



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

July 2, 2015

Hon. Mike Duggan
Mayor, City of Detroit

Hon. Brenda Jones
President, Detroit City Council

Hon. George Cushingberry, Jr.
President Pro Tem, Detroit City Council

Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Detroit City Council Members:

Hon. Jance Ayers
Hon. Scott Benson
Hon. Raquel Castaneda-Lopez
Hon. Gabe Leland
Hon. Mary Sheffield
Hon. Andre L. Spivey
Hon. James Tate

Dear Mayor Duggan and Members of the Detroit City Council:

The Financial Review Commission (FRC) is statutorily required to provide oversight of the City of Detroit's finances. At its June 30, 2015, the Detroit City Council voted against increasing rates on water and sewerage costs. The requested rate increase would have maintained an estimated \$27 million of revenue for the Detroit Water and Sewerage Department (DWSD) in fiscal year 2016. I further understand that the \$27 million is necessary for DWSD to have a balanced budget for fiscal year 2016.

As explained by David Whitaker, Director of the City Council's Legislative Policy Division staff, in his memo addressed to the City Council dated February 25, 2015, DWSD stated that it is not seeking a budget increase. Mr. Whitaker explained, "DWSD's rationale for these increases [in rates] is that they result from 1) a continuing and intensifying decrease in water use across the board, resulting in decreased sales and revenues; and 2) the departure of the City of Flint as a wholesale customer in the DWSD system before it was expected, causing a large, abrupt loss of revenue."

Under Michigan PA 181 of 2014, the FRC is charged with, among other things, assuring that each of the City's funds are balanced each year. The 4-year financial plan (Plan) was approved by Council on March 11, 2015 and the FRC on April 20, 2015. The fiscal year 2016 budget for the DWSD Enterprise Fund, contained in the Plan, contemplated the increased water and sewer rates. Unless the June 30th vote is reversed, the contemplated rate increases will not occur and this will result in the DWSD Enterprise Fund being in a deficit position for fiscal year 2016.

The purpose of this letter is to ask the Mayor and Council to provide the FRC with either the necessary information to demonstrate the City's plan to comply with the approved budget for

fiscal year 2016, or the basis upon which the City will seek an amendment to the fiscal year 2016 budget.

We also seek information regarding whether the City can, without the rate increase, meet its obligation, under MCL 141.1636(11), to provide quarterly certifications to the FRC that it can meet debt service requirements, including coverage requirements, through the end of fiscal year 2016.

We would appreciate an immediate response.

Sincerely,

A handwritten signature in black ink that reads "Nick A. Khouri". The signature is written in a cursive, slightly slanted style.

Nick A. Khouri
Chairman of the Financial Review Commission and
State Treasurer

cc: Financial Review Commission members
Ronald L. Rose
John Hill