The ANDY DILLION meeting with JOANN WATSON and TOM BARROW

DETROIT BANKRUPTCY

The ANDY DILLION meeting with JOANN WATSON and TOM BARROW
March 4, 2013

Important information about Detroit and the bankruptcy

The Andy Dillon meeting with Joann Watson and Tom Barrow reveals the reason why Detroit was placed in bankruptcy by Governor Snyder. The meeting provides an insight into the planning by Governor Snyder and Andy Dillon for the Emergency Manager and the Bankruptcy filling in Detroit.

THE MEETING

On Monday, March 4, 2013, Michigan State Treasurer, Andy Dillon, acting on behalf of Governor Snyder, summoned each member of the Detroit City Council to one-on-one private meetings. Each Council member was allotted 30 minutes to name four “sacred” things that they did not want the EFM “to touch” in return for their cooperation with a state appointed Emergency Financial Manager (“EFM”).

DETROIT CITY COUNCIL MEMBERS

City Council leaders Charles Pugh and Gary Brown went together and of those who went at all to their meeting did so alone and without benefit of staff or advisers. Recognizing that such a meeting with the State Treasurer was of great importance to the City, the Honorable JoAnn Watson enlisted Citizens for Detroit’s Future’s President, Tom Barrow, an expert in municipal finance and accounting, and asked that he accompany her to query the Treasurer on her behalf. The Treasurer was informed by Ms. Watson that she would attend and will have someone with her. No names were mentioned and her meeting was set to be the last of the gatherings.

DETROIT CITY COUNCIL MEMBER INVITES AN EXPERT IN FINANCE

Upon arrival, Councilwoman Watson and Barrow were greeted by Andy Dillon, Treasurer of the State of Michigan. Councilwoman Watson explained that Barrow was her adviser in this matter. Treasurer Dillon proceeded to explain that the purpose of the meeting was to seek Councilwoman Watson’s support for the EFM asking what four things she would like to go untouched by the EFM in return for her cooperation.

JOANN WATSON ASK ANDY DILLION ABOUT THE MONEY THE STATE OWES TO DETROIT

Barrow was never so proud to be a Detroiter then at that meeting as he watched Councilwoman Watson refuse the bait in every form in which it was advanced. Councilwoman Watson then proceeded to ask for the money owed to the City of Detroit by the state under and agreement between the Archer Administration and then-Governor John Engler to hold Detroit’s State Revenue Sharing constant in exchange for Detroit’s promise to lower its personal and corporate income tax rates (which Detroit did).

ANDY DILLION REFUSES TO PAY WHAT IS OWED TO THE CITY OF DETROIT!
Mr. Dillon dismissively retorted said that that agreement was "not enforceable", to which Barrow explained that "oral contracts are enforced everyday and this one is in compelling need of such enforcement" except that in this circumstance the city's Mayor simply lacks the will to seek such enforcement.

TOM BARROW QUESTIONS ANDY DILLION
When Ms. Watson then invited Barrow to initiate her more specific and technical line of inquiry, Barrow began by asking for specificity to his queries on behalf of the Councilwoman. The following is a paraphrasing of that exchange.

Treasurer Dillon's tone, inflection and manner made it exceedingly clear that Detroit will have an EFM appointed and that actually any appeal would be futile as the railroad is already running.

TOM BARROW QUESTIONS ANDY DILLION
Barrow began by asking what the basis was for the EFM and was told it was "to correct the balance sheet" and "the long-term legacy debt". Stating that his response was vague, Barrow asked exactly what that meant and whether he was speaking of the city's "$12 billion debt" referred to in news media accounts, which Dillon confirmed.

ANDY DILLION ANSWERS THE QUESTIONS
Using a standard finance technique, Barrow then proceeded to parse that debt seeking specificity, asking on behalf of the Councilwoman whether the EFM intended to renegotiate the Bond Debt currently being held by the banks. The Treasurer explained that that was not the reasoning, in short, "No". Puzzled, Barrow then asked if the EFM would be renegotiating the Revenue Bonds securing the Water Department's Sewerage Fund and was again told "No". He then asked would the EFM be renegotiating the Revenue Bonds securing the Water Fund itself and was told "No".

ANDY DILLION BACKED INTO CORNER..MORE TRUTH IS COMING OUT
After explaining that was the entire city's formal long-term debt, Barrow asked if the state was really concerned about the future pension costs and <u>Dillon confirmed that the purpose of the EFM was to cut the city's future health and pension costs.</u> Astonished, Barrow stated that future costs do not put Detroit in a "Financial Emergency" today and asked why state officials had not made this stated real purpose clear so that the Mayor and Council would approach city workers and retirees respectfully and negotiate a solution. <u>The Treasurer sat quietly and did not respond.</u>

ANDY DILLION AVOID ANSWERING THE QUESTIONS
The Treasurer then proceeded to present the "Financial Review Report" and explain that General Fund borrowings in the past were revenues in the General Fund. Barrow explained that Long-Term borrowings can never be revenues in a municipality's or a School District's General Fund. Rather, such Debt over a period of years is properly accounted for in the Long term Debt Group of Accounts, referred to as the Debt Service Fund.

ANDY DILLION CONTINUES TO AVOID THE QUESTION
The Treasurer repeated his claim and Barrow emphatically disagreed that such accounting treatment by the state is improper under Governmental Accounting Rules. Barrow proceeded to

explain that Long-Term borrowings are only depicted in a General Fund's analysis of "Sources and Uses" in reconciling the General Fund's Fund Balance so as to effectuate a debt defeasment (pay off prior city losses by issuing Long-Term debt). Barrow explained that such borrowing is never revenue of a General Fund according to Governmental Accounting Standards. The Treasurer disagreed.

REFERENCE SUPPORTS TOM BARROW'S QUESTIONS
[Note: Please refer to Page 43 f the City's 2010 Comprehensive Annual Financial Report certified by KPMG wherein Long-Term Bonds were issued to defease prior period's deficits. In that report, the City of Detroit issued $251 million of "deficit defeasement bonds". In the Revenue Section note that there is NO revenue from a Bond Issuance as Dillon treats it. Also note that in the "Other Financing Sources (Uses)" Section, where the General Fund Fund Balance is reconciled, "Sources" include the $251 million to defease the General Fund deficit].

THE CITY OF DETROIT HAS PAID BILLS ON TIME, SAYS ANDY DILLION
Councilwoman Watson then asked and the Treasurer confirmed that the City of Detroit has not missed any bond principal payments; <u>has not missed any bond interest payments; has not missed a payroll; and has not failed to pay any obligation. The Treasurer also **agreed** that all of that was true.</u>

THERE IS NO SHORT TERM CRISIS!
Finally, the discussion turned to current cash requirements as that is the stated reasoning for a state takeover. Barrow asked about the $137 million borrowed in November 2012 explaining that in the 2012 Audited Financial Statement's "Subsequent Events" footnote, $79.5 million went immediately to defease the prior year's short-term tax anticipation notes leaving $60 million of tax anticipation notes in the state's bank account and held on behalf of the City of Detroit. Barrow's unstated reasoning was to determine whether there was a short-term cash crisis necessitating a "Financial Emergency".

ANDY DILLION ADMITS THE CITY HAS CASH!
<u>Barrow then queried the Treasurer as to how much of the remaining $60 million has the city drawn upon since November 2012 and was told none…ZERO!</u> This admission alone made it clear that the City has adequate operating cash. He then informed the Treasurer that the KPMG audited financial statement's footnotes revealed that Detroit had a $66.5 million reduction in state revenue sharing last year as a result of the state's prior depressed economy but that the current economy has improved dramatically and that revenue sharing would be expected to increase in the 2013-2014 fiscal period and Mr. Dillon agreed. Barrow further indicated that such increased state revenue sharing would increase the 2013-2014 fiscal period's cash flows. The Treasurer also agreed. The Treasurer further agreed that the city's General Fund has had operating surpluses for a number of years except for "Transfers Out".

DETROIT DEPARTMENT OF TRANSPORTATION
Based on these revelations, the discussion turned to the city's "Transfers Out" as shown in the General Fund [which drains the General Funds excess revenues] in an effort to determine which transfers an EFM will address that the city itself could not. The Treasurer indicated that it will be the subsidy to the City's Transportation (D-DOT) and Lighting Departments (Public Lighting).

After explaining that D-DOT is not intended to make a profit but provide a needed service, it was clear that a decision had implicitly been made to transfer D-DOT to the recently created Regional Transportation Authority effectively removing all revenue and superintending control from the City of Detroit.

THE REVIEW TEAM ASSIGNED BY GOVERNOR SNYDER

With the allotted half hour up, Barrow then told the Treasurer, in no ambiguous terms, that in his opinion, the review teams' accounting was flawed, that a city meeting its obligations makes no clear case for a "Financial Emergency" or an abrogation of a city's democracy rendering its elected officials powerless.

CONCLUSION

Afterwards, Barrow reviewed the meeting with Councilwoman Watson and explained that he was now convinced, more than ever, that by misusing accounting rules and using flawed reasoning, the "financial emergency" is contrived so as to enable an appointed Detroit EFM to privatize the city's bus system; to privatize the city's public lighting system; to bust the city's unions by privatizing clear city functions and thereby lay-off Detroit's work force destroying thousands of city households under the phony guise of right-sizing. Moreover, State officials, without informing the duly and democratically elected officials of the City of Detroit of the real reason, seek to impose upon current workers and pensioners changes in health care and benefits to their detriment even as the City has already taken its one-time losses by getting out of the "credit swaps" and "derivative" markets (the financial instruments that caused the mortgage crisis).

STATE TAKE OVER BY GOVERNOR SNYDER

Finally, the fact that $60 million of the $137 million of tax anticipation notes remains unused as of today, March 6, 2013, and without factoring in hundreds of millions of dollars in uncollected business and property taxes and million of dollars in television rights from sporting venues due to the City by entities which are fully collectible and by not factoring in anticipated increases in State Revenue Sharing, makes clear that the City of Detroit indeed has no immediate justification for a crisis and makes the need for a state takeover a well-orchestrated contrivance.