

Detroit's Financial Crisis

What you need to know

The Problem

The city of Detroit is running out of money. This problem has been building for decades and has reached the point where immediate action is necessary just to keep the city running.

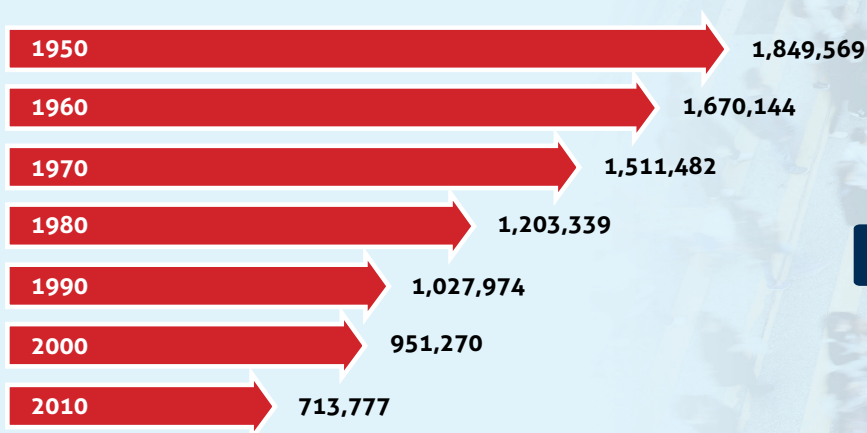
City leaders made many attempts over the years to fix the financial problem, including cuts to city services and increased borrowing, but the results have remained the same – the city spends more money than it receives and the problem has only worsened.

After a detailed review of the city's finances in February 2013, the independent Financial Review Team unanimously concluded that Detroit is in a financial emergency and it has no plan in place that will fix its financial problems.

How We Got Here

A significant factor in Detroit's financial problem is the decline in population. The city has lost more than half of its population in the last 50 years and has not been able to adjust city structure to match. As a result, the city has:

- 1 Overestimated its revenue
- 2 Spent more than it takes in
- 3 Borrowed money to pay off its debt



Detroit's population history



The Next Steps to Fix the Problem

The city needs to solve this financial emergency and find new and better ways to meet the needs of its residents. The next steps are to:

1

Fix the short-term cash crisis.

Adjustments need to be made to ensure the city is not spending more than it receives.

2

Deal with long-term obligations.

Detroit needs to address ballooning costs, which add up to \$14 billion, to pay for pensions and retiree health care.

3

Put a system in place to responsibly manage its budget so these financial issues don't happen again.

Once the structural problem is fixed the city's energy can ensure focus on better services and growth.

Options Available to Governor

1 or

Continue Status Quo

- Governor finds no emergency exists and takes no action.
- Mayor and City Council continue to manage city finances.
- Charter provisions remain impediment to quick turnaround.
- Decisions take months to approve due to bureaucratic structure.

2 or

New Consent Agreement

- Governor and Review Team reach new consent agreement with the City.
- Mayor and City Council continue to manage budget, with guidelines from agreement.
- Charter provisions remain impediment to quick turnaround.
- Financial decisions continue to be made based on political reasoning rather than financial soundness.

3

Emergency Financial Manager (EFM)

- Governor declares financial emergency and an EFM is appointed.
- EFM develops a comprehensive financial and operating plan to solve chronic budget problems, with input from Mayor and City Council.
- Financial decisions based on objective financial data.
- Actions to enact reforms begin immediately.

The Goal

To solve the chronic budget deficits that have kept Detroit from investing in its police and fire, public parks and playgrounds, roads, lighting and sidewalks ... all the things that make a strong, safe quality of life. By creating a solid foundation for the future the population will once again rise and jobs will return to Detroit. A strong, successful Detroit is critical for city residents, neighborhoods and businesses and continuing Michigan's comeback.



The Solution

Detroit can no longer afford to wait for a new way forward. Detroit's charter contains restrictions that make it difficult for city officials to fix the problems plaguing city finances. The past year has proven that a consent agreement does not provide the tools required to make meaningful changes. The city continues to battle the possibility of running out of cash and its long-term payments continue to rise.

Additional actions are needed to continue the reinvention of Detroit. An Emergency Financial Manager can more quickly and efficiently reform the finances in the city and stop the cycle of overspending and one-time fixes. Solving the structural problems will create a strong financial foundation that will allow Detroit to thrive.



Frequently Asked Questions

Facts About an Emergency Financial Manager

What is an Emergency Financial Manager?

An Emergency Financial Manager (EFM) is appointed by the state's Emergency Loan Board after the governor confirms that a financial emergency exists in a city or school. The EFM's job is to find the best solutions to fix financial problems and transition control back to local officials as quickly as possible.

Have Emergency Financial Managers been used in other cities?

EFMs have been utilized by Michigan governors as a last resort to fix serious financial problems in cities and school districts since 1990. The appointment of a manager has been one that crosses political lines ... of the 19 managers appointed in Michigan over two decades, nine were done so by Democratic governors and 10 by Republicans.

What can an Emergency Financial Manager do?

An EFM has the authority to take quick action that the Mayor and Council do not. If a serious problem becomes known, an EFM can act more swiftly to rectify the situation, without waiting for it to travel through the many layers of bureaucracy.

What will happen to the Mayor and City Council?

Ideally, the EFM will benefit from the constructive advice of the Mayor and City Council members to create a plan for reforming the city's finances. The fastest and most effective financial turnarounds in other Michigan cities experiencing a financial emergency have all occurred where there was collaboration between elected officials and the EFM. While the manager has ultimate authority, the knowledge and experience of city officials is invaluable when shared with the EFM and they are working together.

How the State is Partnering with Detroit

- Legislative changes to allow the city to continue to collect income and utility taxes totaling \$164 million each year.
- Assisted with initiatives to create jobs and investment in the city and improve quality of life for residents:
 - ★ Regional Transit Authority
 - ★ M1 Rail
 - ★ New Hockey Arena
 - ★ Detroit Lighting Authority
 - ★ New International Trade Crossing
 - ★ Eastern Market and Globe Building renovation and riverfront investment
- \$10 million to help assist in blight elimination.
- Social workers placed in 89 schools to assist students and families in need.
- Additional State Police troopers dedicated to Detroit neighborhoods.
- Sale of state fairgrounds to allow for \$120 million development.

What happens to the city's election in November?

November elections will take place as planned. The upcoming elections will be some of the most important in the city's history. Detroiters will be selecting the leaders who will hopefully work with an EFM during his/her tenure and be entrusted to continue the strong financial management upon the manager's exit.

How long does an Emergency Financial Manager serve the city?

The goal of an EFM is to quickly solve the financial problems and transition power back to local control as soon as possible. We know that Detroit's financial crisis has been decades in the making and can't be fixed overnight. Local officials will have the opportunity to review the progress of an EFM in 18 months and decide on his/her future.

How do we know that an Emergency Financial Manager will be successful?

EFMs have been successful in other Michigan cities by stopping the financial bleeding, taking immediate actions to ensure citizens get the services they pay for and creating budgets that allow for future prosperity. For example, Pontiac's financial manager worked to put more police on the streets at a lower cost to citizens and made changes that will lower water rates by selling excess water to neighboring towns. In Ecorse, the EFM has collaborated with city officials to correct the financial mismanagement caused by the criminal activities of prior administrations and is ready to return power to local officials.

Does this mean the city won't go bankrupt?

The EFM's job is to find the best solutions to make Detroit financially stable to build for the future. The possibility of bankruptcy still exists, but only after the manager has exhausted all other options.

Who appoints Emergency Financial Manager?

The Local Emergency Financial Assistance Loan Board appoints financial managers. This board consists of the State Treasurer, the director of the Department of Licensing and Regulatory Affairs, and the State Budget Director.

City Services

Will we still have basic city service?

One of the reasons an EFM is appointed is to ensure that citizens continue to receive the services they pay for, such as police, fire, garbage collection, and lighting. In many cases, these services will improve as the city budget is fixed and money can once again be invested back into the community.

How will the Emergency Financial Manager affect Detroiters?

An important responsibility of an EFM is to make sure essential city services are maintained. Garbage collection, water and police and fire services will all continue. Reforms will be necessary and the EFM will seek the public's input on those changes.



We're seeing great things happen in Detroit with improved schools, a thriving Midtown, new businesses, and a revitalized riverfront. But we can't allow a continuing fiscal crisis to stand in the way of Detroit's reinvention. Working together in partnership, we can solve the financial problems and set a strong foundation for the future, allowing the city to focus on and reinvest in services, public safety and growing a thriving Detroit..