



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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***Treasury Preliminary Review Finds
“Probable Financial Stress” in Detroit***
Financial Review Team is Next Step

State Treasurer Andy Dillon today, sent a report to Governor Rick Snyder, indicating that the Department of Treasury’s preliminary review of the City of Detroit’s finances, pursuant to Public Act 4 of 2011, the Local Government and School District Financial Accountability Act, has found probable financial stress. Under PA 4, the next step is the appointment of a financial review team. As with the preliminary review process, a review team’s work would run parallel to the city’s continuing effort to address its financial problems on its own.

“We continue to implore the Mayor and city council to come together on the development of a workable recovery plan,” said State Treasurer Dillon. “While it appears some progress is being made by the city, the review process must continue, given the city’s financial condition and the distinct possibility that it may run out of cash in early 2012. As we have noted on numerous occasions, the longer it takes to address Detroit’s financial problems, the more painful the potential solutions become.”

In his report to Governor Snyder, Dillon noted several factors which contributed to the finding of probable financial stress, including:

- The City has violated the uniform budgeting and accounting act, by not adjusting its budget on a timely basis;
- The City has not filed an adequate or approved deficit elimination plan for the fiscal year ending June 30, 2010 and past plans and budget proposals have been unrealistic with planned restructurings, consolidations, and union concessions not materializing;
- The City has a mounting debt problem, with total long-term liabilities estimated at more than \$12 billion;
- The City has had trouble making required payments to pension plans; and
- The City is experiencing significant cash flow problems and projects it will run short of cash by April, 2012.

The appointment of a financial review team does not ensure that a financial emergency will be declared and an Emergency Manager appointed. Under PA 4, there is no statutory timeline for

the Governor to appoint a review team, which would have 60 days from its appointment to report its findings to the Governor. The review team must reach one of the following conclusions:

- The local government is not in financial stress or is in a condition of mild financial stress;
- The local government is in a condition of severe financial stress but a consent agreement containing a plan to resolve the problem has been adopted;
- The local government is in a condition of severe financial stress and a consent agreement has not been adopted; or
- A financial emergency exists and no satisfactory plan exists to resolve the emergency.

For more information about PA 4, visit the Local Government Fiscal Health page on the Department of Treasury's Web site at www.michigan.gov/treasury.

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