2,400,000			
Federal Note - Caracis Pharmaceutical Project	2,766,000			
Federal Note - Ferry Street	2,815,000			
Federal Note - Garfield Project	1,640,000			
Federal Note - Riverview Project	1,070,000			
Federal Note - Suburban Wisconsin Center	315,000			
Federal Note - Metrolink Wisconsin Center	7,789,000			
Federal Note - New Amsterdams Project	9,700,000			
Revenue Anticipation Notes, Series 2005	51,445,000			
Total Net Subject to General Debt Limitation	\$ 5,653,920,772			

Note A - General Obligation Bonds are subject to the general debt limitation, as established under State Law. After the effective date (December 22, 1970) of an amendment to the State Constitution, the City may not issue general obligation bonds payable from taxes levied for debt service without a vote of the electorate.

Note B - Pursuant to State Law, certain obligations to the debt limitations are permitted for the following purposes: special assessment bonds and motor vehicle highway fund bonds, even though they are a general obligation or assessment or bonds incurred to comply with an order of the State, whether secured by a mortgage or not; bonds, contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State of Michigan or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage, refuse disposal or resource recovery projects necessary to protect the public health by treating pollution; bonds issued to acquire housing, for which certain rent subsidies will be received by the City or an agency thereof, and bonds issued to refund money advanced or paid for certain special assessments.

TABLE 10

City of Detroit, Michigan  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
June 30, 2005  
Unaudited

Direct Debt	Current Debt	Less Refunding Debt	Net Debt	% Applicable To Direct	Direct Share
General Bonds - Limited Tax	\$ 579,850,000	\$ -	\$ 579,850,000	100.00%	\$ 579,850,000
General Bonds - Limited Tax	337,460,000	-	337,460,000	100.00%	337,460,000
Detroit Building Authority Bonds	95,403,208	1,900,444	93,502,764	83.13%	83,131,519
Com. Mission Center Project	18,800,000	2,877,314	15,922,686	84.72%	15,922,686
Limited Obligation Economic Development Bonds	63,860,000	-	63,860,000	100.00%	63,860,000
Total General Obligation	1,061,373,208	2,100,458	1,059,272,750	100.00%	1,059,272,750
Revenue Bonds:					
Corpuscular Facility - Coble Center Expansion	115,813,124	20,000,000	95,813,124	82.73%	95,813,124
Bonds Building Authority - Parking and Areas System	62,665,216	3,326,144	59,339,072	94.69%	59,339,072
Leed Development Finance Authority Tax Increment	63,110,000	2,100,000	61,010,000	96.67%	61,010,000
Jefferson/Comer Reutilization Project	2,499,965,975	17,246,298	2,482,719,677	99.31%	2,482,719,677
Sewage Disposal System	142,818,501	33,444,897	109,373,604	76.65%	109,373,604
Water Supply System (Note C)	1,845,116,314	116,499,566	1,728,616,748	93.73%	1,728,616,748
Total Revenue Bonds	3,766,438,520	253,031,172	3,513,407,348	100.00%	3,513,407,348
Total Direct Debt	4,327,811,728	418,131,631	3,909,680,097	100.00%	3,909,680,097
Overlapping Debt:					
School Districts of the City of Detroit General	1,477,843,000	646,645,377	831,197,623	18.46%	831,197,623
Wayne County Community College Bonds (Note A)	12,525,933	32,799,244	20,266,687	16.19%	20,266,687
Wayne County Community College Bonds (Note A)	1,815,465,933	19,779,218	1,795,686,715	38.87%	1,795,686,715
Total Overlapping Debt - Outside of the City	3,305,834,866	1,979,123,849	1,326,711,017	33.82%	1,326,711,017
Federal Note - Caracis Pharmaceutical Project (Note A)	2,766,000	-	2,766,000	0.07%	2,766,000
Federal Note - Ferry Street (Note A)	2,815,000	-	2,815,000	0.07%	2,815,000
Federal Note - Garfield Project (Note A)	1,640,000	-	1,640,000	0.04%	1,640,000
Federal Note - Riverview Project (Note A)	2,780,000	-	2,780,000	0.07%	2,780,000
Federal Note - Suburban Wisconsin Center (Note A)	315,000	-	315,000	0.01%	315,000
Federal Note - Metrolink Wisconsin Center (Note A)	7,789,000	-	7,789,000	0.20%	7,789,000
Federal Note - New Amsterdams Project (Note A)	9,700,000	-	9,700,000	0.25%	9,700,000
Loans Payable to GE Capital - School #408	1,092,111	-	1,092,111	0.03%	1,092,111
Loans Payable to GE Capital - School #410	1,112,444	-	1,112,444	0.03%	1,112,444
Loans Payable to GE Capital - School #411	7,793,539	-	7,793,539	0.20%	7,793,539
Loans Payable to GE Capital - School #412	1,165,316	-	1,165,316	0.03%	1,165,316
Loans Payable to GE Capital - School #413	315,000	-	315,000	0.01%	315,000
Loans Payable to GE Capital - School #414	11,358	-	11,358	0.00%	11,358
Loans Payable to GE Capital - School #415	12,792,311	-	12,792,311	0.33%	12,792,311
Loans Payable to GE Capital - School #416	5,715,834	-	5,715,834	0.15%	5,715,834
Loans Payable to GE Capital - School #417	5,977,000	-	5,977,000	0.15%	5,977,000
Loans Payable to GE Capital - School #418	15,111	-	15,111	0.00%	15,111
Total Overlapping Debt	13,211,839,866	1,822,121,102	11,389,718,764	29.00%	11,389,718,764
Total Debt	\$ 5,653,920,772	\$ 1,822,121,102	\$ 3,831,800,000	100.00%	\$ 3,831,800,000

Note A - Not to exceed the total Black Grant Revenue.

Note B - Amount shown is Cash/Trade receivables/invoice, additionally secured by surety bonds.

Table 11

City of Detroit, Michigan  
**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
 GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES**  
 Last Ten Fiscal Years  
 (Dollars Expressed in Thousands)  
 Unaudited

Year Ending June 30,	Total Debt Service			Ratio of Total Debt Service to	
	Principal	Interest	Total	Total General Governmental Expenditures	Total General Governmental Expenditures
1996	\$ 44,219	\$ 47,828	\$ 92,047	1,366,376	6.74%
1997	71,736	81,736	153,472	1,450,713	8.51%
1998	56,375	59,774	116,149	1,535,771	7.57%
1999	58,842	57,737	116,579	1,588,382	7.35%
2000	71,861	88,068	159,929	1,730,390	7.30%
2001	79,319	47,584	126,903	1,719,481	6.38%
2002	79,569	42,443	122,012	1,951,846	6.07%
2003	86,770	43,761	130,531	1,981,446	6.40%
2004	86,698	47,444	134,142	2,093,955	6.28%
2005	73,544	51,462	125,006	2,072,153	6.28%

Table 12

City of Detroit, Michigan  
**REVENUE BOND COVERAGE**  
 Last Ten Fiscal Years  
 Unaudited

Fiscal Year	Gross Revenue	Direct Operating Expenses (1)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 15,372,261	\$ 3,701,813	\$ 11,670,448	\$ 2,815,000	\$ 3,854,947	\$ 6,669,947	1.71
1997	15,499,228	7,015,610	8,483,618	1,925,000	2,924,214	4,849,214	1.68
1998	17,001,259	8,034,833	8,966,426	2,725,000	2,577,277	5,302,277	1.71
1999	17,879,641	8,512,116	9,367,525	3,410,000	3,333,653	7,843,653	1.33
2000	19,497,117	9,494,799	10,002,318	4,440,000	4,717,312	9,157,312	1.08
2001	18,274,180	9,821,235	8,452,945	2,140,000	2,584,135	4,724,135	0.98
2002	18,331,710	10,000,000	8,331,710	2,500,000	2,500,000	5,000,000	0.76
2003	18,331,710	11,154,298	7,177,412	2,500,000	2,500,000	5,000,000	0.76
2004	19,471,339	13,185,938	6,285,401	2,500,000	2,500,000	5,000,000	0.76
2005	13,827,651	16,205,292	2,377,541	2,500,000	2,500,000	5,000,000	0.33
Average	\$ 19,477,624	\$ 10,443,271	\$ 9,034,353	\$ 2,815,000	\$ 3,144,628	\$ 5,959,628	1.77
1996	20,571,574	14,517,071	6,054,503	1,945,000	2,845,513	4,790,513	1.10
1997	21,164,974	12,103,471	9,061,503	1,945,000	2,845,513	4,790,513	1.28
1998	21,630,499	16,674,716	4,955,783	1,945,000	2,845,513	4,790,513	1.28
1999	22,923,491	16,046,641	6,876,850	1,945,000	2,845,513	4,790,513	1.31
2000	23,278,539	17,233,235	6,045,304	1,945,000	2,845,513	4,790,513	1.16
2001	26,979,498	17,014,270	9,965,228	2,100,000	2,100,000	4,200,000	1.16
2002	26,979,498	17,014,270	9,965,228	2,100,000	2,100,000	4,200,000	1.16
2003	26,979,498	17,014,270	9,965,228	2,100,000	2,100,000	4,200,000	1.16
2004	26,979,498	17,014,270	9,965,228	2,100,000	2,100,000	4,200,000	1.16
2005	26,979,498	17,014,270	9,965,228	2,100,000	2,100,000	4,200,000	1.16

(1) Operating Expenses-Excluding Depreciation

Table 14

City of Detroit, Michigan  
**PRINCIPAL TAXPAYERS**  
 For the Year Ended June 30, 2005  
 Unaudited

Taxpayer	Type of Business	Real Estate		Personal Property		Total Taxable Value	Total % of Value
		Value	% of Total	Value	% of Total		
Duane-Chrysler Corp.	Automotive	\$ 11,937,269	1.37 %	\$ 61,897,609	44.4 %	\$ 73,834,878	1.34 %
Detroit Edison Company	Utility	49,131,318	0.25	38,213,866	27.6	87,345,184	1.57
General Motors	Automotive	1,652,733	0.02	154,681,782	1.07	156,334,515	2.81
Shelburne Consolidated Co.	Utility	121,160,854	1.30	74,972,600	5.39	196,133,454	3.57
American Air	Auto Supplier	16,901,239	0.33	10,620,000	0.76	27,521,239	0.50
Die Ditch Center LP	Real Estate	5,207,251	0.18	10,620,000	0.76	15,827,251	0.28
CompuLink LLC	Other	34,248,971	0.40	11,849,480	0.85	46,098,451	0.83
CompuLink LLC	Other	16,932,731	0.18	21,700,100	1.55	38,632,831	0.70
Detroit Entertainment LLC	Other	482,372,331	5.27 %	1,148,371,154	82.6 %	1,630,743,485	29.5 %
Total		\$ 627,000,000		\$ 1,397,000,000		\$ 2,024,000,000	

Table 13

City of Detroit, Michigan  
**REAL PROPERTY VALUE, CONSTRUCTION PERMITS AND BANK DEPOSITS**  
 Last Ten Fiscal Years  
 (Dollars Expressed in Millions)  
 Unaudited

Fiscal Year	Real Property Value (Note 1)		Construction Permits (Note 2)		Bank Deposits (Note 3)	
	Residential	Commercial	Residential	Commercial	Residential	Commercial
1994	\$ 3,319	\$ 1,488	N/A	N/A	\$ 17.40	\$ 373
1995	3,145	1,559	N/A	N/A	20.97	379
1996	2,237	1,610	N/A	N/A	33.32	343
1997	3,118	1,671	N/A	N/A	26.17	490
1998	3,460	1,780	N/A	N/A	29.76	311
1999	3,530	1,796	N/A	N/A	31.31	371
2000	4,191	2,028	N/A	N/A	35.18	399
2001	4,319	2,140	N/A	N/A	43.70	338
2002	4,943	2,304	N/A	N/A	41.36	318

Note 1 Source: City of Detroit 2004-2005 Budget  
 Note 2 Source: City of Detroit Department of Buildings and Safety Engineering  
 Note 3 Source: The Statebank of Michigan Data Reports for all years prior to 2001. N/A - Data not available.

**Table 15**  
**City of Detroit, Michigan**  
**LARGEST PRIVATE EMPLOYERS**  
**June 30, 2005**  
**Unaudited**

Company	Detroit Employment
DaimlerChrysler AG	10,617
DaimlerChrysler AG	9,930
Henry Ford Health System	7,404
General Motors Corporation	6,311
St. John Health System	4,821
American Axle & Manufacturing Holdings Inc.	4,399
DTE Energy Co.	3,987
Compuware Corporation	3,946
Master City Casino	2,800
Blue Cross and Blue Shield of Michigan	2,094

SOURCE: Crain's Book of Lists, 2006 Edition, December 2005.

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Table 16  
 City of Detroit, Michigan  
 MISCELLANEOUS STATISTICS  
 June 30, 2005  
 Unaudited

Year Founded.....	1701
Year of Incorporation.....	1896
Year of Adoption of Present City Charter.....	1996
Form of Government: Nonpartisan - Mayor and Nine-Member Council.....	
Area in Square Miles.....	137.9
Miles of Shore Line on Detroit River (Excluding Belle Isle).....	10.66
Population (United States Census):	
1930.....	1,568,667
1940.....	1,633,457
1950.....	1,849,568
1960.....	1,670,144
1970.....	1,511,487
1980.....	1,203,330
1990.....	1,027,974
2000.....	951,270
Building Permits:	
Number of Building Permits Issued.....	7,233
Estimated Cost of Construction.....	\$ 815,977,078
Election of November 2005:	
Number of Registered Voters.....	637,870
Number of Ballots Cast.....	328,530
Percentage of Registered Voters Voting.....	51.50 %
Fire Department:	
Number of Fire Stations.....	49
Number of Employees.....	1,796
Number of Fire Fighting Vehicles.....	238
Number of Fire Hydrants.....	38,000
Responses to Fire Alarms (Including 17,464 False Alarms).....	34,160
Responses to Special Calls and Emergency Medical Service Calls.....	151,285
Estimated Fire Loss of Property (FYE 05/02/002).....	\$ 1,921,197,050
Health Department:	
Number of Employees.....	568
Birth Rate per Thousand (2003).....	14.8
Death Rate per Thousand (2003).....	9.5
Infant Mortality Rate per Thousand Live Births (2003).....	16.5
Libraries:	
Number of Libraries (Including Two Bookmobiles).....	77
Estimated Number of Books.....	3,497,342
Circulation.....	981,689
Number of City Owned Vehicles (Excluding 548 Transportation Department Revenue Vehicles)	
Fire Department Vehicles (Includes 49 EMS Vehicles).....	276
Police Department Vehicles.....	2,172
Transportation Department non-revenue vehicles.....	313
All Other Departments (Passenger Vehicles, Commercial Vehicles and Trucks).....	833
Public Department:	
Number of Stations (Including 16 Mini-Stations).....	28
Number of Employees (Uniform).....	4,673
Number of Traffic Citations Issued (Including 387,573 Parking Tickets).....	76,171
Number of Traffic Ordinance Violations Issued.....	79,852
Number of Arrests (Traffic 16,415) + (Other 48,174).....	79,852
Public Works Department:	
Number of Employees.....	1,316
Miles of Streets (Paved 27,697) + (Unpaved 19).....	2,784
Miles of Alleys (Paved 598.12) + (Unpaved 695.40).....	1,294
Miles of Sidewalks.....	4,266

(Continued)

Table 16

Public Lighting:	
Electric Poles:	
Number of Street Lights.....	87,500
Number of Revenue Customers.....	179
Size of Generating Station in Kilowatts.....	184,000
Kilowatt Hours Generated (Net).....	308,231,000
Kilowatt Hours Delivered to System.....	97,259,980
Steam Heating Plants - Steam Produced in Pounds:	
Recreational Department.....	381
Number of Parks, Commercial Areas, Playfields and Playgrounds Owned (5,108 Acres).....	1
Number of Summer Camps.....	30
Number of Recreation Centers, Playgrounds and School Facilities Operated.....	17
Number of Skating Rinks.....	1
Number of Swimming Pools.....	1
Number of Municipal Beaches.....	1
Total Playing Permits Issued at 6 Municipal Golf Courses.....	269,870
Sewage Disposal System:	
Number of Sewage Disposal Plants.....	1
Number of Pumping Stations.....	12
Miles of Trunk Line 1,125) + (Lateral 2,145) Sewer.....	3,383
Transportation Department:	
Number of Employees.....	1,750
Number of Revenue Vehicles.....	561
Seating Capacity.....	22,965
Number of Route Miles.....	1,158
Total Number of Passengers (Estimated).....	36,800,000
Regular Fare.....	\$ 1.50
Tickets.....	\$ 5 for 50.50
Transfers.....	\$ 0.25
Water System:	
Number of Customer Accounts.....	281,184
Average Pumpage - Millions of Gallons per Day.....	640.0
Greatest Pumpage for a Single Day During Fiscal Year (6-30-04) - July 31, 2003 Gallons.....	1,060,500,000
Greatest Pumpage for a Single Hour During Fiscal Year (6-30-04) - July 31, 2003 9 pm Gallons.....	57,288,000
Filtration Plant Rated Capacity - Millions of Gallons per Day.....	1,670.0
Number of Miles of Water Mains.....	3,840
Average Cost (Includes Domestic, Industrial and Commercial) per 1,000 Cubic Feet.....	11.49
Employees on Payroll on June 30, 2005:	
Classified (Tax Supported 5,420) + (Revenue Supported 4,243).....	9,663
Elective (Tax Supported 41) + (Revenue Supported 0).....	41
Appointive (Tax Supported 320) + (Revenue Supported 6).....	326
Uniform Police (Tax Supported 5,237) + (Revenue Supported 0).....	5,237
Total Employees (Tax Supported 13,187) + (Revenue Supported 5,743).....	18,930
Total Pensioners as of June 30, 2005.....	20,390

The miscellaneous statistics are for the most part compiled by the respective City Departments.

## Honorable Maryann Mahaffey Member Detroit City Retires



In September 2005, Detroit Council Member Maryann Mahaffey, A.C.S.W. announced that she would not run for another term to begin January 2006. Mrs. Mahaffey was elected to Detroit City Council in 1974. She served as Council President Pro Tem (1978-1982 and 1998-2001) and as President (1990-1998) and (2002-2005). She is a Professor Emerita at the School of Social Work, Wayne State University where she taught from 1965 to 1990. Maryann served 8 terms on City Council.

A native of Burlington, Iowa, she received her undergraduate degree from Cornell College, Iowa, and her Masters of Social Work degree from the University of Southern California. She has been awarded an honorary Doctor of Humane Letters Degree from Cornell College.

As a Detroit City Council member, Maryann designed the first Rape Crisis Center in the Police Department and chaired the City Council Housing Task Force with an emphasis on housing for low-income people. Some of the ordinances she is responsible for include: Emergency Homeless Shelter Licensing Ordinance, Family Child Care Zoning Laws, Home Rental Registration, Repair to Own Home Ordinance, Handgun Safety Training Ordinance, Sexual Harassment Ordinance, and an ordinance barring smoking in city-owned buildings. She authored the Policy on Homelessness for New Detroit, Inc. and the American Orthopsychiatric Association.

The City of Detroit sincerely thanks Councilmember Maryann Mahaffey for her many contributions and untiring years of faithfully serving the citizens of Detroit.

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Our Special Thanks To:  
**City of Detroit, Michigan**  
[www.ci.detroit.mi.us](http://www.ci.detroit.mi.us)

**Finance Department**  
Financial Reporting and  
Grants Management Sections  
and Staff  
Almon G. Turner Jr, MSA, Manager II  
Wolinski and Company, CPA's  
and Staff

**General Accounting Section**  
and Staff  
Richard E. Williams, Manager II  
Saeed S. Rouhani, Manager I  
David Capobres Jr, Manager I  
Cynthia Lampkin, Manager I  
and all Finance Department staff for their commitment and  
dedicated service in the preparation of this report

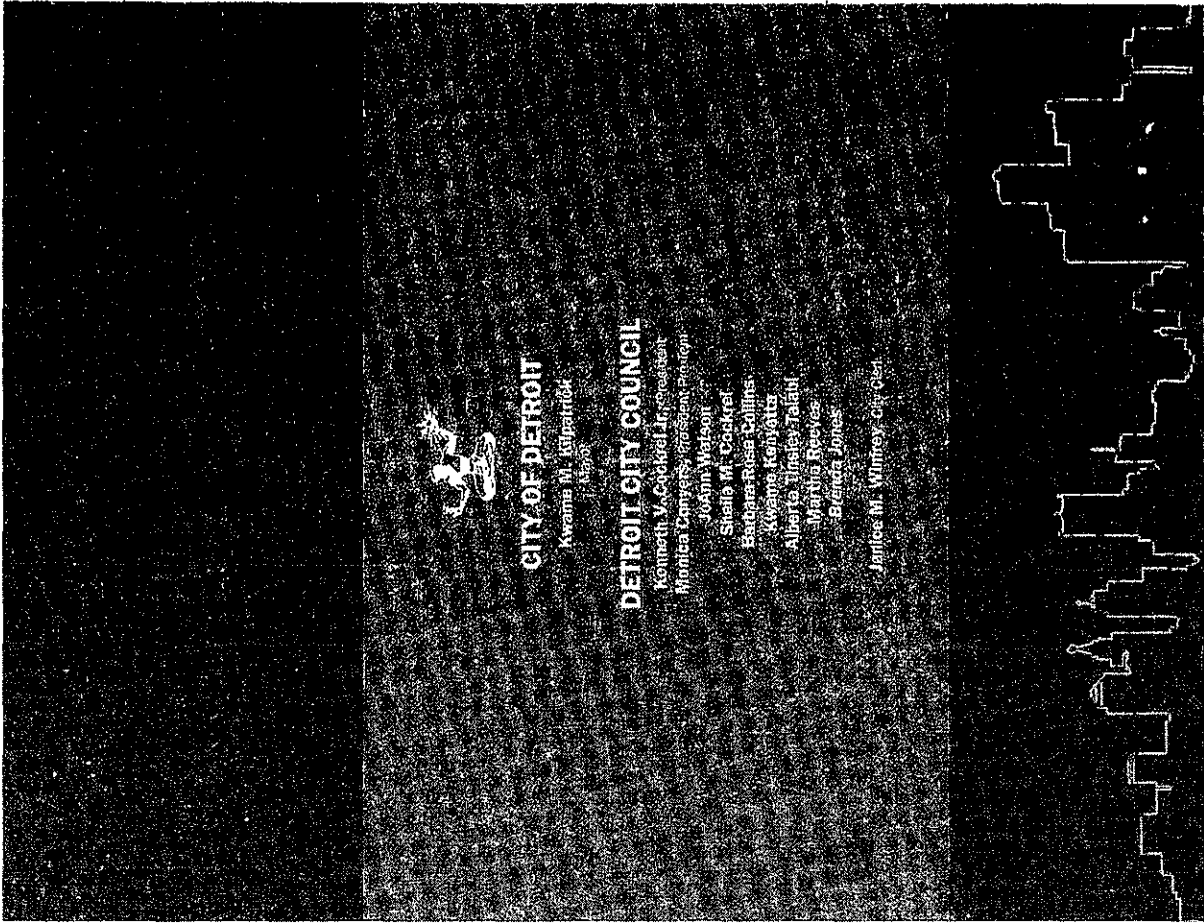
**City of Detroit - Agencies**  
for their full cooperation in providing all the necessary  
information needed to compile this report

**Detroit Resource Management System**  
and staff  
Joan Moss, General Manager

**Communications and Creative Services Department**  
Chris Kopiecko, Supervising Publicist  
Kwabena Shabu, Supervising Photographer

**KPMG LLP**  
and staff  
**Alan C. Young & Associates, P.C.**  
and Staff

**BOWNE of Detroit**  
for printing this report



## APPENDIX D

### GLOBAL BOOK-ENTRY SYSTEM

#### *General*

The description that follows of the procedures for record keeping about beneficial ownership of the Certificates, payment of principal of and interest on the Certificates, confirmation and transfer of beneficial ownership interests in the Certificates, and other securities-related transactions is based solely on information furnished by The Depository Trust Company (DTC), Clearstream and Euroclear, and has not been independently verified by the City, the Service Corporations, the 2006 Funding Trust or the Underwriters.

Beneficial owners of the Certificates may hold their certificates through DTC, which is located in the United States (U.S.), or Clearstream or Euroclear, which are in Europe, if they are participants of one of those systems, or indirectly through organizations that are participants in any of those systems.

DTC will act as a securities depository for the Certificates. Clearstream and Euroclear will hold omnibus positions, on behalf of their respective participants, through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold such positions in customers' securities accounts in the names of their respective depositories on the books of DTC.

#### *DTC*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934. DTC holds securities that DTC's participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Transfers between DTC Participants will occur in accordance with DTC rules. Transfers between Clearstream Participants and Euroclear Participants will occur in the ordinary way in accordance with their applicable rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines based on European time. The relevant European



international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to the depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and such credits or any transactions in such securities settled during such processing will be reported to the relevant Clearstream Participant or Euroclear Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC. Day traders who use Clearstream or Euroclear and who purchase the Certificates from DTC Participants for delivery to Clearstream Participants or Euroclear Participants should note that these trades may fail on the sale side unless affirmative actions are taken. Participants should consult with their clearing system to confirm that adequate steps have been taken to assure settlement.

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual owner of a Certificate (**Beneficial Owner**) is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Certificates, except when use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to advise a Beneficial Owner, of any notice of redemption or its content or effect will not affect the validity of the redemption of Certificates called for redemption or any other action premised on such notice.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus

Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect Participants and some other banks, the Beneficial Owner of a Certificate may be limited in its ability to pledge Certificates to persons or entities that do not participate in the DTC system, or to otherwise take actions with respect to those Certificates due to the lack of a physical certificate for those Certificates.

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit the accounts of the DTC Participants, upon DTC's receipt of funds and corresponding detail information from the Trustee, on payment dates in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the 2006 Funding Trust, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of DTC Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, if a successor securities depository is not obtained, Certificate certificates are required to be prepared and delivered. The 2006 Funding Trust may decide to discontinue use of the system of book-entry transfers through DTC, or a successor Securities depository. In that event, Certificate certificates will be delivered to the Beneficial Owners of the Certificates.

#### *Clearstream*

Clearstream Banking, société anonyme (**Clearstream**) is a limited liability company organized under Luxembourg law and is registered as a bank in Luxembourg. Clearstream holds securities for its Participants and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream Participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

#### *Euroclear*

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (**Euroclear Operator**).

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Non-Participants of Euroclear or any other securities intermediary that holds a book-entry interest in the Certificates through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, **Terms and Conditions**). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with Persons holding through Euroclear Participants.

#### ***Initial Settlement***

All global securities will be held in book-entry form by DTC in the name of Cede & Co. as nominee of DTC. Investors' interests in the global securities will be represented through financial institutions acting on behalf of their participants through their respective depositaries, which in turn will hold such positions in accounts as participants of DTC.

Investors electing to hold their global securities through DTC will follow the settlement practices applicable to prior asset-backed certificates issues. Investor securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their global securities through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds, except that there will be no temporary global security and no "lock-up" or restricted period. Global securities will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

#### ***Secondary Market Trading***

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

*Trading between Participants of DTC.* Secondary market trading between participants of DTC will be settled using the procedures applicable to prior asset-backed certificates issues in same-day funds.

*Trading between Clearstream, Luxembourg and/or Euroclear Participants.* Secondary market trading between Clearstream, Luxembourg or Euroclear participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

*Trading between DTC Seller and Clearstream, Luxembourg or Euroclear Purchaser.* When global securities are to be transferred from the account of a participant of DTC to the account of a Clearstream, Luxembourg or Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant at least one business day prior to settlement. Clearstream, Luxembourg or Euroclear will instruct the respective depositary, as the case may be, to receive the global securities against payment. Payment will include interest accrued on the global securities from and including the last coupon payment date to and excluding the settlement date, on the basis of the

actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31<sup>st</sup> of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made by the respective depository of the account of the participant of DTC against delivery of the global securities. After settlement has been completed, the global securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debt will be back-valued to, and the interest on the global securities will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg or Euroclear cash debt will be valued instead as of the actual settlement date.

Clearstream, Luxembourg and Euroclear participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, they may take on credit exposure to Clearstream, Luxembourg or Euroclear until the global securities are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to them, Clearstream, Luxembourg or Euroclear participants can elect not to preposition funds and allow that credit line to be drawn upon the finance settlement. Under this procedure, Clearstream, Luxembourg or Euroclear participants purchasing global securities would incur overdraft charges for one day, assuming they cleared the overdraft when the global securities were credited to their accounts. However, interest on the global securities would accrue from the value date. Therefore, in many cases the investment income on the global securities earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Clearstream, Luxembourg or Euroclear participant's particular cost of funds.

Since the settlement is taking place during New York business hours, participants of DTC can employ their usual procedures for sending global securities to the respective European depository for the benefit of Clearstream, Luxembourg or Euroclear participants. The sale proceeds will be available to DTC seller on the settlement date. Thus, to participants of DTC a cross-market transaction will settle no differently than a trade between two participants of DTC.

*Trading between Clearstream, Luxembourg or Euroclear Seller and DTC Purchaser.* Due to time zone differences in their favor, Clearstream, Luxembourg and Euroclear participants may employ their customary procedures for transactions in which global securities are to be transferred from the respective clearing system, through the respective depository, to a participant of DTC. The seller will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct the depository, as appropriate, to deliver the global securities to the account of the participant of DTC against payment. Payment will include interest accrued on the global securities from and including the last coupon payment to and excluding the settlement date on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31<sup>st</sup> of the month, payment will include interest accrued to and excluding the first day of the following month. The payment will then be reflected in the account of the Clearstream, Luxembourg or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would be back-valued to the value date (which would be the preceding day when settlement occurred in New York). Should the Clearstream, Luxembourg or Euroclear participant have a line of credit with its respective clearing system and elect to be in debt in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the

cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear and that purchase global securities from participants of DTC for delivery to Clearstream, Luxembourg or Euroclear participants should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

- Borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;
- Borrowing the global securities in the U.S. from a participant of DTC no later than one day prior to settlement, which would give the global securities sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear accounts in order to settle the sale side of the trade; or
- Staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the participant of DTC is at least one day prior to the value date for the sale to the Clearstream, Luxembourg or Euroclear participant.

#### *Certain U.S. Federal Income Tax Documentation Requirements*

**NOTICE PURSUANT TO IRS CIRCULAR 230: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) THIS OFFERING CIRCULAR IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS DISCUSSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

This summary does not deal with all aspects of U.S. Federal income tax withholding that may be relevant to foreign holders of the global securities. Investors are advised to consult their own tax advisors for specific tax advice concerning their holding and disposing of the global securities as well as the application of the U.S. Treasury regulations relating to tax documentation requirements.

A beneficial owner of global securities holding securities through Clearstream, Luxembourg or Euroclear (or through DTC if the holder has an address outside the U.S.) will be subject to the 30% U.S. withholding tax that generally applies to payments of interest (including original issue discount) on registered debt issued by U.S. Persons, unless (i) each clearing system, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business in the chain of intermediaries between such beneficial owner and the U.S. entity required to withhold tax complies with applicable certification requirements and (ii) such beneficial owner takes one of the following steps to obtain an exemption or reduced tax rate.

*Exemption for Non-US. Persons (Form W-8BEN).* Beneficial owners of global securities that are non-U.S. Persons can obtain a complete exemption from the withholding tax by filing a signed Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Withholding Tax). If the information shown on Form W-8BEN changes, a new Form W-8BEN must be filed within 30 days of such change.

*Exemption for Non-U.S. Persons with Effectively Connected Income (Form W-8ECI).* A non-U.S. Person including a non-U.S. corporation or bank with a U.S. branch, for which the interest income is effectively connected with its conduct of a trade or business in the U.S., can obtain an exemption from the

withholding tax by filing Form W-8ECI (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States).

*Exemption or Reduced Rate for Non-U.S. Persons Resident in Treaty Countries (Form W-8BEN).* Non-U.S. Persons that are security owners residing in a country that has a tax treaty with the U.S. can obtain an exemption or reduced tax rate (depending on the treaty terms) by filing Form W-8BEN (including Part II thereof).

*Exemption for U.S. Persons (Form W-9).* U.S. Persons can obtain a complete exemption from the withholding tax by filing Form W-9 (Payer's Request for Taxpayer Identification Number and Certification).

*U.S. Federal Income Tax Reporting Procedure.* The owner of a global security files by submitting the appropriate form to the person through whom it holds (the clearing agency, in the case of persons holding directly on the books of the clearing agency). Form W-8BEN and Form W-8ECI are effective until the third calendar year from the date the form is signed.

The term "U.S. Person" means:

- a citizen or resident of the U.S.;
- a corporation or partnership, or other entity taxable as such, organized in or under the laws of the U.S. or any state (including the District of Columbia);
- an estate the income of which is includible in gross income for U.S. tax purposes, regardless of its source; or
- a trust, if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

#### *Custody*

Investors who are Euroclear Participants may acquire, hold, or transfer interests in the securities by book-entry to accounts with Euroclear Operator. Investors who are not Participants of Euroclear may acquire, hold, or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear.

#### *Custody Risks*

Investors that acquire, hold, and transfer interest in the securities by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

The Euroclear Operator has advised as follows:

Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the solvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear Participants credited with such interests in securities on the Euroclear Operator's records, all Euroclear Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their *pro rata* share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights, and other entitlements) to any person credited with such interests in securities on its records.

#### *Distributions*

Distributions with respect to Certificates held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants in accordance with the relevant system's rules and procedures, to the extent received by its depository. Such distributions will be subject to tax reporting in accordance with relevant U.S. tax laws and regulations. See "UNITED STATES FEDERAL TAX CONSIDERATIONS - Information Reporting and Backup Withholding" in the Offering Circular which precedes this Appendix. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a beneficial owner of the Certificates under the Trust Agreement on behalf of a Clearstream Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its depository's ability to effect such actions on its behalf through DTC.

DTC, Clearstream, and Euroclear are under no obligation to perform or continue to perform the foregoing procedures, and such procedures may be discontinued at any time.

No one can give any assurance that DTC, Clearstream, or Euroclear, or any of their direct or indirect Participants, will promptly transfer payments or notices received with respect to the Certificates. The 2006 Funding Trust, the Trustee, the Service Corporations and the City are not responsible for the failure of any of those parties to transfer to the Beneficial Owner payments or notices received with respect to the Certificates.

Similarly, no one can give any assurance that any depository will abide by its procedures or that its procedures will not be changed. In the event the 2006 Funding Trust designates a successor securities depository for the Certificates, the successor may establish different procedures

## APPENDIX E

### INFORMATION ABOUT FINANCIAL GUARANTY

*Financial Guaranty has supplied the following information for inclusion in this APPENDIX E. No representation is made by the 2006 Funding Trust, the Service Corporations, the City or the Underwriters as to the accuracy or completeness of this information.*

#### Payments Under the FGIC Policy

Concurrently with the issuance of the FGIC-insured Certificates, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Certificate New Issue Insurance Policy for the FGIC-insured Certificates (the "FGIC Policy"). The FGIC Policy unconditionally guarantees the payment of that portion of the principal and interest on the FGIC-insured Certificates which has become due for payment, but shall be unpaid by reason of nonpayment of the FGIC-insured Certificates by the 2006 Funding Trust (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of FGIC-insured Certificates or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any FGIC-insured Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a FGIC-insured Certificate includes any payment of principal or interest (as applicable) made to an owner of a FGIC-insured Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by Financial Guaranty. The FGIC Policy covers failure to pay principal of the FGIC-insured Certificates on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC-insured Certificates may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC-insured Certificates is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the FGIC-insured Certificate, appurtenant coupon or right to payment of principal or interest on such FGIC-insured Certificate and will be fully subrogated to all of the FGIC-insured Certificateholder's rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure FGIC-insured Certificates, Financial Guaranty may be granted certain rights under the FGIC-insured Certificate documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the FGIC-insured Certificates may be



set forth in the description of the principal legal documents appearing elsewhere in the Offering Circular which precedes this Appendix, and reference should be made thereto.

The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

#### **Financial Guaranty Insurance Company**

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At March 31, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of The Blackstone Group L.P. – 23%; and affiliates of The Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the FGIC Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At March 31, 2006, Financial Guaranty had net admitted assets of approximately \$3.603 billion, total liabilities of approximately \$2.454 billion, and total capital and policyholders' surplus of approximately \$1.149 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of March 31, 2006, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Appendix. Any statement contained herein under the heading "APPENDIX E" in the Offering Circular, or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix or the Offering Circular. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of the Offering Circular

and prior to the termination of the offering of the FGIC-insured Certificates shall be deemed to be included by specific reference into this Appendix and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

#### **Financial Guaranty's Credit Ratings**

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC-insured Certificates, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the FGIC-insured Certificates. Financial Guaranty does not guarantee the market price or investment value of the FGIC-insured Certificates nor does it guarantee that the ratings on the FGIC-insured Certificates will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Offering Circular which precedes this Appendix or any information or disclosure that is provided to potential purchasers of the FGIC-insured Certificates, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the FGIC Policy herein under the heading "APPENDIX E" in the Offering Circular. In addition, Financial Guaranty makes no representation regarding the FGIC-insured Certificates or the advisability of investing in the FGIC-insured Certificates.

# **XL** CAPITAL ASSURANCE

1221 Avenue of the Americas  
New York, New York 10020  
Telephone: (212) 478-3400

## **MUNICIPAL BOND INSURANCE POLICY**

**ISSUER:** [            ]

**Policy No:** [            ]

**BONDS:** [            ]

**Effective Date:** [            ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCAP-005 Form of Municipal Policy [Specimen]

F-6

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

XLCAP-005  
Form of Municipal Policy [Specimen]

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APPENDIX G

Upon the issuance and delivery of the Certificates, Certificate Counsel, Lewis & Munday, A Professional Corporation, proposes to deliver its opinion in substantially the following form.

June •, 2006

Detroit Retirement Systems Funding Trust 2006  
c/o U.S. Bank National Association, as trustee  
Detroit, Michigan

Ladies and Gentlemen:

We acted as Certificate Counsel in connection with the issuance by the Detroit Retirement Systems Funding Trust 2006 (the *Funding Trust*) of the Certificates of Participation Series 2006-A and the Certificates of Participation Series 2006-B, (collectively, the *Certificates*) and in that capacity we examined a transcript of the proceedings relating to the issuance of the Certificates.

The Funding Trust was created by the Trust Agreement, dated June •, 2006 (the *Trust Agreement*), between the Detroit General Retirement System Service Corporation (the *GRS Service Corporation*) and the Detroit Police and Fire Retirement System Service Corporation (the *PFRS Service Corporation*), severally and not jointly, and U.S. Bank National Association, as trustee (the *Trustee*). Each of the GRS Service Corporation and the PFRS Service Corporation is herein called a *Service Corporation* and collectively the *Service Corporations*.

The Certificates are issued pursuant to the below defined Resolution and the Service Contracts and under the Trust Agreement. The Certificates evidence undivided, proportionate interests in the rights to receive certain payments (*Funding Trust Receivables*) to be made by the City of Detroit, Michigan (the *City*), under (i) the Detroit General Retirement System Service Contract 2006, dated June 7, 2006, between the City and the GRS Service Corporation and (ii) the Detroit Police and Fire Retirement System Service Contract 2006, dated June 7, 2006, between the City and the PFRS Service Corporation (each, a *Service Contract* and collectively, the *Service Contracts*). The Service Corporations were created pursuant to Ordinance No. 05-05 of the City. The Service Contracts, the formation of the Funding Trust by the Service Corporations and the issuance of certificates of participation thereunder were authorized by resolution of the City Council of the City, adopted on April 26, 2006 (the *Resolution*).

The Service Contracts are administered for the Service Corporations and the Funding Trust by U.S. Bank National Association (the *Contract Administrator*), separately and not as Trustee, pursuant to the Contract Administration Agreement, dated June •, 2006 (the *Contract Administration Agreement*), among the Funding Trust, each of the Service Corporations, severally and not jointly, and the Contract Administrator and other parties named therein.

The Certificates are issued for the purpose of funding (i) the prepayment of certain payments otherwise required to be made by the City under the service contracts it entered into with the Service Corporations on May 25, 2005 (the *2005 Service Contracts*), and (ii) the purchase of certain certificates of participation issued on June 2, 2005 (the *2005 Certificates*). The 2005 Certificates evidence undivided, proportionate interests in certain payments to be made under the 2005 Service Contracts.

The 2005 Service Contracts were entered into by the City with the Service Corporations for the purpose of funding specific amounts of the unfunded accrued actuarial liabilities (*Subject UAAL*) of each of the City's General Retirement System (the *GRS*) and Police and Fire Retirement System (the *PFRS* and with the *GRS*, the *Retirement Systems*). The effect of funding the Subject UAAL under the 2005 Service Contract was to reduce the financial burden of the Retirement Systems to the City in the present and future years. The 2006 Certificates are intended to have effect of restructuring certain payments under the 2005 Service Contracts and thereby assist the City in fulfilling its constitutional obligations with respect to the Retirement Systems. In consideration for such assistance by the Service Corporations, the City agreed in each Service Contract to pay the Funding Trust Receivables, which include, as service charges, the funding costs of the Service Corporations in obtaining the capital represented by the Certificates.

The City's special labor counsel, Sullivan Ward Asher & Patton PC, rendered an opinion on certain matters of labor law relative to the opinions expressed herein. That opinion is included in the transcript of proceedings.

Based on our examination of the transcript of the proceedings, we are of the opinion that:

1. Each Service Corporation validly exists as a nonprofit corporation under the laws of the State of Michigan and has the corporate power to enter into its Service Contract and the Trust Agreement. The City has the power to enter into the Service Contracts.
2. Each Service Contract was validly authorized, executed and delivered by the respective Service Corporation and the City and is a valid and binding agreement of such Service Corporation and the City and is enforceable in accordance with its terms. Neither the faith and credit nor the taxing power nor any special revenues of the City are pledged to the payment of Funding Trust Receivables, and the obligation of the City to pay Funding Trust Receivables does not constitute indebtedness within the meaning of any limitation of Michigan law applicable to the City.
3. The Contract Administration Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee on behalf of the Funding Trust and by the Contract Administrator, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.
4. The Trust Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.

5. The Funding Trust was validly created by the Trust Agreement and has the power to issue and deliver the Certificates.

6. The Certificates were validly issued and delivered by the Funding Trust and represent undivided interests in the Funding Trust Receivables in accordance with their terms.

The enforceability of the Service Contracts, the Contract Administration Agreement and the Trust Agreement may be limited or affected by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally applicable and may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

Very truly yours,



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## APPENDIX H

### CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking ("**Undertaking**") is executed and delivered by the City of Detroit, County of Wayne, State of Michigan ("**City**") in connection with the issuance of the \$148,540,000 Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series 2006-A and \$800,000,000 Detroit Retirement Systems Funding Trust 2006 Certificates of Participation Series 2006-B (collectively, "**Certificates**"). The City covenants and agrees for the benefit of the Certificateholders (as defined below) as follows:

(a) **Definitions.** The following terms used in this Undertaking have the following meanings:

**"Audited Financial Statements"** means the City's audited financial statements prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

**"Certificateholder"** means the registered owner of any Certificate or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate (including any person holding a Certificate through a nominee, depository or other intermediary) or (b) treated as the owner of any Certificate for federal income tax purposes.

**"Disclosure Representative"** means the Finance Director of the City or his designee, or such other officer, employee or agent as the City shall so designate from time to time in writing.

**"MSRB"** means the Municipal Securities Rulemaking Board.

**"NRMSIR"** means each nationally recognized municipal securities information repository as designated by the SEC in accordance with the Rule.

**"Rule"** means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

**"SEC"** means the United States Securities and Exchange Commission.

**"SID"** means the state information depository for the State of Michigan, if any, then designated by the SEC in accordance with the Rule, being the Michigan Municipal Advisory Council as of the date of this Undertaking.

(b) **Continuing Disclosure.** The City hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to each NRMSIR and to the SID, on or before the 210th day after the end of the fiscal year of the City, commencing with the fiscal year ended June 30, 2006, the Audited Financial Statements, and updates of certain financial and operating data of the City appearing under the headings and tables in the Offering Circular for the Certificates, as follows: Tables 1 through 31, inclusive in Appendix B to the Offering Circular.

Such annual financial information described above is expected to be provided directly by the City and in subsequent Official Statements of the City filed with the MSRB.

In the event that the Audited Financial Statements are not available by the date specified above, they will be provided when available and unaudited financial statements in a format similar to the financial statements contained in the Offering Circular will be filed by such date and the Audited Financial Statements will be filed as soon as available.

If the fiscal year of the City is changed, the City shall send notices of such change to each NRMSIR or the MSRB, and to the SID, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) **Notice of Failure to Disclose.** The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of a failure by the City to provide the annual financial information with respect to the City described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) **Occurrence of Events.** The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Certificates, if applicable, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;\*
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates;\*
- (7) modifications to rights of holders of the Certificates;
- (8) Certificate calls;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Certificates; and
- (11) rating changes.

\* (Events listed in clauses (3) & (6) above are not applicable to the Certificates.)

(e) **Materiality Determined Under Federal Securities Laws.** The City agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) **Termination of Reporting Obligation.** The obligation of the City to provide annual financial information and notices of material events, as set forth above, shall be terminated if and when the City no longer remains an "obligated person" with respect to the Certificates within the meaning of the Rule, specifically not including upon economic (as distinct from legal) defeasance of all Certificates.

(g) **Benefit of Certificateholders.** The City agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Certificateholders and shall be enforceable by any Certificateholder; *provided*, that the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the City's obligations hereunder and any failure by the City to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Certificates or under the Trust Agreement or Service Contracts mentioned in the Certificates.

(h) **Amendments to the Undertaking.** Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the Disclosure Representative on behalf of the City; *provided*, that the City agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the City or the type of activities conducted by it, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Certificateholders, as determined by parties unaffiliated with the City (such as independent legal counsel), *but* such interpretations may be changed in the future. If the accounting principles to be followed by the City in preparing the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. A notice of the change in accounting principles shall be sent to each NRMSIR or the MSRB and the SID.

IN WITNESS WHEREOF, the City of Detroit has caused this Undertaking to be executed by its authorized officer.

CITY OF DETROIT  
County of Wayne  
State of Michigan

By \_\_\_\_\_  
Roger Short  
Its: Interim Finance Director

Dated as of \_\_\_\_\_, 2006

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Since its fiscal year ended June 30, 1999, the City has been unable to meet its obligation to provide annual financial information within the periods specified in the applicable continuing disclosure agreements. Annual financial information for fiscal 1999 through 2004 was filed on May 10, 2000, May 28, 2001, May 31, 2002, March 10, 2003, February 9, 2004 (for water supply system bonds and sewage disposal system bonds), March 1, 2004 (for other bonds), February 16, 2005 (for water supply system bonds and sewage disposal system bonds), May 5, 2005 (for other bonds) and June 1, 2006.

Dated: June 7, 2006

**CITY OF DETROIT**

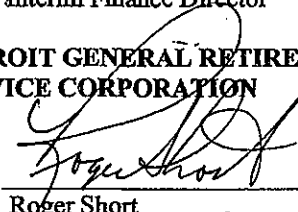
By

  
\_\_\_\_\_  
Roger Short

Its: Interim Finance Director

**DETROIT GENERAL RETIREMENT SYSTEM  
SERVICE CORPORATION**

By

  
\_\_\_\_\_  
Roger Short

Its: President

**DETROIT POLICE AND FIRE RETIREMENT  
SYSTEM SERVICE CORPORATION**

By

  
\_\_\_\_\_  
Roger Short

Its: President

Offering Circular dated June 7, 2006