



STATE OF MICHIGAN  
EXECUTIVE OFFICE  
LANSING

RICK SNYDER  
GOVERNOR

BRIAN CALLEY  
LT. GOVERNOR

March 14, 2013

**BY ELECTRONIC MAIL**

Dave Bing, Mayor  
City of Detroit  
2 Woodward Avenue  
Detroit, Michigan 48226

Detroit City Council  
2 Woodward Avenue  
Detroit, Michigan 48226

Dear Mayor Bing and Detroit City Councilmembers:

On February 19, 2013, the Detroit Financial Review Team transmitted its report to my Office. The report concluded, pursuant to Section 14(3)(c) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, that a local government financial emergency exists in the City of Detroit because no satisfactory plan exists to resolve a serious financial problem.

On March 1, 2013, I concurred in the assessment of the Detroit Financial Review Team and determined, pursuant to Section 15(2) of the Act, that a local government financial emergency exists in the City of Detroit because no satisfactory plan exists to resolve a serious financial problem. My March 1, 2013, letter of determination set forth the findings of fact upon which my determination was based and also provided notice of the City's right to request a hearing upon the determination.

On March 7, 2013, the Detroit City Council requested a hearing upon the determination of a local government financial emergency in the City of Detroit, pursuant to Section 15(2) of the Act. The hearing was conducted on March 12, 2013, before Chief Deputy Treasurer Mary G. McDowell.

On March 13, 2013, the Chief Deputy Treasurer submitted to me her report concerning the testimony and information received at the hearing. Having carefully reviewed the record of that hearing, and pursuant to Section 15(2) of the Act, I hereby confirm my determination that a local government financial emergency exists in the City of Detroit because no satisfactory plan exists to resolve a serious financial problem.

The testimony presented on behalf of the Detroit Financial Review Team by Frederick Headen, Legal Advisor to the State Treasurer and member of the Review Team, documented the financial condition of the City, which I summarize as follows:

- The City continued to experience a significant depletion of its cash. Projections by City officials had estimated a cumulative cash deficit in excess of \$100.0 million by June 30, 2013, absent the implementation of financial countermeasures. However, the Review Team found that those financial countermeasures that had been implemented were too heavily weighted toward one-time savings and applied only to non-union employees who represented only a small portion of the city's overall wage and benefit burden.
- The City's General Fund had not experienced a positive year-end fund balance since fiscal year 2004. Since that time, the General Fund had cumulative deficits ranging from \$155 million in fiscal year 2005, to \$332 million in fiscal year 2009. The General Fund deficit was \$327 million in fiscal year 2012, which ended last June 30. The primary methods by which City officials sought to address these deficits was by issuing long-term debt. In fact, had City officials not issued debt, the City's accumulated General Fund deficit at the end of fiscal year 2012 would have been \$938 million instead of \$327 million.
- As of June 30, 2012, the City's long-term liabilities, including unfunded actuarial accrued pension liabilities and other post-employment benefits, exceeded \$14 billion. City officials had projected that over the next five years, the expenditures needed to fund only a portion of those liabilities would total approximately \$1.9 billion. However, City officials had not, as of the time the Review Team filed its report, devised a satisfactory plan to address the long-term liability issue.
- The Review Team concluded that the City charter contained numerous restrictions and structural details which made it extremely difficult for City officials to restructure the City's operations in any meaningful and timely manner. These restrictions included numerous steps and time periods that had to be observed before certain proposed changes might be implemented and provisions which made it all but impossible to restructure municipal services.
- The December 28, 2012, management letter which accompanied the City's fiscal year 2012 financial audit identified numerous material weaknesses and significant deficiencies in the city's financial and accounting operations.

Testimony on behalf of the City Council was presented by Edward V. Keelean, Deputy Corporation Counsel acting as Corporation Counsel, Irvin Corley, Jr., Fiscal Analyst for the City Council's Fiscal Analysis Division, and David Whitaker, Director of the City Council's Research and Analysis Division. Mr. Corley indicated that City officials did not disagree that the City is in a financial emergency.

Rather, the testimony presented on behalf of the City Council asserted that City officials do have a satisfactory plan for addressing the City's financial emergency and that the plan consisted of the following three components:

- The Financial Stability Agreement which was executed in April of 2012.

- The November 2012 Milestone Agreement.
- The cash crisis countermeasures that City officials adopted in late December 2012 and January of 2013.

The essence of the testimony presented on behalf of the City Council was that City officials had made progress in implementing reforms under all three components and could continue to make further progress if given additional time. Mr. Corley and Mr. Whitaker attributed any delays in implementing required financial or structural reforms to a number of factors, including litigation and events surrounding former Public Act 4 of 2011.

It is noteworthy that the Review Team gave consideration to the various proposals about which testimony was presented on behalf of the City Council. Nevertheless, the Review Team still concluded that City officials had failed to offer a satisfactory plan as required by law for the reasons set out in its supplemental report. As set forth in Ms. MacDowell's report, nothing presented by City officials at the hearing disturbed the Review Team's conclusion, and my subsequent determination, that a financial emergency exists in the City of Detroit.

Section 15(2) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, provides in part, as follows:

Following the hearing, or if no hearing is requested following the expiration of the deadline by which a hearing may be requested, the governor shall either confirm or revoke, in writing, the determination of the existence of a local financial emergency. If confirmed, the governor shall provide a written report of the findings of fact of the continuing or newly developed conditions or events providing a basis for the confirmation of a local financial emergency, and a concise and explicit statement of the underlying facts supporting these factual findings.

Therefore, pursuant to Section 18(1) of the Act, I hereby assign responsibility for managing the financial emergency in the City of Detroit to the Local Emergency Financial Assistance Loan Board established pursuant to Public Act 243 of 1980. Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, requires the Board to appoint an emergency financial manager for the City.

Sincerely,



Rick Snyder  
Governor

cc: Local Emergency Financial Assistance Loan Board