DETROIT, Dec. 24, 2013 /PRNewswire/ -- Following two days of intense negotiations with a federal mediator, the City and the banks that underwrote a controversial pension funding plan have agreed to further reduce the termination amount to $165 million.

The agreement, which must still be approved by federal bankruptcy Judge Steven Rhodes, would remove a major hurdle to Detroit's continued restructuring and turnaround efforts. The deal on the pension funding instruments will free up the City's casino revenue — about $15 million a month — to be used on rebuilding and improving basic services for its 700,000 residents and it closes the chapter on a financial deal that helped drive the city to insolvency.

"This is an important development for the City and its residents because it means we can start moving forward on implementing needed investments in public safety and services," Emergency Manager Kevyn Orr said. "This agreement represents a significant reduction from the original deal struck with the banks. The banks and the City, through mediation, and with the mediator's recommendation, have accepted the reduction in terms."

Originally, the banks — Bank of America Merrill Lynch and UBS — had agreed to terminate the City's debt on the pension deals for $230 million, which represented approximately a 25-percent reduction from the $293.3 million the City owed on the secured debt. Today's deal put the savings to the city at $128 million, or 43 percent of the original amount owed.

To pay the banks, the City has secured $350 million in post-petition financing loan through Barclays. As a result of the mediation deal today, the City has agreed to lower the post-petition financing loan to $285 million: $165 million to the termination amount to the banks and $120 million cash to the City to fund immediate improvements to basic city services.

The termination agreement and the revised post-petition financing loan must be approved by Judge Rhodes at a hearing scheduled for Jan. 3, 2014.

Chief U.S. District Judge Gerald Rosen led the mediation negotiation here Monday and today.

SOURCE City of Detroit