

# Review Team Finds Financial Emergency in Detroit

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## Review Team Finds 'Financial Emergency' in Detroit *Report Sent to Governor Snyder for Review*

The six-member Financial Review Team appointed in December to examine the City of Detroit's finances under Public Act 72 of 1990 (Local Government Fiscal Responsibility Act) has unanimously determined that a local government financial emergency currently exists in the City of Detroit and no satisfactory plan is in place to resolve it.

"This review team spent two months pouring over the city's finances, taking careful consideration of both long and short-term issues, including recent actions by the administration and City Council," said State Treasurer Andy Dillon, a member of the 6-person panel. "While we appreciate the steps the city has taken over the past number of weeks, key reform measures have not occurred quickly enough, if at all. The team collectively believes the city needs assistance in making the difficult decisions necessary to achieve the significant reforms that are so crucial to the city's long-term viability."

"It is critical that high school seniors and their parents are aware of these *MI College Goal* events," said Bryan Taylor, President of EduGuide. "Students must complete and file a FAFSA in order to secure financial aid and should file by the March 1st priority date to ensure eligibility for federal and state programs." Statistics show that students who complete and submit FAFSA forms are more likely to go on to college.

Treasurer Dillon thanked Mayor Dave Bing, his administration, City Council members, and others in and around city government for their thoughtful assistance throughout the review process.

In its report, the Review Team cited several conditions, including the following, in making its determination:

- The City continues to experience a significant depletion of its cash reserves. Projections estimate a cumulative cash deficit of more than \$100 million by June 30, 2013, without significant spending cuts. The Review Team noted that the Mayor and Council have moved forward with some financial reforms, those changes are too often one-time savings and apply only to a small percentage of the City's overall wage and benefit burden.
- The City's General Fund (GF) has not experienced a positive year-end fund balance since fiscal year 2004, with cumulative GF deficits ranging from \$155.4 million in FY 2005, to \$332 million in FY 2009. The GF deficit was \$327 million in FY 2012. City officials have primarily sought to address these deficits by issuing long-term debt.

- As of June 30, 2012, the City's long-term liabilities, including accrued pension liabilities and other post-employment benefits, exceeded \$14 billion. City officials have projected that over the next five years, expenditures needed to fund certain long-term liabilities will total nearly \$1.9 billion. However, City officials have not devised a satisfactory plan to address long-term liabilities.
- The City Charter contains various restrictions and structural impediments which make it extremely difficult for City officials to restructure the City's operations in a meaningful manner. Restrictions include extensive steps and timeframes which must be observed before any proposed changes in future retirement benefits may be implemented and provisions which make it all but impossible to reorganize and enhance the delivery of municipal services.

"Each member of the Review Team came into this process with an open mind, and no preconceptions. However, it became clear as we moved forward, that the city continues to struggle mightily beneath the weight of chronic deficits and its long-term liabilities," said Ronald Goldsberry, an independent consultant and one of Governor Snyder's appointees to the Review Team. "Add to the mix a city governance structure that resists meaningful, structural change, and you have what we have deemed to be a financial emergency."

Under PA 72, the Governor now has 30 days to review the report and make a determination on whether or not a financial emergency exists in the City.

The City of Detroit Financial Review Team consists of Andy Dillon, State Treasurer, Thomas McTavish, Auditor General for the State of Michigan, Ken Whipple, chairman of the board of Korn/Ferry International (nominee of the Senate Majority Leader), Darrell Burks, senior partner, Pricewaterhouse Coopers (nominee of the Speaker of the House of Representatives), Ronald Goldsberry, independent consultant (representing other persons with relevant professional experience), and Frederick Headen, legal advisor for the Michigan Department of Treasury (representing State officials with relevant professional experience).

For more information about PA 72, visit the Local Government Fiscal Health page on the Department of Treasury's website at [www.michigan.gov/treasury](http://www.michigan.gov/treasury).

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