



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

May 16, 2012

Krystal A. Crittendon  
Corporation Counsel for the City of Detroit  
660 Woodward Avenue, Suite 1650  
Detroit, Michigan 48226-3535

Re: Financial Stability Agreement between the State and City of Detroit

Dear Ms. Crittendon:

This letter is in response to your letter dated May 11, 2012 in which you contend that the Financial Stability Agreement (FSA) is “void and unenforceable as a matter of law” because you claim that the State has outstanding “debts” to the City. This contention is based on a dispute regarding a water bill from 2010 and the State’s past reduction in revenue sharing to the City. You cite MCL 117.5(1)(f) of the Michigan Home Rule City Act, which provides that a city may not enter a contract with “one who is in default,” and further cite the 2012 Detroit City Charter, § 2-113, which adopted language from this statute.

Before addressing these claims, it is important to note that the FSA was created to provide citizens with assurances that Detroit would begin to tackle the severe financial problems that have plagued the city for decades and provide residents with the services that they deserve. It was crafted through a collaborative effort between the State, through the Governor-appointed City of Detroit Financial Review Team, and the City’s elected Mayor and Council. The willingness of Mayor Dave Bing and the Detroit City Council to come to this agreement shows their commitment to reach the long sought-after goal of financial stability in Detroit.

The claims that the agreement is “void and unenforceable” based on debts owed to the city are confusing in light of applicable law and the facts at hand. From both a legal and common sense perspective, the FSA is a valid and enforceable contract, and necessary for Detroit to begin to move forward. Because the City voluntarily entered into the agreement, and all the facts cited in your letter as the basis for it being “void and unenforceable” were known to you and the City at that time, we must assume that the claim made in your letter is based upon some sort of

misunderstanding. It naturally remains our intent to move forward in resolving the City's severe financial problems under the terms of the FSA.

To be clear, the State is not in default to the City.

Assuming for purposes of a response only that MCL 117.5(1)(f) would foreclose a municipality from entering into a contract with another governmental entity that is in "default," there is no basis to claim that the State has defaulted on its obligations to the City. Consistent with Attorney General Opinion No. 7241, a "default" under that provision arises where "[a] person has failed to meet a financial, contractual, or other obligation to the city after adequate notice of the obligation and opportunity to cure it were provided to the person *and the obligation is not the subject of a pending judicial or administrative proceeding.*" OAG, No. 7241, February 10, 2010, p. 108 (emphasis added).

With respect to the "\$4.75 million" water bill from 2010, this matter is currently the subject of an administrative hearing under the caption, *In the Matter of Deborah Gillis v. Detroit Water and Sewerage Department* (Hearing No. 1527). As you know, on March 1, 2012, the hearing officer adjourned the hearing date to enable the parties to exchange documentation. The issue about any obligation of the State to make payment here is disputed and is the subject of a pending administrative proceeding. There is no "default."


With respect to the State's reduction in statutory revenue sharing to the City, there is no legal obligation for the State to maintain statutory revenue sharing payments to the City at a specific level. The State has no outstanding debt of \$224 million to the City. The administration worked with the City and the legislature last year to enact Public Acts 56 and 57 to enable the city to collect \$120,000,000 in city income tax and \$42,000,000 in utility users tax that they would not have been legally able to given its decrease in Census population.

The State fully anticipates that the City will meet its obligations under the financial stability agreement. The agreement itself outlines the obligations of the parties under the agreement in 6.1 ("obligations of the parties"), and the process by which the Financial Advisory Board will determine if there is an uncured, material breach of the agreement under 6.2 ("material breach; default"). The agreement also provides for the remedies for an uncured material breach of this agreement, listing in (a) through (f), the actions that may be taken in response under 6.3.

The State is committed to the financial stability agreement, and to the success of the City of Detroit. The financial stability agreement is the linchpin to this success.

If you wish to discuss this matter further, please do not hesitate to contact my office and we can schedule a meeting to talk about the 2010 water bill, revenue sharing, or any other matter that you believe is relevant for the State to consider.

Sincerely yours,



Andy Dillon  
State Treasurer

cc: Hon. Mayor Dave Bing  
Hon. Charles Pugh  
Hon. Gary Brown  
Hon. Saunteel Jenkins  
Hon. Kenneth V. Cockrel, Jr.  
Hon. Brenda Jones  
Hon. Andrey L. Spivey  
Hon. James Tate  
Hon. Kwame Kenyatta  
Hon. JoAnn Watson