

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN**

IN RE:  
City of Detroit, Michigan  
Debtor(s).  
\_\_\_\_\_ /

Case No. 13-53846  
Chapter 9  
Hon. Steven W Rhodes

Governor Rick Snyder and  
State Treasurer Kevin Clinton

Appellant,

v.

Catherine Phillips, et al.

Appellee.  
\_\_\_\_\_ /

**NOTICE OF TRANSMITTAL OF COMPLETE RECORD  
REGARDING NOTICE OF APPEAL**

I hereby certify that the attached documents are transmitted to the United States District Court for the Eastern District of Michigan, which constitutes the Motion for Withdrawal of Reference.

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|---|--|
| <input checked="" type="checkbox"/> Notice of Appeal                      | <input checked="" type="checkbox"/> Appellee's Designation of Record |
| <input type="checkbox"/> Bankruptcy Matter Civil Cover Sheet              | <input type="checkbox"/> Appellee's Statement of Issues              |
| <input checked="" type="checkbox"/> Order on Appeal                       | <input type="checkbox"/> Notice of Deficiency                        |
| <input checked="" type="checkbox"/> Appellant's Designation of Record     | <input type="checkbox"/> Motion for Leave to Appeal                  |
| <input type="checkbox"/> Appellant's Statement of Issues                  | <input type="checkbox"/> Motion to Withdraw the Reference            |
| <input type="checkbox"/> Other: <a href="#">Click here to enter text.</a> |  |

**NOTE: Items designated as **\*\*FILED UNDER SEAL\*\*** will be supplied to the District Court Judge by electronic filing as soon as Appellant knows who is assigned to this case and the number.**

There is a previous civil matter in this bankruptcy. That matter was given civil case number 13-13873 and assigned to District Judge Bernard A Friedman

This is a new matter and not previously assigned to a District Court Judge.

The Appellant has not filed the Designation of Record and/or paid the filing fee.

Dated: February 10, 2014

Clerk, United States Bankruptcy Court

By: /s/ Kristel Trionfi  
Deputy Clerk

In re: City of Detroit, Michigan

Case No.: 13-53846

Debtor.

Adv. No.:

Governor Rick Snyder and  
State Treasurer Kevin Clinton

Appellants,

v.

Catherine Phillips, et al.

Appellees.

CAUSE OF ACTION/NATURE OF SUIT: (This matter is referred to the district court for the following reasons)

<input checked="" type="checkbox"/>	[422] 28 U.S.C. 158	Bankruptcy Appeal
<input type="checkbox"/>	[422] 28 U.S.C. 158	Motion for Leave to Appeal
<input type="checkbox"/>	[423] 28 U.S.C. 157(d)	Motion for Withdrawal of Reference
<input type="checkbox"/>	[423] 28 U.S.C. 157(c) (1)	Proposed Findings of Fact and Conclusions of Law
<input type="checkbox"/>	[423] 28 U.S.C. 158 (c) (a)	Order of Contempt

Date: 1/9/2014

Name: /s/ Matthew Schneider



UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**NOTICE OF APPEAL**

Pursuant to 28 U.S.C. § 158(a)(1) and Federal Rules of Bankruptcy Procedure 8001(a) and 8002(b), the Governor and State Treasurer of Michigan appeal from the orders Bankruptcy Judge Honorable Steven W. Rhodes entered in this case on November 6, 2013 (Doc. No. 1536) and December 20, 2013 (Doc. No. 2256). The names of all parties to the order appealed from and the names, addresses, telephone numbers, and email addresses of their respective attorneys are as follows:

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Dated: January 9, 2014



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**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

In re:

City of Detroit, Michigan,

Debtor.

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Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

**Opinion and Order  
Denying NAACP's Motion for  
Relief from Stay (Dkt. #740)  
and  
Granting Phillips' Motion for  
Relief from Stay (Dkt. #1004)**

This opinion addresses two motions for relief from the stay. The first motion (Dkt. #740) relates to *Detroit Branch NAACP v. Snyder*, No. 13-12098 (E.D. Mich. filed May 13, 2013). The other motion (Dkt. #1004) relates to *Phillips v. Snyder*, No. 13-11370 (E.D. Mich. filed March 27, 2013). Both suits challenge the constitutionality of the Local Financial Stability and Choice Act, Michigan Public Act No. 436 (2012), MCL §§ 141.1541–141.1575 (“P.A. 436”).

For the reasons stated in this opinion, the Court concludes that the motion for relief from the stay as to the *NAACP* suit should be denied while the motion for relief from the stay as to the *Phillips* suit should be granted.

**I. The Procedural History**

On March 27, 2013, Catherine Phillips and several other plaintiffs filed a lawsuit in the United States District Court for the Eastern District of Michigan against Governor Richard Snyder and State Treasurer Andrew Dillon, asserting that P.A. 436 is unconstitutional and

seeking declaratory and injunctive relief. Specifically, they assert that P.A. 436 violates their rights under the United States Constitution, art. IV, § 4; amend. I; amend. XIII; amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973–1973(q). Most of the individual plaintiffs are residents or elected officials of several municipalities in which emergency managers have been appointed under P.A. 436 – the City of Detroit, the City of Flint, the City of Benton Harbor, and the City of Pontiac. Three of the plaintiffs are also members of the Detroit Public Schools Board; an emergency manager has also been appointed for the Detroit Public Schools. The suit seeks damages, declaratory relief, and injunctive relief, including relief “restraining the Defendants and any present and future EMs from implementing or exercising authority and powers purportedly conveyed by Public Act 436.” Complaint at 49–50, *Phillips*, No. 13-11370.

The second suit was filed on May 13, 2013, by the Detroit Branch NAACP, the Michigan State Conference NAACP, Donnell White, individually and on behalf of Detroit Branch NAACP and Michigan State Conference NAACP, Thomas Stallworth III, individually, Rashida Tlaib, individually, and Maureen Taylor, individually. It was filed in the United States District Court for the Eastern District of Michigan against Governor Richard Snyder, State Treasurer Andrew Dillon, and Secretary of State Ruth Johnson, in their official capacities. The suit alleges that P.A. 436 violates constitutional voting rights under the Equal Protection Clause and the Due Process Clause of the 14th Amendment. In their first amended complaint, filed June 27, 2013, the plaintiffs sought: (1) to enjoin the defendants and others from implementing or enforcing P.A. 436; (2) an order prohibiting any emergency manager appointed under P.A. 436 from exercising any authority; (3) an order that actions exercised by any emergency manager are unenforceable; and (4) preclearance of the cities and school districts currently with emergency

managers under § 3(c) of the Voting Rights Act. Amended Complaint at ¶¶ 32–33, *Detroit Branch NAACP*, No. 13-12098.

On July 18, 2013, the City of Detroit filed this chapter 9 bankruptcy case.

On July 25, 2013, upon a motion filed by the City (Dkt. #56), the Court entered an order pursuant to 11 U.S.C. § 105(a) extending the stay to certain state entities, including the governor and the treasurer. (Dkt. #166)

On August 22, 2013, the district court entered separate orders staying and administratively closing both the *Phillips* case and the *NAACP* case due to the City's bankruptcy filing and this Court's July 25, 2013 order.

The plaintiffs in both of those lawsuits have filed separate motions for relief from the stay. Each group of plaintiffs contends that its lawsuit is not stayed by the Court's July 25, 2013 order because its suit was not included in the City's motion to extend the stay. In the alternative, each group seeks relief from the stay to permit it to continue its district court lawsuit.

The City and the State of Michigan filed objections to both motions.

The Court conducted a hearing on the NAACP motion October 2, 2013, and took the matter under advisement. The Court concluded that a hearing is not necessary on the Phillips motion.

## **II. Whether the July 25, 2013 Order Applies to the Two Lawsuits**

The July 25, 2013 order extending the automatic stay provides in part:

2) Pursuant to section 105(a) of the Bankruptcy Code, the Chapter 9 stay hereby is extended to apply in all respects (to the extent not otherwise applicable) to the State Entities (defined as the Governor, the State Treasurer and members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity's staff, agents and representatives), the Non-Officer Employees and the City Agents and Representatives.

3) For the avoidance of doubt, each of the Prepetition Lawsuits hereby is stayed, pursuant to section 105(a) of the Bankruptcy Code, pending further order of this Court.

The plaintiffs in each suit argue that the order does not apply to their lawsuit because they are not creditors of the City and their lawsuit does not assert any claim against the City.

The City and the State of Michigan assert that the order does apply to the plaintiffs' lawsuits because the lawsuits will directly interfere with the City's chapter 9 case and may deny the City the protections of chapter 9.

The Court will first address the circumstances of the *NAACP* case and explain why the order does apply to that suit. The Court will then address why the July 25, 2013 order does not apply to the *Phillips* case.

**A. Whether the July 25, 2013 Order  
Applies to the *NAACP* Case**

The Court concludes that this order does apply to the *NAACP* case. This suit explicitly seeks to remove all power and authority from the Detroit emergency manager. Also, if the plaintiffs had included the City as a defendant in the lawsuit, it would have been stayed as to the City under 11 U.S.C. § 362(a) because the lawsuit had the potential to directly impact the City's bankruptcy case. The July 25, 2013 order extended that stay to any suits against the governor and the treasurer that might have the same impact on the City's bankruptcy case.

The Court recognizes that the *NAACP* lawsuit purports to seek relief not only as to the emergency manager for the City of Detroit, but also as to the emergency managers in several other municipalities who are not before the Court – the City of Allen Park, the City of Benton Harbor, the Detroit Public School System, the City of Ecorse, the City of Flint, the Highland Park School System, the Muskegon Heights School System, and the City of Pontiac. Obviously,



whatever interests the plaintiffs in the *NAACP* case may have in vindicating their rights, if any, in those municipalities can only be addressed elsewhere.

Without addressing the substantive merits of the NAACP plaintiffs' claims in their suit, there is nonetheless one aspect of the suit that substantially undermines their interest in pursuing their claims as to these other municipalities. Although the suit purports to challenge all of the emergency manager appointments under P.A. 436, there is a serious question as to whether this suit is really about any emergency manager other than the Detroit emergency manager. This concern arises because it does not appear that any of the plaintiffs in the *NAACP* suit have standing to challenge any of the emergency manager appointments other than the Detroit emergency manager appointment. Accordingly, unlike the *Phillips* case, discussed below, the *NAACP* case appears to be directed much more to the Detroit emergency manager than any other emergency manager.

Before developing this point any further, however, the Court must pause to recognize that the precise issue of whether these plaintiffs have standing to pursue their claims in their district court lawsuit is not before this Court in this bankruptcy case and it would be inappropriate for this Court to address the standing issue directly.

The basis of this concern about the NAACP plaintiffs' standing lies in their first amended complaint. It alleges that each individual plaintiff is a resident and voter in the City of Detroit. First Amended Complaint at ¶¶ 24–27, *Detroit Branch NAACP*, No. 13-12098. Accordingly, their standing to challenge the emergency manager appointments in any other municipality would be highly suspect.

The Supreme Court has established this test to determine a plaintiff's standing:

The Art. III judicial power exists only to redress or otherwise protect against injury to the complaining party, even though the

court's judgment may benefit other's collaterally. A federal court's jurisdiction therefore can be invoked only when the plaintiff himself has suffered "some threatened or actual injury resulting from the putatively illegal action[.]"

*Warth v. Seldin*, 422 U.S. 490, 499, 95 S. Ct. 2197, 2205 (1975) (quoting *Linda R.S. v. Richard D.*, 410 U.S. 614, 617, 93 S. Ct. 1146, 1148 (1973)); see also *Hollingsworth v. Perry*, 133 S. Ct. 2652, 2663 (2013) ("It is, however, a 'fundamental restriction on our authority' that '[i]n the ordinary course, a litigant must assert his or her own legal rights and interests, and cannot rest a claim to relief on the legal rights or interests of third parties.'") (quoting *Powers v. Ohio*, 499 U.S. 400, 410, 111 S. Ct. 1364, 1371 (1991)); *Kowalski v. Tesmer*, 543 U.S. 125, 125 S. Ct. 564 (2004); *Conn v. Gabbert*, 526 U.S. 286, 119 S. Ct. 1292 (1999).

In this suit, the two other plaintiffs are the Detroit Branch NAACP and the Michigan State Conference NAACP. Describing these organizations, the first amended complaint states:

22. Plaintiff Detroit Branch NAACP, chartered in 1912, is the NAACP's largest Branch in America. Plaintiff Detroit Branch NAACP has, throughout its 99 year history, fought, through the democratic process, for the cause of civil rights and equal treatment for all. Plaintiff Detroit Branch NAACP has fought in the courts to preserve and protect voting rights in the State of Michigan. . . .

23. Plaintiff Michigan State Conference NAACP is the umbrella organization for all NAACP units or branches within the State of Michigan. It is the central authority, responsible for coordinating all local NAACP branches around the State.

First Amended Complaint at ¶¶ 22–23, *Detroit Branch NAACP*, No. 13-12098.

The Sixth Circuit has addressed the standing of a membership organization like the Detroit Branch NAACP:

A voluntary membership organization has standing to sue on behalf of its members "when (a) its members otherwise have standing to sue in their own right; (b) the interests it seeks to protect are germane to the organization's purpose; and (c) neither the claim asserted nor the relief requested requires participation of

individual members in the lawsuit.” *Hunt v. Washington State Apple Adver. Comm.*, 432 U.S. 333, 343, 97 S. Ct. 2434, 53 L. Ed. 2d 383 (1977)[.]

*Am. Civil Liberties Union of Ohio Found., Inc. v. Ashbrook*, 375 F.3d 484, 495–96 (6th Cir. 2004).

It does appear likely that under *Ashbrook*, the Detroit Branch NAACP has standing to challenge the Detroit emergency manager appointment. However, the first amended complaint alleges no facts that would establish its standing to challenge any of the other emergency manager appointments.

Similarly, the first amended complaint alleges no facts establishing that the Michigan State Conference NAACP would have any standing under *Ashbrook*. Indeed, as quoted above, paragraph 23 only states that it is an “umbrella organization” for the NAACP branches within Michigan, and that it is the “central authority, responsible for coordinating all local NAACP branches around the State.”

These standing considerations strongly suggest that despite the much more broadly stated goals of the lawsuit, its primary, if not sole, objective is the removal of the Detroit emergency manager. In any event, it appears likely that this relief is the only relief that the plaintiffs could be granted, if any.

The impact in this bankruptcy case of the potential removal of the Detroit emergency manager by the plaintiffs’ lawsuit cannot be overstated. Section 18(1) of P.A. 436 provides, “This section . . . empowers the emergency manager to act exclusively on the local government’s behalf in any such case under chapter 9.” M.C.L. § 141.1558(1). The NAACP plaintiffs’ lawsuit seeks an order prohibiting any emergency manager appointed under P.A. 436 from exercising any authority under the act. This lawsuit, therefore, directly threatens the City’s

ability to continue in this bankruptcy case. If P.A. 436 were found to be unconstitutional, as the plaintiffs' lawsuit claims, then the City's emergency manager would be removed from office. Under applicable state law, no one else would be authorized to prosecute this chapter 9 case on behalf of the City.

Accordingly, due to its potential impact on this bankruptcy case, the Court concludes that the July 25, 2013 order does apply to the *NAACP* case.

### **B. Whether the July 25, 2013 Order Applies to the *Phillips* Case**

In contrast to the *NAACP* case, the *Phillips* case includes residents and officials of not only the City of Detroit but also some of the other municipalities in which emergency managers have been appointed. Significantly, in the motion for relief from the stay that the plaintiffs in the *Phillips* case filed, they have attempted to overcome the concerns that compelled the conclusion that the *NAACP* case is subject to the July 25, 2013 order. The Phillips motion states:

15. Petitioners also seek to amend their Complaint, (Exh. 6.1, the *Phillips* case Dkt. #1), to withdraw the plaintiffs Phillips, Valenti and AFSCME Council 25 as plaintiffs from the underlying action and to voluntarily dismiss, without prejudice, Count I of the Complaint, which was asserted by the withdrawing plaintiffs.

(Dkt. #1004) Count I of the complaint, which the plaintiffs propose to withdraw, asserted the plaintiffs' claims in relation to the effect of P.A. 436 in Detroit.

Moreover, the conclusion of the motion reiterates that the plaintiffs intend to "amend their Complaint to provide for the voluntary withdrawal of individual plaintiffs Phillips, Valenti, and AFSCME Council 25 and the voluntary dismissal of Count I of their Complaint, without bearing on the Debtor's rights in this bankruptcy proceeding." (Dkt. #1004, at 15)

By these representations, which the Court accepts, it appears that the plaintiffs in the *Phillips* case intend to withdraw from their suit any request for relief as to the Detroit emergency

manager. The Court concludes that this proposed amendment would eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager. Therefore, the potential amendment also removes the *Phillips* case from the effect of the July 25, 2013 order. Accordingly, subject to that condition, the Court concludes that the *Phillips* case is not subject to the July 25, 2013 order.

### **III. Whether to Grant the NAACP Plaintiffs’ Motion for Relief from the Stay for Cause**

Because the July 25, 2013 order does stay the *NAACP* case, those plaintiffs seek relief from the extended stay in order to proceed with their lawsuit.

The July 25, 2013 order states, “This order is entered without prejudice to the right of any creditor to file a motion for relief from the stay imposed by this order using the procedures of and under the standards of 11 U.S.C. § 362(d)–(g).”

11 U.S.C. § 362(d)(1) states, “On request of a party in interest and after notice and a hearing, the court shall grant relief from the stay provided under subsection (a) of this section, such as by terminating, annulling, modifying, or conditioning such stay . . . for cause[.]”

Under 11 U.S.C. § 362(g), the debtor bears the burden of proving that there is not cause for relief from the stay.

“Cause” is not a defined term, “so courts must determine whether discretionary relief is appropriate on a case-by-case basis.” *Trident Assoc. Ltd. P’ship v. Metro. Life Ins. Co. (In re Trident Assoc. Ltd. P’ship)*, 52 F.3d 127, 131 (6th Cir. 1995) (quotation marks omitted) (quoting *In re Laguna Assoc. Ltd. P’ship*, 30 F.3d 734, 737 (6th Cir. 1994)). Whether to grant such relief “resides within the sound discretion of the bankruptcy court.” *Garzoni v. K-Mart Corp. (In re Garzoni)*, 35 F. App’x 179, 181 (6th Cir. 2002).

“Determining cause is not a litmus test or a checklist of factors. It requires consideration of many factors and a balancing of competing interests.” *Chrysler LLC v. Plastech Engineered Prods., Inc. (In re Plastech Engineered Prods., Inc.)*, 382 B.R. 90, 109 (Bankr. E.D. Mich. 2008); *see also In re Cardinal Indus., Inc.*, 116 B.R. 964, 983 (Bankr. S.D. Ohio 1990) (“In determining whether or not cause exists, the bankruptcy court must balance the inherent hardships on all parties and base its decision on the degree of hardship and the overall goals of the Bankruptcy Code.”).

Accordingly, in balancing the competing interests to determine whether there is cause for relief from the stay, the Court will consider both the harm to the City if the motion is granted and the harm to the NAACP plaintiffs if the motion is denied. In addition, the Court concludes that it is appropriate to consider the public interest in this context, just as it was appropriate to consider the public interest when determining whether to extend the stay when the City requested it. *See, e.g., In re Trans-Serv. Logistics, Inc.*, 304 B.R. 805, 807 (Bankr. S.D. Ohio 2004).

The NAACP plaintiffs contend that there is cause for relief from the stay due to the extraordinary importance of the voting rights that their lawsuit seeks to vindicate and because their lawsuit will have little or no impact on the City’s bankruptcy, to which they do not object. At the hearing on this motion, the plaintiffs’ counsel clarified that in their lawsuit, the plaintiffs seek only prospective relief and do not seek to invalidate any actions taken by the emergency manager in Detroit or in any other city. They do acknowledge, however, that success in their lawsuit may lead to the removal of the emergency manager in Detroit. They contend nevertheless that the mayor of Detroit can then decide whether to proceed in chapter 9. They assert that their lawsuit is not a collateral attack on this bankruptcy, but a much broader challenge to the emergency manager law.

The City and the State of Michigan contend that the plaintiffs have failed to demonstrate cause for relief from the stay. They argue that numerous parties in this case have challenged the constitutionality of P.A. 436 in the context of eligibility objections and that it does not promote judicial economy to have that issue litigated in other courts.

**A. The Harm to the City  
If Relief from the Stay Is Granted**

The harm to the City that might result if relief from the stay is granted is largely the same harm that §§ 362(a) and 922(a)(1), as well as the Court's July 25, 2013 order, seek to prevent. Those bankruptcy code provisions and the Court's order are designed to consolidate into the bankruptcy case all proceedings that relate to and impact the case, so that the debtor, and, for that matter, all of the other parties, are not required to endure the expense and complexity of litigating multiple issues in multiple courts. Such duplicative litigation also creates the risk of inconsistent results.

If relief from the stay were granted, the City would be required to request leave from the district court to intervene in the plaintiffs' lawsuit in order to protect its interest in adjusting its debts through this bankruptcy. That would require the City to incur the expense of litigating the constitutionality of P.A. 436 in two courts. Indeed if other similar motions for relief from the stay are granted, the issue would then have to be litigated in that many more courts.

The plaintiffs have attempted to minimize the impact of their lawsuit on the City by arguing that if the mayor of Detroit so chooses, this bankruptcy case can continue even without an emergency manager. However, as developed above, that is not so. M.C.L. § 141.1558(1) states that only the emergency manager may represent the City in this chapter 9 case. There is no provision in law for the mayor or any other city official to act on the City's behalf in this case.

**B. The Harm to the NAACP Plaintiffs  
If Relief from the Stay Is Denied**

The harm that results to the NAACP plaintiffs if relief from the stay is denied is substantial. They will be required to defer litigating the important voting rights claims in their lawsuit until this bankruptcy case is resolved. However, this harm is as much a consequence of their own choices as it is of either the bankruptcy stay or this Court's July 25, 2013 order. The plaintiffs had the same full opportunity to file a timely eligibility objection challenging P.A. 436 as every other creditor, voter and resident of the City of Detroit had.

On that point, it should be noted that the plaintiffs do not assert that they were not aware of the filing of this bankruptcy case by the City of Detroit in time to file a timely eligibility objection. Moreover, the plaintiffs have submitted no evidence that they were not aware of the Court's August 19, 2013 deadline to file eligibility objections. Moreover, at the hearing on this motion, the Court offered the plaintiffs an opportunity to file an objection to eligibility, but plaintiffs' attorney declined that opportunity.

The record reflects that the NAACP plaintiffs made the conscious choice not to file an objection to eligibility in this case and instead chose to take the risk that their lawsuit would be allowed to proceed despite this bankruptcy case. Indeed, the NAACP plaintiffs rather vehemently assert that they do not object to the City's eligibility to be in a chapter 9 bankruptcy case. But the terminating impact that the success of their lawsuit would have on this bankruptcy makes that assertion ring hollow. Much of their lawsuit is precisely an eligibility objection, simply not labeled and filed as such. Although they were certainly not required to file an eligibility objection, their choice has the legal consequence that their suit is stayed by this case.



### **C. The Public Interest**

Certainly, the public has a substantial interest in the speedy and efficient resolution of litigation like the *NAACP* suit that seeks to vindicate a right as central to our democracy as the right to vote.

At the same time, however, the public has a substantial interest in the speedy and efficient resolution of a municipal bankruptcy case that affects as many people and institutions, and as much of the local, regional and national economy, as this case does.

The public also has an interest in the opportunity that this bankruptcy case may provide for the City of Detroit not only to adjust its debt and to restore the basic services that its residents need for their health and safety but also to regenerate its economic livelihood.

The NAACP plaintiffs' motion for relief from the stay does not require this Court to choose which of these important interests should prevail. It only requires the Court to determine whether it is necessary and appropriate to continue to defer the resolution of the plaintiffs' lawsuit pending the outcome of this bankruptcy.

### **D. Conclusion**

In its discretion, the Court concludes that although the considerations on each side are substantial, on balance, the factors suggesting that the motion for relief from the stay should be denied outweigh the considerations suggesting otherwise. The NAACP plaintiffs' claims in their lawsuit are important claims. However, those claims primarily and directly challenge the appointment of the Detroit emergency manager and the claims could have been presented in this case in a timely eligibility objection.

The NAACP plaintiffs' decision to forego that opportunity creates the potential, if the motion is granted, for the City to incur unnecessary litigation expense and delay in this

proceeding. It also creates the potential to prematurely terminate this bankruptcy case. In these circumstances, the Court concludes that it is appropriate to require the plaintiffs to await resolution of their claims until this bankruptcy case is resolved.

Accordingly, the Court concludes that the City of Detroit and the State of Michigan have met their burden of establishing that there is not cause for relief from the stay.

#### **IV. Order**

For these reasons, it is hereby ordered that it is not necessary for the Court to grant relief from the stay to allow the *Phillips* case to proceed because that case is not subject to the Court's July 25, 2013 order. This order is conditioned on the Phillips plaintiffs' amendment of their complaint to eliminate their request for the removal of the Detroit emergency manager and for any other relief that diminishes the Detroit emergency manager's authority under P.A. 436.

It is further ordered that the *NAACP* case is subject to the Court's July 25, 2013 order and that the NAACP plaintiffs' motion for relief from the stay is denied.

For publication

Signed on November 06, 2013

\_\_\_\_\_  
/s/ Steven Rhodes  
Steven Rhodes  
United States Bankruptcy Judge

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

In re:  
City of Detroit, Michigan,  
Debtor.

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Chapter 9  
Case No. 13-53846  
Hon. Steven W. Rhodes

**Order Denying Motion for Reconsideration (Dkt. #1745)**

Governor Rick Snyder and former Treasurer Andy Dillon filed a motion for reconsideration of this Court's Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004). (Dkt. #1536) The City of Detroit filed a concurrence and joinder. (Dkt. #1777) The Court entered an order requiring the Phillips parties to file a response and setting the matter for hearing on December 16, 2013. Following the hearing, the Court took the matter under advisement.

This motion is to be decided pursuant to Local Bankruptcy Rule 9024-1(a)(3), which provides:

Generally, and without restricting the discretion of the court, a motion for reconsideration that merely presents the same issues ruled upon by the court, either expressly or by reasonable implication, shall not be granted. The movant shall not only demonstrate a palpable defect by which the court and the parties have been misled but also show that a different disposition of the case must result from a correction thereof.

LBR 9024-1(a)(3).

The State essentially argues that even though the plaintiffs in this suit have removed any request for the removal of Kevyn Orr as Detroit's emergency manager, a successful challenge to P.A. 436 will inevitably lead to that result. However, the Court must conclude that such is not the case. A finding by another court that P.A. 436 is unconstitutional will not automatically

result in the removal of Kevyn Orr. Further action would need to be taken, and any such further action is subject to the automatic stay. Accordingly, the motion for reconsideration is denied.

It is so ordered.

**Signed on December 20, 2013**

/s/ Steven Rhodes  
**Steven Rhodes**  
**United States Bankruptcy Judge**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**APPELLANT STATE OF MICHIGAN'S  
DESIGNATION OF THE CONTENTS OF THE RECORD AND  
STATEMENT OF ISSUES ON APPEAL**

Pursuant to Rule 8006 of the Federal Rules of Bankruptcy Procedure, appellant State of Michigan (the "State") submits this designation of the contents of the record and statement of issues on appeal regarding the State's Notice of Appeal [Dkt. #2439] filed on January 9, 2014, pursuant to 28 U.S.C. § 158(a)(1) and Rules 8001(a) and 8002(b) of the Federal Rules of Bankruptcy Procedure from the *Opinion and Order Denying NAACP's Motion for Relief from Stay and Granting Phillips' Motion for Relief from Stay* [Dkt. #1536-1] entered on November 6, 2013 (the "Phillips Stay Relief Order") and *Order Denying*

*Motion for Reconsideration* [Dkt. #2256] entered on December 20, 2013 (the “Reconsideration Order”).

**I. DESIGNATION OF THE CONTENTS OF THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
1.	7/25/2013	166	Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor
2.	9/23/2013	1004	Catherine Phillips, et al.’s Motion for Relief From Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor (Attachments: #1; #2; #3; #4; #5; #6; #7; #8; #9)
3.	10/7/2013	1107	State of Michigan’s Brief in Opposition to Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor

4.	10/7/2013	1108	Debtor's Objection to Catherine Phillips, et al.'s Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor
5.	10/7/2013	1109	Debtor's Brief in Opposition to Catherine Phillips, et al.'s Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor (Attachments: Exhibit A; Exhibit B; Exhibit C)
6.	11/6/2013	1536-1	Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004)
7.	11/15/2013	1745	State of Michigan's Motion for Reconsideration of Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004)
8.	11/20/2013	1777	Debtor's Concurrence With and Joinder in The State of Michigan's Motion for Reconsideration

9.	12/2/2013	1888	Petitioner's Response to Respondents Snyder and Dillon's Motion for Reconsideration (Dkt. #1745) of Opinion and Order (Dkt. #1536-1) Denying NAACP's Motion for Relief from Stay and Granting Phillips' Motion for Relief from Stay (Attachments: Exhibit 1; Exhibit 2; Exhibit 3; Exhibit 4; Exhibit 5; Exhibit 6)
10.	12/20/2013	2256	Order Denying Motion for Reconsideration (Dkt. #1745)
11.	1/23/2014	2546	Transcript of December 16, 2013 Hearing Regarding Docket #1745 (transcript order pending)

## II. STATEMENT OF ISSUES ON APPEAL

1. Whether the Bankruptcy Court erred in concluding that the *Phillips* Plaintiffs'<sup>1</sup> proposal to amend their Complaint by withdrawing Count I and eliminating Plaintiffs Phillips, Valenti, and AFSCME Council 25 "eliminates the potential that the *Phillips* case might result

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<sup>1</sup> Plaintiffs in *Phillips, et al. v. Snyder, et al.*, United States District Court for the Eastern District of Michigan, Case No 13-11370 (the "*Phillips* Case").



in the removal of the Detroit emergency manager” and thus, that the Bankruptcy Court’s July 15 Order<sup>2</sup> does not apply to the *Phillips* Case.

2. Whether the Bankruptcy Court erred in holding that the July 15 Order does not apply to the *Phillips* Case where arguments that PA 436<sup>3</sup> is facially unconstitutional are found throughout the Complaint, and a holding in the *Phillips* Case that PA 436 is unconstitutional could pose serious questions regarding the validity of actions taken by Detroit’s Emergency Manager in the Bankruptcy Case<sup>4</sup>.

3. Whether the Bankruptcy Court erred in denying the State’s Motion for Reconsideration<sup>5</sup> where the *Phillips* Stay Relief Order resulted from a palpable defect which misled the Bankruptcy Court to

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<sup>2</sup> *Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor* entered by the Bankruptcy Court on July 15, 2013 [Dkt. #166].

<sup>3</sup> Public Act 436 of 2012 of the State of Michigan, also known as the Local Financial Stability And Choice Act, Mich. Comp. Laws §§ 141.1541-141.1575.

<sup>4</sup> *In re City of Detroit, Michigan*, United States Bankruptcy Court for the Eastern District of Michigan, Case No. 13-53846.

<sup>5</sup> *State of Michigan’s Motion for Reconsideration of Opinion and Order Denying NAACP’s Motion for Relief from Stay (Dkt. #740) and Granting Phillips’ Motion for Relief from Stay (Dkt. #1004)* [Dkt. #1745].

conclude that withdrawal of Count I and eliminating Plaintiffs Phillips, Valenti, and AFSCME Council 25 would eliminate the threat the *Phillips* Case poses to the validity of actions taken by Detroit's Emergency Manager in the Bankruptcy Case.

4. Whether the Bankruptcy Court erred in denying the State's Motion for Reconsideration by holding that "a finding by another court that P.A. 436 is unconstitutional will not automatically result in the removal of Kevyn Orr [because] [f]urther action would need to be taken, and any such further action is subject to the automatic stay," where a holding in the *Phillips* Case that PA 436 is unconstitutional could render PA 436 void *ab initio*, and thus, could pose serious questions regarding the validity of actions taken by Detroit's Emergency Manager in the Bankruptcy Case.

Respectfully submitted,

/s/Matthew Schneider

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Dated: January 23, 2014

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
1.	7/25/2013	166	Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

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In re : Chapter 9
  
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CITY OF DETROIT, MICHIGAN, : Case No. 13-53846
  
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Debtor. : Hon. Steven W. Rhodes
  
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**ORDER PURSUANT TO SECTION 105(a) OF THE  
BANKRUPTCY CODE EXTENDING THE CHAPTER 9 STAY TO  
CERTAIN (A) STATE ENTITIES, (B) NON OFFICER EMPLOYEES  
AND (C) AGENTS AND REPRESENTATIVES OF THE DEBTOR**

This matter coming before the Court on the Motion of Debtor,  
Pursuant to Section 105(a) of the Bankruptcy Code, for Entry of an Order,  
Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non-Officer  
Employees and (C) Agents and Representatives of the Debtor (the "Motion"),<sup>1</sup>  
filed by the City of Detroit, Michigan (the "City"); the Court having reviewed the  
Motion and the Orr Declaration and having considered the statements of counsel  
and the evidence adduced with respect to the Motion at a hearing before the Court  
(the "Hearing"); and the Court finding that: (a) the Court has jurisdiction over this

<sup>1</sup> Capitalized terms not otherwise defined herein have the meanings given to them in the Motion.



matter pursuant to 28 U.S.C. §§ 157 and 1334, (b) this is a core proceeding pursuant to 28 U.S.C. § 157(b), (c) notice of the Motion and the Hearing was sufficient under the circumstances, (d) the unusual circumstances present in this chapter 9 case warrant extending the Chapter 9 Stay to the State Entities, the Non-Officer Employees and the City Agents and Representatives; and the Court having determined that the legal and factual bases set forth in the Motion and the Orr Declaration and at the Hearing establish just cause for the relief granted herein;

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED.
2. Pursuant to section 105(a) of the Bankruptcy Code, the Chapter 9 Stay hereby is extended to apply in all respects (to the extent not otherwise applicable) to the State Entities (defined as the Governor, the State Treasurer and the members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity's staff, agents and representatives), the Non-Officer Employees and the City Agents and Representatives.
3. For the avoidance of doubt, each of the Prepetition Lawsuits hereby is stayed, pursuant to section 105(a) of the Bankruptcy Code, pending further order of this Court.

4. This order is entered without prejudice to the right of any creditor to file a motion for relief from the stay imposed by this order using the procedures of and under the standards of 11 U.S.C. § 362(d)-(g).

Signed on July 25, 2013

/s/ Steven Rhodes  
Steven Rhodes  
United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re  CITY OF DETROIT, MICHIGAN,  Debtor.	No. 13-53846  Chapter 9  HON. STEVEN W. RHODES
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**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN’S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

Item	Date Filed	Docket #	Description
2.	9/23/2013	1004	Catherine Phillips, et al.’s Motion for Relief From Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor (Attachments: #1; #2; #3; #4; #5; #6; #7; #8; #9)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9  
CITY OF DETROIT, MICHIGAN, Case No. 13-53846  
Debtor. Hon. Steven W. Rhodes  
\_\_\_\_\_ /

**CATHERINE PHILLIPS, et al.’s MOTION FOR RELIEF FROM  
ORDER PURSUANT TO SECTION 105(a) OF THE BANKRUPTCY CODE  
EXTENDING THE CHAPTER 9 STAY TO CERTAIN  
(A) STATE ENTITIES, (B) NON OFFICER EMPLOYEES AND  
(C) AGENTS AND REPRESENTATIVES OF THE DEBTOR**

Now come Petitioners Catherine Phillips, et al. (hereafter “Petitioners”) and hereby requests that this Court modify its *Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor* (Dkt. 166), (hereafter “*Extended Stay Order*”), to lift the Extended Stay from the matter entitled *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370, (Exh. 6.1, *Phillips* Complaint). In support of this Motion, Petitioners state as follows:

1. On March 27, 2013, Petitioners herein filed a Complaint in the United States District Court for the Eastern District of Michigan, naming Michigan Governor Richard D. Snyder and Michigan Treasurer Andrew Dillon (hereafter, “Defendants”) as defendants, *Catherine Phillips, et al. v. Snyder and Dillon*. Case No. 13-CV-11370, (Exh. 6.1, *Phillips* Complaint), (hereafter “the *Phillips* case”).

2. In their Complaint, (Exh. 6.1), Petitioners allege that Public Act 436 of 2012, M.C.L.A. §§141.1541 *et. seq.*, (hereafter “PA 436”), violates various federal statutory and





Constitutional rights. Petitioners sought declaratory and injunctive relief. The City of Detroit (hereafter, “Debtor”) is not, and has never been, a party to that action.

3. On July 19, 2013, Debtor filed a motion seeking to extend the Chapter 9 stay to include certain state entities, non-officer employees and agents and representatives of the Debtor. (Dkt. 56, *Motion of Debtor For Entry of Order Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non-Officer Employees and (C) Agents and Representatives of the Debtor*, (hereafter “*Motion to Extend Stay*”) Specifically, Debtor requested

that the Court exercise its equitable power under Section 105(a) of the Bankruptcy Code to extend the Chapter 9 stay to actions or proceedings against the Governor, the State Treasurer and the members of the Loan Board . . . **that, directly or indirectly, seek to enforce claims against the City, interfere with the City’s activities in this Chapter 9 case or otherwise deny the City the protections of the Chapter 9 stay.”**

(Dkt 56, *Motion to Extend Stay*, p. 13 at ¶ 20) (emphasis added)

4. In support of its *Motion*, Debtor specifically identified and discussed at length three (3) cases, referred to as the “Prepetition Lawsuits,” that had been filed in the Ingham County Circuit Court: a) *Webster v. State of Mich.*, No. 13-734-CZ (Ingham Cnty. Cir. Ct. July 3, 2013, (the “*Webster Lawsuit*”); b) *Flowers v. Snyder*, No. 13 729-CZ (Ingham Cnty. Cir. Ct. July 3, 2013), (the “*Flowers Lawsuit*”); and c) *Gen. Ret. Sys. of the City of Detroit v. Orr*, No. 13-768-CZ (Ingham Cnty. Cir. Ct. Jul. 17, 2013), (the “*Pension Systems Lawsuit*”); and *ex parte* injunction orders that had issued against the Governor and the State Treasurer in those suits that had the express purpose and effect of enjoining the defendants in those cases from authorizing a Chapter 9 filing, from taking any further action in aid of the same, and from taking any action that might lead to the impairment of pension claims. (Dkt. 56, *Motion to Extend Stay*, pp. 5-7, 14-15, ¶¶ 10-12, 22-23)

5. Debtor’s *Motion* clarified that the extension of the Stay applied specifically to the

“Prepetition Lawsuits” insofar as those lawsuits -- unlike the *Phillips* case herein – sought “...to enforce the plaintiffs’ claims against the City or to exercise control over the City’s property rights including its powers and rights under Chapter 9.” (Dkt. 56, *Motion to Extend Stay*, p. 15, ¶23, fn 4)

6. Indeed, Debtor’s *Motion* was very explicit in limiting the extension of its requested Stay to actions which “...directly or indirectly seek to enforce claims against the City, interfere with the City’s activities in this chapter [sic] 9 case or otherwise deny the City the protections of the Chapter 9 Stay.” (Dkt. 56, *Motion to Extend Stay*, p. 13, ¶20)

7. Debtor’s *Motion* – clearly in direct response to the aforementioned “Prepetition Lawsuits” — further asked that this Court enter an Order to “provid[e] expressly, for the avoidance of doubt,” that each of the identified “Prepetition Lawsuits,” be stayed pending further order of the Court.

8. It is noteworthy that Petitioners’ suit herein was not among those identified by Debtor, (Dkt. 56, pp. 5-6), insofar as the *Phillips* case had been filed on March 27, 2013, long before the filing of this Chapter 9 bankruptcy petition, while all three of the “Prepetition Lawsuits” referred to by Debtor in its *Motion* were filed between July 3 and July 17, 2013, literally days before the filing of the Chapter 9 petition herein.

9. On July 25, 2013, this Court entered the *Extended Stay Order*, (Dkt. 166), broadly extending the Chapter 9 stay to include certain “State Entities (defined as the Governor, the State Treasurer and the members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity’s staff, agents and representatives), Non-Officer Employees and the City Agents and Representatives,” *Id.* at 2, without any of the aforementioned qualifying limitations specified by Debtor in its *Motion*.

10. While the *Extended Stay Order* (Dkt. 166) also expressly provides that “For the avoidance of doubt, each of the Prepetition Lawsuits hereby is stayed...,” this Court did not directly incorporate the Debtor’s own language, identifying the “Prepetition Lawsuits” in question, specifically, the *Webster, Flowers, and Pension Systems* lawsuits.

11. On August 7, 2013, the Michigan Attorney General’s office, through Assistant Attorneys General Denise C. Barton, Ann M. Sherman and Michael F. Murphy, filed a *Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay*, (Exh. 6.2, *Phillips* case, Dkt. #29), seeking enforcement of *Extended Stay Order* (Dkt. 166) to the adjudication of the *Phillips* case. This Notice was not filed by, or on behalf of, the Debtor in this case.

12. On August 22, 2013, the United States District Court, Honorable George Steeh, entered an *Order Regarding Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay*, (Exh. 6.3, *Phillips* case, Dkt. #30) (hereafter “Steeh Order”), staying Petitioners’ declaratory/injunctive relief action -- a case which challenges the constitutionality of Public Act 436 as it affects every single municipality in the State of Michigan -- despite the fact that Petitioners’ suit herein, *Phillips v. Snyder*, was not one of those specifically identified by Debtor as problematic or one that sought to enforce claims against Debtor, interfere with its activities in the Chapter 9 case or otherwise deprive it of any protections of the Chapter 9 stay. (Exh. 6.3, Steeh Order).

13. In entering the aforementioned *Order*, (Exh. 6.3), the District Court expressly noted that “it is not apparent that any interests of the City of Detroit bankruptcy proceedings are implicated” in Petitioners’ action. Nonetheless, the District Court concluded that it was bound by the terms of the “broadly worded Extension Order issued by the bankruptcy court,” and was therefore required to stay the case “unless and until such time as an order issues lifting or

modifying the stay to permit the captioned matter to proceed.” (Exh. 6.3, Steeh Order. Pp.1-2)

14. Petitioners herein, as plaintiffs in the *Phillips* case, seek an adjudication of the constitutionality of PA 436 in general, as applied to the entire State of Michigan, and not specific to any municipality, including the Debtor City of Detroit, or to the propriety or lawfulness of the Chapter 9 bankruptcy proceedings in this action. The plaintiffs in Petitioners’ cause of action are comprised of persons who represent themselves and interested organizations across the State. In addition to the proposed withdrawing plaintiffs, the cause of action consists of eighteen (18) plaintiffs representing nine (9) groups. For example, those groups with whom these plaintiffs are affiliated are: the Pontiac City Council, the Benton Harbor City Commission, the Flint City Council, Rainbow Push Coalition, the National Action Network, the Council of Baptist Pastors of Detroit and Vicinity, the Detroit Public Schools, and the Detroit Library Commission.

15. Petitioners also seek to amend their Complaint, (Exh. 6.1, the *Phillips* case Dkt. #1), to withdraw the plaintiffs Phillips, Valenti and AFSCME Council 25 as plaintiffs from the underlying action and to voluntarily dismiss, without prejudice, Count I of the Complaint, which was asserted by the withdrawing plaintiffs.

16. By this *Motion*, therefore, Petitioners herein seek relief from the Extension Order so that they may proceed in their action for declaratory and injunctive relief against Defendants (who are not officers, employees, agents or representatives of Debtor) as to the remaining counts and obtain relief from the ongoing violations of constitutional and statutory rights alleged therein.

#### **PRELIMINARY STATEMENT**

17. Petitioners’ pre-petition suit which is the subject of this Motion -- *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370 -- challenges the validity of PA 436 on a number of grounds, including the following Constitutional violations: the due-process right to elect officials who possess general legislative power (Exh. 6.1, Complaint,

Count II); the right to a republican form of government (Exh. 6.1, Complaint, Count III) ; the right to equal protection under the law with respect to race, wealth and voting rights (Exh. 6.1, Complaint, Counts IV, V and VI); the First Amendment as it pertains to freedom of speech (Exh. 6.1, Complaint, Count VIII) and the right to petition the government for redress of grievances (Exh. 6.1, Complaint, Count IX); the Thirteenth Amendment as it pertains to the vestiges of slavery with regard to voting rights (Exh. 6.1, Complaint, Count XIII) ; and the right to equal protection under the law with respect to the procedure for removing appointed emergency managers (Exh. 6.1, Complaint, Count XI). The Complaint also alleges violations of the Voting Rights Act of 1965.

18. Petitioners' suit does not seek money damages for these constitutional and statutory violations, but rather only declaratory relief finding violations of Petitioners' rights as alleged in the Complaint and injunctive relief enjoining the defendants from committing further violations of those rights. To the extent that the Complaint seeks attorney fees and costs as permitted by statute,<sup>42</sup> U.S.C. §1988, any such award would be paid by the State of Michigan, not Debtor City of Detroit, as neither the Debtor nor any of its agents is a party to the action.

19. Debtor's only connection to Petitioners' action against the defendants in the *Phillips* case is that Debtor is currently under the control of an emergency manager appointed by the *Phillips* defendant Snyder pursuant to PA 436. But Debtor is only one of many communities or entities subject to control by a state-appointed emergency manager. Other communities and entities currently under EM control include the cities of Allen Park, Benton Harbor, Flint, Hamtramck, Pontiac, as well as Detroit Public Schools, Highland Park Public Schools, and Muskegon Heights Public Schools. Additionally, the cities of Inkster and River Rouge are currently subject to consent agreements under PA 436, and the City of Ecorse is under the

control of a PA 436 transition advisory board.

20. If not modified to permit the *Phillips* case to be adjudicated, the net effect of this Court's *Extended Stay Order* (Dkt. 166) would be that not only Petitioners, but hundreds of thousands of other individuals throughout the State of Michigan, particularly in those communities identified above currently subject to PA 436, would be deprived of any avenue by which they can vindicate their constitutional and statutory rights at issue. Instead, under the terms of the *Extended Stay Order* (Dkt. 166) -- pertaining solely to the Debtor City of Detroit -- if not clarified or modified, Petitioners and all those within the other affected communities and entities will be forced to suffer ongoing violations of those rights while waiting for Debtor's bankruptcy proceedings to conclude.

21. By this Motion, Petitioners seek to clarify, lift or modify the *Extended Stay Order* (Dkt. 166) to the extent that it purports and/or has been interpreted to stay all litigation in which the *Phillips* defendants – Richard Snyder and Andrew Dillon – are named as parties, without regard to whether or *not* “...any interests of the City of Detroit bankruptcy proceedings are implicated.” (Exh. 6.3, Steeh Order, p.2)

22. Petitioners seek this relief so that Petitioners and Defendants may return to the District Court in order to permit an adjudication of the constitutional issues that have State-wide ramifications.

23. Petitioners contend that Debtor never asked for or intended so broad a stay as was actually granted. For that reason, the stay should not cover suits such as Petitioners', which does not “directly or indirectly, seek to enforce claims against the City, interfere with the City's activities in this Chapter 9 case or otherwise deny the City the protections of the Chapter 9 stay.” (Dkt.56, *Debtor's Motion to Extend Stay*, p. 13, ¶ 20)

24. Petitioners reemphasize that Debtor is not a party to its suit against the *Phillips* defendants, and that the defendants cannot be party to Debtor's bankruptcy proceedings. Extension of the stay to include all State officials in all cases raises serious issues regarding the validity of the Chapter 9 proceedings, inasmuch as co-mingling the identities of Debtor and the State officials for purposes of the stay casts doubt on the ability of Debtor to satisfy the basic requirement that it be a "municipality" for the purposes of Chapter 9. This is especially so because Congress intentionally deprived states of the ability to file petitions. The State Entities should not be allowed the benefits of bankruptcy protections in clear violation of congressional intent that Chapter 9 relief is afforded only to municipalities.

25. But even if this Court determines that it was proper to issue a stay broader than that requested by Debtor, Petitioners respectfully assert that under the circumstances present here, they satisfy the standard for lifting a stay under both: 1) a simple "balancing-of-the-equities" approach; and 2) a "preliminary-injunction" analysis. (See Exh. 3, Brief in Support of Motion, pp. 8-14) Specifically, Petitioners will show that the scope of the *Extended Stay Order* (Dkt. 166) was overbroad under sections 105, 362, and 922 of the Bankruptcy Code; that the *Extended Stay Order* as applied to non-debtor defendants in other cases, i.e. the *Phillips* case, does not further the purposes of granting a stay under the Bankruptcy Code; and that where, as here, the pre-petition litigation at issue involves the vindication of Constitutional rights, enforcement of the Constitution necessarily trumps such a stay.

26. The facts and law outlined herein and in Petitioners' Brief in Support (Exh. 3, Brief in Support) provide compelling support for Petitioners' requested relief from the *Extended Stay Order* (Dkt. 166).

### **JURISDICTION**

27. Jurisdiction over this motion is conferred upon this Court by 28 U.S.C. §§ 157

and 1334. This motion is brought pursuant to 28 U.S.C. § 157(b)(2)(G).

28. Venue is proper in this Court, pursuant to 28 U.S.C. §§ 1408 and 1409.

29. The relief requested in this Motion is predicated upon 11 U.S.C. § 362(d) and Rules 4001-1 and 9014-1 of the United States Bankruptcy Court Eastern District of Michigan Local Rules.

**RELIEF REQUESTED**

***Relief From the Extended Stay Order is Warranted Because the Debtor Never Sought a Stay Encompassing All Actions Against Defendants***

30. In its *Motion to Extend Stay* (Dkt. 56), Debtor specifically identified three lawsuits (which Debtor called the “Prepetition Lawsuits”) that it claimed violated the automatic-stay protections of Chapter 9 as applied to Debtor by targeting State officials (the Governor, the State Treasurer, members of the Loan Board) to accomplish indirectly what it could no longer accomplish directly by suing Debtor. (Dkt. 56, pp. 5-8, ¶¶ 10-13; p. 13, ¶ 20; pp. 14-15, ¶¶ 22-23, including fn. 4)

31. Debtor therefore requested that the Court issue a stay covering actions against Defendants that “directly or indirectly, seek to enforce claims against the City, interfere with the City’s activities in this Chapter 9 case or otherwise deny the City the protections of the Chapter 9 stay,” (Dkt. 56, p. 13, ¶ 20) and furthermore, to expressly stay the three identified “Prepetition Lawsuits.” (Dkt. 56, pp. 14-15, ¶ 23)

32. Despite the fact that the *Phillips* case has been pending since March, 27 2013 (Exh. 6.1, *Phillips* Complaint), and the Petitioners’ claims were well known long before the filing of this bankruptcy action on July 18, 2013, the Debtor herein did not identify Petitioners’ suit as one of the “Prepetition Lawsuits” it wished the Court to expressly stay, nor does Petitioners’ suit fall within the scope of those contemplated by Debtor in Paragraph 20 of its motion.



33. Given the limiting language of Debtor's *Motion to Extend Stay* (Dkt. 56), it cannot be said that Debtor intended that all suits naming the Governor or the State Treasurer as defendants should be stayed pending the resolution of Debtor's bankruptcy proceedings and regardless of whether staying such suits would further the purposes of Chapter 9 protection as applied to Debtor. Clearly such a request would be unsupportable.

34. But the lack of such qualifying or limiting language in this Court's *Extended Stay Order* (Dkt. 166) has precisely that effect, such that the District Court in Petitioners' case indicated that it was bound by the language of the *Extended Stay Order* to stay Petitioners' suit even though it found that "it is not apparent that any interests of the City of Detroit bankruptcy proceedings are implicated." (Exh. 6.3, pp. 1-2)

35. The broadly worded *Extended Stay Order* is thus constitutionally problematic, inasmuch as Petitioners -- who petition for redresses of grievances on behalf of all citizens of the State of Michigan against the governor and the State Treasurer, in matters wholly outside of Debtor's bankruptcy proceedings -- are denied access to the courts. This is particularly so where, as here, the grievances involve claims of constitutional violations, because bankruptcy courts do not have any final authority to decide constitutional issues. *Farmer v. First Virginia Bank*, 22 B.R. 488 (E.D. Va. 1982). Any final decision on constitutional issues must, under the U.S. Constitution, be decided by an Article III court.

36. Without a modification of this Court's *Extended Stay Order* (Dkt. 166), therefore, Petitioners herein are deprived of a proper judicial review of their constitutional claims in an Article III court.

37. Further constitutional problems are created by the manner in which the *Extended Stay Order* (Dkt. 166), as currently worded, extends full Chapter 9 protection to state officials,

directly contrary to the congressional intent that such protections are not available to the states.

38. This Court can thus avoid this constitutional crisis by simply modifying its Extension Order to make clear that the stay only applies to claims, whether direct or indirect, against the res of the Debtor.

***Relief From the Extended Stay Order is Warranted Because the Scope of the  
Extended Stay Order is Overly Broad Within the Limitations of the Bankruptcy Code***

39. The *Extended Stay Order* (Dkt. 166) purports to extend the “Chapter 9 stay” to cover “State Entities,” including Defendants. Although the *Extended Stay Order* does not reference the statutory provisions that constitute a “Chapter 9 stay,” upon information and belief, this Court was characterizing the automatic-stay provisions at 11 U.S.C. §§ 362(a) and 922 as a “Chapter 9 stay.”

40. By its own terms, §362(a) of the Bankruptcy Code, 11 U.S.C. §362(a), automatically stays actions against the debtor or the debtor’s property.

41. Similarly, §922 of the Code, 11 U.S.C. §922, automatically stays any action against an officer or inhabitant of the debtor to the extent that such action ultimately seeks to enforce a claim against the debtor.

42. Neither section provides a basis for staying claims against non-debtors wholly unconnected to the debtor.

43. To the extent that §105 of the Code, 11 U.S.C. §105 grants a bankruptcy court some latitude in crafting orders, including expanding the scope or duration of automatic-stay orders, such latitude is not without limits. In cases involving using section 105 to expand the scope of automatic-stay orders to non-debtors, some close nexus of identity must exist between the non-debtor and debtor (such as an agreement to indemnify) that would render an action against the non-debtor a de facto action against the debtor or its property.

44. With respect to Petitioners' District Court action, no such nexus exists or could possibly exist as between Defendants and the Debtor. Therefore, the Extension Order should be lifted as applied to the Defendants in this case.

***Relief From the Extended Stay Order is Warranted Because the Extended Stay Order Fails to Further the Purposes For Which Stays are Provided in Bankruptcy Cases***

45. It is well settled that the primary purposes for staying litigation against a debtor are: a) to protect all creditors by preventing financial assets or property of the debtor from being diverted to an individual creditor; and, b) to protect the debtor by preventing additional financial obligations from being imposed upon the debtor as it attempts to marshal assets and inventory obligations for the purpose of crafting a reorganization plan.

46. Moreover, such stays have the effect of preventing the debtor's limited assets from being further depleted through the expense of defending numerous suits. [While the above purposes are laudable, they are not furthered by staying Petitioners' action for declaratory and injunctive relief against the underlying non-debtor defendants in the *Phillips* case. Petitioners' action is not against Debtor's assets and does not involve any property of the Debtor. Debtor is not a party to Petitioners' action and therefore will not incur any expense defending against it. Lifting the stay, thereby permitting Petitioners to resume the prosecution of their claims against the *Phillips* defendants, will not interfere with the progression of Debtor's bankruptcy case. Thus, no harm will be suffered by Debtor if the stay is lifted as to this federal Constitutional litigation.

47. On the other hand, the injuries alleged by Petitioners are constitutional in nature and as such, constitute irreparable harm for the duration that they are permitted to continue. See, *Chicago Teachers Union v. Hudson*, 475 U.S. 292, 106 S.Ct. 1066, 89 L.Ed.2d 232 (1986); *Doe v. Duncanville Independent School District*, 994 F.2d 160 (5<sup>th</sup> Cir. 1993). Moreover, the scale

of the constitutional violations, when extrapolated across all of the individuals who reside within the affected communities and school districts throughout the entire State of Michigan, is simply staggering.

48. Under any of the frameworks used to analyze lift-stay motions, equity requires lifting the stay with respect to the adjudication of the *Phillips* case. Were it otherwise, the constitutional rights of citizens throughout the State -- in communities such as Allen Park, Benton Harbor, Ecorse, Flint, Hamtramck, Highland Park, Inkster, Muskegon Heights, Pontiac and River Rouge – will continue to be held hostage to the Debtor City of Detroit’s progression through bankruptcy despite the lack of any connection between those communities and the Debtor. Not only is such a result absurd on its face, but it is unconstitutional and contrary to public policy, particularly where such an order sets the precedent that the constitutionality of PA 436 may never be challenged so long as some community or entity subject to the Act is in the midst of bankruptcy proceedings.

49. Because the *Extended Stay Order* (Dkt. 166), as applied to Petitioners’ claims in the *Phillips* case, fails to further the purposes of the automatic stay in these Chapter 9 bankruptcy proceedings as to the Debtor and simultaneously works an irreparable harm upon the Petitioners, the *Order* (Dkt. 166) should be lifted as to the claims against the underlying defendants in the *Phillips* case.

***Relief From the Extended Stay Order is Warranted Because Where the Petitioners  
Allege Constitutional Violations, Enforcement of the Constitution Must Take  
Precedence Over Staying Litigation Against the Non-Debtor Defendants***

50. Petitioners’ Complaint alleges numerous constitutional violations made actionable against the underlying defendants, pursuant to 42 U.S.C. § 1983, in the *Phillips* case.

51. Section 5 of 42 U.S.C. § 1983 guarantees persons the right to enforce the U.S. Constitution against those who act under color of law to deprive or cause a person to be deprived

of rights, privileges, or immunities secured by the Constitution.

52. Section 3 of 28 U.S.C. § 1343 guarantees a person the right to have a federal district court and a jury of one's peers adjudicate claims brought under 42 U.S.C. § 1983.

53. Congress has clearly demonstrated its intent that 42 U.S.C. § 1983 provides the judicial remedy when a person has suffered a violation of constitutional rights. Likewise, the Supreme Court has repeatedly recognized that the enforcement of federal rights is of the highest priority.

54. In this case, the application of this Court's *Extended Stay Order* (Dkt. 166) to include all claims against the non-debtor defendants Snyder and Dillon -- regardless of the absence of any relationship to the property rights of Debtor herein or to this bankruptcy proceeding -- contravenes the very purpose and intent of Congress and the Supreme Court. Moreover, by delaying the proceedings in the underlying *Phillips* district court action indefinitely, the *Extended Stay Order* has worked a further constitutional injury to Petitioners, inasmuch as it has operated to deprive Petitioners—without any process—of the right to have their claims of constitutional violations adjudicated by the district court and a jury of their peers.

55. To whatever extent the Bankruptcy Code in general, and Chapter 9 in particular, could be read to permit the expansion of the automatic-stay provisions to include any and all actions against non-debtors even where, as here, the particular claims against those non-debtors have no relevant connection to the Debtor, such a construction is overbroad and conflicts with 42 U.S.C. § 1983. In such a case, as here, this Honorable Court should construe the Bankruptcy Code narrowly to avoid a constitutional problem or alternatively, lift the stay which avoids the constitutional conflict altogether.

56. As required by L.B.R. 9014-1(g), Petitioners have sought concurrence in this

Motion from counsel for the Debtor on September 23, 2013, and concurrence was not obtained.

**CONCLUSION**

WHEREFORE, Petitioners respectfully request that the *Extended Stay Order* (Dkt. 166) be clarified, modified, or lifted with respect to Petitioners' claims against the underlying defendants in the *Phillips* case, so that: 1) the constitutionality of Public Act 436 may be properly adjudicated pursuant to 42 U.S.C. §1983 by an Article III United States District Court; and 2) Petitioners may amend their Complaint to provide for the voluntary withdrawal of individual plaintiffs Phillips, Valenti, and AFSCME Council 25 and the voluntary dismissal of Count I of their Complaint, without bearing on the Debtor's rights in this bankruptcy proceeding.

Dated: September 23, 2013

Respectfully Submitted,

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## SUMMARY OF ATTACHED EXHIBITS

The following documents are attached to this Motion, labeled in accordance with Local Rule 9014-1(b).

- Exhibit 1** Proposed Form of Order
- Exhibit 2** Notice of Motion and Opportunity to Object
- Exhibit 3** Brief in Support of Motion For Relief From Order Pursuant To Section 105(A) Of The Bankruptcy Code Extending The Chapter 9 Stay To Certain (A) State Entities, (B) Non Officer Employees And (C) Agents And Representatives Of The Debtor
- Exhibit 4** Certificate of Service
- Exhibit 5** None [No Affidavits Filed Specific to This Motion]
- Exhibit 6.1** Complaint filed in *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370
- Exhibit 6.2** Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay in *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370
- Exhibit 6.3** Order Regarding Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay, in *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370



**EXHIBIT 1**  
**PROPOSED FORM OF ORDER**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

CITY OF DETROIT, MICHIGAN,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

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**ORDER GRANTING THE PETITIONERS'  
MOTION TO MOTION FOR RELIEF FROM ORDER  
PURSUANT TO SECTION 105(A) OF THE BANKRUPTCY CODE EXTENDING THE  
CHAPTER 9 STAY TO CERTAIN (A) STATE ENTITIES, (B) NON  
OFFICER EMPLOYEES AND (C) AGENTS AND REPRESENTATIVES OF THE  
DEBTOR**

This matter coming before the Court on the Petitioners *Catherine Phillips, et al.*'s *Motion For Relief From Order Pursuant To Section 105(A) Of The Bankruptcy Code Extending The Chapter 9 Stay To Certain (A) State Entities, (B) Non Officer Employees And (C) Agents And Representatives Of The Debtor* and the Court having determined that the legal and factual bases set forth in the motion establish just cause for the relief granted herein;

IT IS HEREBY ORDERED THAT:

1. The Petitioners' motion is GRANTED; and
2. The Automatic Stay of 11 USC § 362 and the *Order Pursuant To Section 105(A) Of The Bankruptcy Code Extending The Chapter 9 Stay To Certain (A) State Entities, (B) Non Officer Employees And (C) Agents And Representatives Of The Debtor* (Dkt. 166) entered by this Court on July 25, 2013 are found, in their entirety, not to apply to the case of *Catherine Phillips, et al. v. Snyder and Dillon*, Case No. 13-CV-11370, before the U.S. District Court, Eastern District of Michigan, and all stays are otherwise lifted to permit that case to fully proceed

without impediment before the U.S. District Court to an adjudication on the merits and to permit the parties to proceed with any concomitant appeals; and

3. As a result of this Order, Petitioners are permitted to also amend their Complaint in the case of *Catherine Phillips, et al. v. Snyder and Dillon*, Case No. 13-CV-11370 to voluntarily withdraw individual Plaintiffs Phillips, Valenti, and AFSCME Council 25 as Plaintiffs in that case and to voluntarily dismiss, all without prejudice, Count I of their Complaint in that case.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Honorable Steven W. Rhodes  
United States Bankruptcy Judge

## **EXHIBIT 2**

### **Notice of Motion and Opportunity to Object**

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

In re:

Chapter 9

CITY OF DETROIT, MICHIGAN,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

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**NOTICE UNDER LBR 9014-1 OF MOTION FOR RELIEF FROM THE  
AUTOMATIC STAY & OPPORTUNITY TO OBJECT**

Petitioners Catherine Phillips, etc. al. have filed papers with the court to clarify order and/or lift stay relating to the case of *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370 pending before the U.S. District Court, Eastern District of Michigan.

**Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one in this bankruptcy case. (If you do not have an attorney, you may wish to consult one.)**

If you do not want the court to to clarify order and/or lift stay relating to the case of Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon, Case No. 13-CV-11370 pending before the U.S. District Court, Eastern District of Michigan, or if you want the court to consider your views on the Motion, within fourteen (14) days, you or your attorney must:

1. File with the court a written response or an answer, explaining your position at:<sup>1</sup>

United States Bankruptcy Court  
211 West Fort Detroit, MI 48226

If you mail your response to the court for filing, you must mail it early enough so the court will **receive** it on or before the date stated above. All attorneys are required to file pleadings electronically.

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<sup>1</sup> Response or answer must comply with F. R. Civ. P. 8(b), (c) and (e)

You must also mail a copy to:

William H. Goodman  
Goodman & Hurwitz, P.C.  
1394 E Jefferson Ave  
Detroit, MI 48207

2. If a response or answer is timely filed and served, the clerk will schedule a hearing on the motion and you will be served with a notice of the date, time and location of the hearing.

**If you or your attorney do not take these steps, the court may decide that you do not oppose the relief sought in the motion or objection and may enter an order granting that relief.**

Dated: September 23, 2013

By: /s/William H. Goodman  
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## **EXHIBIT 3**

**Brief in Support of Motion For Relief From Order Pursuant To  
Section 105(A) Of The Bankruptcy Code Extending The Chapter 9  
Stay To Certain (A) State Entities, (B) Non Officer Employees And  
(C) Agents And Representatives Of The Debtor**

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

In re:

Chapter 9

CITY OF DETROIT, MICHIGAN,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

**BRIEF IN SUPPORT OF CATHERINE PHILLIPS, et al.'S MOTION FOR RELIEF  
FROM ORDER PURSUANT TO SECTION 105(a) OF THE BANKRUPTCY CODE  
EXTENDING THE CHAPTER 9 STAY TO CERTAIN (A) STATE ENTITIES,  
(B) NON OFFICER EMPLOYEES AND (C) AGENTS AND  
REPRESENTATIVES OF THE DEBTOR**

On March 27, 2013, Petitioners Catherine Phillips, et al. (hereafter "Petitioners") filed a civil rights action in the United States District Court for the Eastern District of Michigan, challenging the validity of PA 436 on federal statutory and constitutional grounds, pursuant to 42 U.S.C. §1983. See, *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*, Case No. 13-CV-11370, (Exh. 6.1, *Phillips* Complaint), (hereafter, the "*Phillips* case"). Governor Richard D. Snyder and State Treasurer Andrew Dillon are the only named defendants in the suit, while Petitioners represent a cross-section of citizens from communities across the State of Michigan that are directly affected by the enactment of PA 436. On July 18, 2013, the Debtor filed for Chapter 9 bankruptcy. At that time, all litigation against the Debtor or its property was automatically stayed pursuant to 11 U.S.C. §§ 362(a) and 922. One week later, on July 25, 2013, upon Debtor's motion, (Dkt. 56, *Motion of Debtor For Entry of Order Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non-Officer Employees and (C) Agents and Representatives of the Debtor*, (hereafter "*Motion to Extend Stay*"), this Court entered an *Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor* (Dkt.



166), (hereafter “*Extended Stay Order*”).

Among those “State Entities” were the two named defendants in the *Phillips* case, Governor Snyder and Treasurer Dillon. At issue in Petitioners’ Motion herein is this Court’s decision to stay all pre-petition litigation against these defendants, despite the fact that they are not officers, employees, agents, or representatives of the Debtor, and in no way otherwise share some close nexus or special relationship with the Debtor such that a suit against the Defendants would be, in effect, an action against the Debtor. Nor are the substantive issues within the *Phillips* case related in any way to the instant bankruptcy proceeding, to the enforcement of claims against Debtor, or to and of Debtor’s activities in this Chapter 9 case. Petitioners seek a lift of the stay as to the *Phillips* case on several grounds: (1) that Debtor never asked for or intended that the stay order would be so broadly worded; (2) that the inclusion of the non-debtor defendants from the *Phillips* case in the *Extended Stay Order* (Dkt. 166) exceeds the permissible scope of such a stay under 11 U.S.C. §§ 105(a), 362(a), and 922; (3) that even if the Bankruptcy Code permitted the extension of automatic stays to non-debtor third parties with no connection to the Debtor, the *Extended Stay Order* (Dkt. 166) fails to further the purposes for which such stays are provided; and (4), of utmost importance, where the Petitioners allege ongoing constitutional violations, enforcement of the Constitution cannot be subjugated by the bankruptcy process.

### STANDARD OF REVIEW

When a bankruptcy petition is filed, most judicial actions against the debtor that were commenced before the filing of the petition are automatically stayed during the pendency of the bankruptcy petition. 11 U.S.C. § 362(a)(1). However, this automatic stay provision was not intended to immutably relegate creditors to a world of limbo or to the resolution of the civil claims within the limitations of a bankruptcy proceeding. Instead, as Congress recognized when enacting the automatic stay provision:

[I]t will often be more appropriate to permit proceedings to continue in their place of origin, when no great prejudice to the bankruptcy estate would result, in order to leave the parties to their chosen forum and to relieve the bankruptcy court from many duties that may be handled elsewhere.

S. Rep. No. 989, 95th Cong., 2d Sess. 50, *reprinted in* 1978 U.S. Code Cong. & Admin. News 5780, 5836.

Recognizing that some actions are better suited to resolution outside the bankruptcy forum, Congress specifically granted—in the same provision establishing the automatic stay—full discretion to the bankruptcy court to lift the stay and allow litigation to go forward in another forum. Section 362(d) of the Bankruptcy Code provides:

On request of a party in interest and after notice and a hearing, the court shall *grant relief from the stay* provided under [§ 362(a)], such as by terminating, annulling, modifying, or conditioning such stay—(1) *for cause*, including the lack of adequate protection of an interest in property of such party in interest . . . .

11 U.S.C. § 362(d)(1) (emphasis added).

To determine whether sufficient cause exists to grant relief from the stay in a non-bankruptcy forum, the bankruptcy court must scrutinize the factual circumstances of the case before it. *Christensen v. Tucson Estates, Inc. (In re Tucson Estates, Inc.)*, 912 F.2d 1162, 1166 (9th Cir. 1990); *Pursifull v. Eakin*, 814 F.2d 1501, 1506 (10th Cir. 1987); *Sumitomo Trust & Banking Co., Ltd. v. Holly's, Inc. (In re Holly's, Inc.)*, 140 B.R. 643, 687 (Bankr. W.D. Mich. 1992). Among other factors, the Court should consider whether modifying the stay will promote judicial economy. *See, e.g., Robbins*, 964 F.2d at 344; *In re MacDonald*, 755 F.2d 715, 717 (9th Cir. 1985); *see also* 2 Collier on Bankruptcy ¶ 362.07[3] (15th ed. 1991) (noting that relief may be granted from the automatic stay where “the liquidation of a claim may be more conveniently and speedily determined in another forum”). Another particularly compelling consideration is whether the bankruptcy petition was filed by the debtor “on the eve of the resolution of pending

prepetition litigation.” *In re Wilson*, 85 B.R. 722, 728 (Bankr. E.D. Pa. 1988) (citing *Matter of Holtkamp*, 669 F.2d 505, 509 (7th Cir. 1982)); *see also*, *In re Castlerock Props.*, 781 F.2d 159, 163 (9th Cir. 1986); *In re Olmstead*, 608 F.2d 1365, 1368 (10th Cir. 1979); *In re Borbridge*, 81 B.R. 332, 335 (Bankr. E.D. Pa. 1988); *In re Philadelphia Athletic Club*, 9 B.R. 280, 282 (Bankr. E.D. Pa. 1981).

In the most recent large-scale municipal bankruptcy, the question of “cause” to lift a stay was framed thusly:

To determine whether "cause" exists to lift the stay and allow a suit to proceed in a non-bankruptcy forum, a court typically analyzes whether (1) any great prejudice to either the bankrupt estate or the debtor will result from continuation of a civil suit, (2) the hardship to the non-bankrupt party by maintenance of the stay considerably outweighs the hardship to the debtor, and (3) the creditor has a probability of prevailing on the merits of its lawsuit. *Chizzali v. Gindi (In re Gindi)*, 642 F.3d 865, 872 (10th Cir. 2011), *overruled on other grounds by TW Telecom Holdings Inc. v. Carolina Internet Ltd.*, 661 F.3d 495 (10th Cir. 2011) (emphasis added); *Caves*, 309 B.R. at 80; *In re Pro Football Weekly, Inc.*, 60 B.R. 824, 826 (N.D.Ill.1986).

*In re Jefferson County*, 484 B.R. 427, 465-466 (Bankr. N.D. Ala. 2012).

## ARGUMENT

### I. DEBTOR NEVER INTENDED OR ASKED FOR A STAY ORDER THAT WOULD ENCOMPASS ALL ACTIONS AGAINST THE “STATE ENTITIES,” WITHOUT REFERENCE TO THE NATURE OF THE ACTION.

The simplest solution to correct the overbreadth of the *Extended Stay Order* (Dkt. 166) is to recognize that Debtor never sought so broad a stay order as that which ultimately issued from this Court; that it was never intended that the *Extended Stay Order* (Dkt. 166) should apply to actions such as Petitioners’ *Phillips* case, which do not implicate any of the Debtors’ interests that are protected by Chapter 9; and that the *Extended Stay Order* (Dkt. 166) does not and should not, in fact, apply to Petitioners’ case.

Such a conclusion is not only supported by the plain language of the Bankruptcy Code

and its underlying intent, but also by the language of Debtor's own motion seeking extension of the Chapter 9 stay. Debtor did not ask that all actions against the non-debtor Defendants be stayed, but rather only those actions "that, directly or indirectly, seek to enforce claims against the City, interfere with the City's activities in this Chapter 9 case or otherwise deny the City the protections of the Chapter 9 stay." Absent such limiting language, Debtor's motion would rightly have been attacked as seeking relief that was massively overbroad and, in many instances, not even remotely related to the purposes for which Chapter 9 protections exist.

Unfortunately, the absence of such language in the *Extended Stay Order* (Dkt. 166) has created precisely such an impermissibly broad-ranging stay. In its current form and breadth, the *Extended Stay Order* (Dkt. 166) provides that "the Chapter 9 stay hereby is extended to apply **in all respects** (to the extent not otherwise applicable) to the State Entities." (Dkt. 166, *Extended Stay Order*, at p. 2) Without the modification or clarification sought by Petitioners herein, the *Extended Stay Order* therefore not only fails to limit its application in the way requested by Debtor, but instead encourages the broadest possible reading, as evidenced by the words of United States District Court, Honorable George Steeh in his *Order Regarding Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay*, (Exh. 6.3, *Phillips* case, Dkt. #30) (hereafter "Steeh Order"), staying Petitioners' declaratory/injunctive relief civil rights action that is the subject of this Motion:

Although **it is not apparent that any interests of the City of Detroit bankruptcy proceedings are implicated in the case**, the plain language of the stay order would apply to this lawsuit.

**In accordance with the broadly worded Extension Order issued by the bankruptcy court, this court will abide by the stay unless and until such time as an order issues lifting or modifying the stay** to permit the captioned matter to proceed.

(Exh. 6.3, *Phillips* case, Dkt. #30, Steeh Order) (emphasis added).

This was not the relief sought by Debtor in its *Motion to Extend Stay* (Dkt. 56), and it was

not the relief that should have been granted. Clarifying the *Extended Stay Order* to make clear that it only applies to actions against the *res* of the Debtor, or even adopting verbatim the language proposed by the Debtor in its *Motion to Extend Stay* (Dkt. 56), would permit actions against non-Debtor “State Entities” to continue in courts across the State where such actions do not defeat or frustrate the purposes of Debtor’s bankruptcy proceedings.

**II. THE RELEVANT PROVISIONS OF THE BANKRUPTCY CODE DO NOT AUTHORIZE EXTENDING THE AUTOMATIC STAY OF PREPETITION LITIGATION TO ALL ACTIONS AGAINST THE NON-DEBTOR STATE ENTITIES SNYDER AND DILLON.**

The relevant provisions of the Bankruptcy Code providing for automatic stays of litigation in Chapter 9 bankruptcy are 11 U.S.C. §§ 362(a) and 922. Section 362(a) provides in pertinent part:

- (a) Except as provided in subsection (b) of this section, a petition filed under section 301,302, or 303 of this title, or an application filed under section 5(a)(3) of the Securities Investor Protection Act of 1970, operates as a stay, applicable to all entities, of—
- (1) the commencement or continuation, including the issuance or employment of process, of a judicial, administrative, or other action or proceeding against **the debtor** that was or could have been commenced before the commencement of the case under this title, or to recover a claim against **the debtor** that arose before the commencement of the case under this title;
  - (2) the enforcement, against **the debtor** or against property of **the estate**, of a judgment obtained before the commencement of the case under this title;
  - (3) any act to obtain possession of property of **the estate** or of property from the estate or to exercise control over property of the estate;
  - (4) any act to create, perfect, or enforce any lien against property of **the estate**;
  - (5) any act to create, perfect, or enforce against property of **the debtor** any lien to the extent that such lien secures a claim that arose before the commencement of the case under this title;
  - (6) any act to collect, assess, or recover a claim against **the debtor** that arose before the commencement of the case under this title;

(7) the setoff of any debt owing to **the debtor** that arose before the commencement of the case under this title against any claim against **the debtor**; ...

11 U.S.C. § 362(a) (emphases added). Thus on its face, § 362(a) is concerned with preventing the initiation or continuation of any litigation against the debtor or the bankruptcy estate and therefore expressly authorizes staying litigation of claims against the debtor or the estate.

Section 922 makes several other provisions for automatic stays in the Chapter 9 context:

- (a) A petition filed under this chapter operates as a stay, in addition to the stay provided by section 362 of this title, applicable to all entities, of—
- (1) the commencement or continuation, including the issuance or employment of process, of a judicial, administrative, or other action or proceeding against an officer or inhabitant of **the debtor** that seeks to enforce a claim against **the debtor**; and
  - (2) the enforcement of a lien on or arising out of taxes or assessments owed to **the debtor**.

11 U.S.C. § 922(a) (emphases added). On its face, §922 is thus also concerned with preventing the initiation or continuation of any litigation *against the debtor*. Indeed, § 922 seeks to protect the municipal debtor from both direct and indirect actions against the debtor, where a creditor might sue the officers or inhabitants of a municipality in order to reach the assets of the debtor. *In re City of Stockton*, 484 B.R. 372, 378-379 (Bankr. E.D. Cal. 2012).

But there is nothing in the Code that provides for staying actions against non-debtor third parties such as the State defendants in the *Phillips* case. Indeed, with respect to §362(a), the Sixth Circuit has noted that “said provision facially stays proceedings ‘against the debtor’ and fails to intimate, even tangentially, that the stay could be interpreted as including any defendant other than the debtor.” *Lynch v. Johns-Manville Sales Corp.*, 710 F.2d 1194, 1196 (6th Cir. 1983). In *Lynch* court further found:

It is universally acknowledged that an automatic stay of proceeding accorded by § 362 may not be invoked by entities such as sureties, guarantors, co-obligors, or others with a similar legal or factual nexus to the . . . debtor...The legislative history of §362 discloses a congressional intent to stay proceedings against the

debtor, and no other.

*Id.*

Even in cases where a broader construction to the automatic-stay provisions of §362 have been applied, the extension of a stay to non-debtor third parties typically only occurs when they are co-defendants of the debtor, and even then, only in the most unusual circumstances:

[S]omething more than the mere fact that one of the parties to the lawsuit has filed a Chapter 11 bankruptcy must be shown in order that proceedings be stayed against non-bankrupt parties. This "unusual situation," it would seem, arises when there is such identity between the debtor and the third-party defendant that the debtor may be said to be the real party defendant and that a judgment against the third-party defendant will in effect be a judgment or finding against the debtor. An illustration of such a situation would be a suit against a third-party who is entitled to absolute indemnity by the debtor on account of any judgment that might result against them in the case.

*A.H. Robins Co. v. Piccinin*, 788 F.2d 994, 999 (4th Cir. 1986)

Such unusual circumstances are not present here. Petitioners have not sued Debtor; thus, the underlying defendants in the *Phillips* case -- Snyder and Dillon -- are not co-defendants with Debtor. Nor is there "such identity" between the *Phillips* defendants and Debtor that Debtor would be the real party defendant in the *Phillips* case. Likewise, the *Phillips* defendants are not officers or inhabitants of Debtor, and Petitioners' suit does not seek to enforce any claim against Debtor, rendering § 922 inapplicable. As such, authority for inclusion of the *Phillips* case under the scope of the *Extended Stay Order* cannot be found in either §§362(a) or 922(a) of the Bankruptcy Code.

Nor can such authority be found in § 105(a). While it is true that a bankruptcy court is granted additional powers to issue orders that are "necessary or appropriate to carry out the provisions of this title," pursuant to 11 U.S.C. § 105(a), such powers are not without limits. As recognized in *GAF Corp. v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 26 B.R. 405 (Bankr. S.D.N.Y. 1983), any extension of a stay made pursuant to § 105 must be carefully

circumscribed to ensure that such an extension is only used to protect the debtor.

The *GAF Corp.* plaintiffs were manufacturers that were named as co-defendants, along with Johns-Manville, in asbestos litigation. When Johns-Manville initiated bankruptcy proceedings, all actions against it were automatically stayed pursuant to §362(a). The *GAF Corp.* plaintiffs moved for an extension of the stay, pursuant to § 105(a), to include all of Johns-Manville's co-defendants in the asbestos litigation. The court rejected this invitation:

Although Section 105 may be used to extend the stay, Section 105 does not have a life of its own and this extension may only be accomplished within the proper boundaries of Section 362. That is, unless this extension is designed to protect the debtor's interests, it cannot be granted.

\* \* \*

Section 105 of the Code was not intended to grant the bankruptcy court powers without bounds, *In re Brada Miller Freight Systems, Inc.*, 16 Bankr. 1002, 6 C.B.C. 2d 375, 389 (N.D. Ala. 1981), and the court's equitable powers thereunder are not unrestricted. *In re Dunckle Associates, Inc.*, 19 Bankr. 481, 6 C.B.C. 2d 600, 605 (Bankr. E.D. Pa. 1982). *See also* 2 Collier on Bankruptcy para. 105.02 at 105-7 (15th ed. 1982). *See also In re Chanticleer Associates, Ltd.*, 592 F.2d 70 (2d Cir. 1979).

The crux of the matter before this Court is whether the injunctive relief sought by the co-defendants under Section 105(a) is "necessary or appropriate" in order to achieve the goals of a Chapter 11 reorganization.

*GAF Corp. v. Johns-Manville Corp.* (In re Johns-Manville Corp.), at 414-415.

The court found that the asbestos litigation plaintiffs would suffer significantly greater harm if the stay was expanded to include the co-defendants than the co-defendants would suffer if the stay was denied, even though the remedy sought by the asbestos plaintiffs was limited to money damages (which meant that such plaintiffs' injuries, however grave, did not constitute "irreparable harm," under a preliminary-injunction standard because an adequate remedy existed at law to compensate the plaintiffs or their survivors):

The asbestos victims will certainly suffer by the total frustration of their opportunity for a day in court. As Chief Judge Peckham stated in the context of



asbestos litigation:

Such delay is not costless to these plaintiffs, many of whom are suffering financial hardships and who seek damages to redress their injuries and some of whom are dying and whose testimony must be perpetuated. The defendants may be inconvenienced by expeditious resumption of the actions against them. However, under *Landis*, the balance of hardship weighs in favor of the injured plaintiffs.

*In re Related Asbestos Cases*, 23 B.R. 523, 531-2 (N.D. Cal. 1982) (citing *Landis v North American Company*, 299 U.S. 248, 81 L. Ed. 153, 57 S. Ct. 163 (1936)). *Accord, Evans v. Johns-Manville Sales Corp.*, C.A. No. 80-2939, slip op. at 4-6 (D.N.J., October 5, 1982).

To the same effect, see *In re Massachusetts Asbestos Cases*, M.B.L. Nos. 1 & 2 (D. Mass. Sept. 28, 1982), in which the court denied a stay against third parties who were co-defendants of a debtor, stating:

The suppliant for a stay must make out a clear case of hardship or inequity in being required to go forward, if there is even a fair possibility that the stay for which he prays will work damage to someone else . . . .

Here, it is not a question of a fair possibility. It is certainty that any delay in the continuing efforts to bring these cases to trial will result in continued and increased hardship to the plaintiffs. This is not to ignore the problems of the defendants, but the loss to the plaintiffs far outweighs any possible gain procedural or practical that would inure to them.

Slip Op. at 3.

*GAF Corp. v. Johns-Manville Corp.* (In re Johns-Manville Corp.), at 417.

Unlike the asbestos-litigation plaintiffs, for whom there existed an adequate (if imperfect) remedy at law in the form of money damages, the Petitioners in the instant case are suffering irreparable harm for which there is no adequate remedy at law as long as the violations of their constitutional rights continue. *Chicago Teachers Union v. Hudson*, 475 U.S. 292, 106 S.Ct. 1066, 89 L.Ed.2d 232 (1986); *Doe v. Duncanville Independent School District*, 994 F.2d 160 (5<sup>th</sup> Cir. 1993). As such, the equities tilt overwhelmingly against using § 105 to extend the stay to the

non-debtor defendants in the *Phillips* case.

Some courts have found that a bankruptcy court lacks the power under § 105 to issue a stay against a non-debtor party, *In re American Hardwoods, Inc.*, 885 F.2d 621, (9th Cir. 1989), while others have cautiously allowed such stays where the equities clearly favor them:

Judicial discretion is not unlimited but is to be carefully honed in light of the facts of the case, applicable precedent and appropriate policy. *Fry v. Porter*, 1 Mod. [1607] 300, 307. The issuance of a stay by any court of equity requires a showing of serious, if not irreparable, injury and a tipping of the balance of the equities in favor of the party seeking the stay. *Landis v. North American Co.*, 299 U.S. 248, 254-55, 81 L. Ed. 153, 57 S. Ct. 163 (1936); *Commodity Futures Trading Commission v. Chilcott Portfolio Mgt. Inc.*, 713 F.2d 1477 (10th Cir. 1983).

*Lesser v. A-Z Assocs. (In re Lion Capital Group)*, 44 B.R. 690, 701 (Bankr. S.D.N.Y. 1984)

In the case at bar, the *Extended Stay Order* (Dkt. 166) is overbroad as applied to the *Phillips* case because there is simply no reason to believe that Debtor would suffer any substantial harm, let alone irreparable injury, if Petitioners' injunctive action against the underlying defendants was permitted to continue. The District Court recognized as much when it noted that "it is not apparent that any interests of the City of Detroit bankruptcy proceedings are implicated" in Petitioners' action, but concluded that it nevertheless was bound by the terms of the "broadly worded Extension Order issued by the bankruptcy court," and was therefore required to stay the case "unless and until such time as an order issues lifting or modifying the stay to permit the captioned matter to proceed." (Exh. 6.3, Steeh Order, *Phillips* case)

Where, as here, Snyder and Dillon, as defendants in the *Phillips* case, are third parties to Debtor's bankruptcy proceedings and there is no close nexus of identity between them and Debtor that would otherwise justify staying litigation against the *Phillips* defendants, the Bankruptcy Code does not authorize staying Petitioners' action. For that reason, the stay as to the *Phillips* case should be lifted.

### III. STAYING PETITIONERS' ACTION AGAINST DEFENDANTS DOES NOT

**FURTHER THE PURPOSES OF THE BANKRUPTCY CODE.**

Even assuming that the Bankruptcy Code could be read as permitting the extension of automatic-stay orders to non-debtor third parties in narrow circumstances (i.e., where an action against a non-debtor is really designed to reach the assets of the debtor/estate), such is not the case here. And in any event, when the circumstances surrounding Petitioners' litigation against the defendants Snyder and Dillon are viewed in their totality, it becomes clear that staying this particular litigation is not "necessary or appropriate to carry out the provisions" of the Code, as required by § 105.

There can be no doubt that the stay provisions of the Code are primarily intended to provide protection to the parties to a bankruptcy proceeding: the debtor and the creditors, as best explained in the legislative history of the Code:

The automatic stay is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors. It stops all collection efforts, all harassment, and all foreclosure actions. It permits the debtor to attempt a repayment or reorganization plan, or simply to be relieved of the financial pressures that drove him into bankruptcy.

H.R. Rep. 95-595, at 340 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 6296.

The stay of proceedings was also intended to promote an orderly reorganization or liquidation of the debtor's estate thereby benefiting, secondarily, creditors of the estate:

The automatic stay also provides creditor protection. Without it, certain creditors would be able to pursue their own remedies against the debtor's property. Those who acted first would obtain payment of the claims in preference to and to the detriment of other creditors. Bankruptcy is designed to provide an orderly liquidation procedure under which all creditors are treated equally. A race of diligence by creditors for the debtor's assets prevents that.

*Id.*, reprinted in 1978 U.S.C.C.A.N. 5787, 6297.

Courts have been extremely reluctant to extend this protection to non-debtor third parties, recognizing that "it would distort congressional purpose to hold that a third party solvent co-

defendant should be shielded against his creditors by a device intended for the protection of the insolvent debtor and creditors thereof.” *Lynch v. Johns-Manville Sales Corp.*, 710 F.2d at 1197. See also: *In re Related Asbestos Cases*, 23 B.R. 523, 527 (N.D. Cal. 1982); *In re UNR Industries, Inc.*, 23 B.R.144 (Bankr. N.D. Ill. 1982); *Ashworth v. Johns-Manville, et al.*, Nos. C78-470, C81-1545, C77-4088, C79-167 (N.D. Ohio Mar. 21, 1983) at 4.

Asbestos and other mass-tort litigation is instructive on this point, since such cases often involve numerous co-defendants, some of whom are solvent and some of whom are not. In such cases, the solvent defendants are understandably concerned about proceeding without the maximum number of co-defendants and thus prefer to wait until their insolvent co-defendants emerge from bankruptcy. Despite these concerns, where a debtor’s solvent co-defendants have moved for an extension of the automatic stay to cover them, they have been routinely denied. When viewed in light of the test that is typically applied by bankruptcy courts to determine whether a stay should be extended to a non-debtor third-party, that result is hardly surprising. In *In re Family Health Servs.*, 105 B.R. 937 (Bankr. C.D. Cal. 1989) the court succinctly summarized:

Courts have applied traditional preliminary injunction tests when determining whether to stay actions against non-debtor parties. It has been held that:

In order for the Court to enjoin a creditor's action against a co-debtor or guarantor, the debtor must show: 1) irreparable harm to the bankruptcy estate if the injunction does not issue; 2) strong likelihood of success on the merits; and 3) no harm or minimal harm to the other party or parties. *In Re Otero Mills, Inc.*, 25 Bankr. 1018, 1021 (Bankr. N.M. 1982). *In Re Larmar Estates, Inc.*, 5 Bankr. 328, 331 (Bankr. E.D.N.Y. 1980); In *Otero Mills* and *Larmar* the courts determined that "likelihood of success on the merits" equates to the probability of a successful plan of reorganization. *Otero Mills*, 25 Bankr. at 1021; *Larmar*, 5 Bankr. at 331.

The Ninth Circuit has stated the standard test to evaluate claims for preliminary injunctive relief as follows:

Under the first part of this test, the movant must show 1) irreparable injury, 2) probable success on the merits, 3) a balance of hardships that tips in the movant's favor, and 4) that a preliminary injunction is in the public interest. Alternatively, a court may issue an injunction if the moving party demonstrates *either* a combination of probable success on the merits and irreparable injury *or* that serious questions are raised and the balance of hardships tips in his favor.

*F.T.C. v. Evans Products Co.*, 775 F.2d 1084, 1088-89 (9th Cir. 1985). *See also*, *In re Family Health Servs.*, 105 B.R. 937, 943 (Bankr. C.D. Cal. 1989)

Of course, the cases above all involved co-defendants, co-debtors, or guarantors. In this case, the *Phillips* defendants lack even that once-removed connection to the Debtor. The *Phillips* case does not name Debtor or any of its agents, employees, officers or representatives as co-defendants or parties in any capacity. But even applying the standard applicable to co-defendants, co-debtors, and guarantors, Defendants are not entitled to a stay.

There is nothing to suggest that Debtor would suffer an irreparable injury to the bankruptcy estate if Petitioners' litigation regarding the constitutionality of Public Act 426 was to proceed during the pendency of Debtor's bankruptcy proceedings. Indeed, there is nothing to suggest that the bankruptcy estate would be in any way affected, as: (1) Debtor is not a party to Petitioners' litigation; (2) Petitioners' litigation seeks no money damages; and (3) to whatever extent Petitioners may be entitled to attorney fees and costs if they prevail in the underlying matter, such an award will be the responsibility of the State of Michigan, not Debtor, as Defendants are State officials.

On the other hand, in light of the constitutional violations alleged by Petitioners in their complaint, Petitioners have suffered and will continue to suffer irreparable harm. Courts have held that the mere fact that constitutional rights are being violated is sufficient to demonstrate irreparable harm. *Doe v. Duncanville Independent School District*, 994 F.2d 160 (5<sup>th</sup> Cir. 1993).

Even a temporary loss of a constitutional right constitutes irreparable harm which cannot be adequately remedied by an action at law. *Chicago Teachers Union v. Hudson*, 475 U.S. 292, 106 S.Ct. 1066, 89 L.Ed.2d 232 (1986). Thus, not only can Debtor not demonstrate irreparable harm to the bankruptcy state if Petitioners' claim against Defendants is not stayed, but it also cannot demonstrate "no harm or minimal harm" to Petitioners if the litigation is stayed. As a result, whether analyzed under a preliminary-injunction framework or a simple balancing of the equities, the extension of the stay to include the *Phillips* case cannot be upheld.

#### **IV. WHERE PETITIONERS ALLEGE CONSTITUTIONAL VIOLATIONS, ENFORCEMENT OF THE CONSTITUTION MUST TAKE PRECEDENCE OVER STAYING LITIGATION AGAINST NON-DEBTOR DEFENDANTS**

As explained above, it is not "necessary or appropriate" that all litigation against the non-debtor *Phillips* defendants, Snyder and Dillon, be stayed in order to carry out the purposes of the Bankruptcy Code as applied to Debtor. But as written, that is precisely what the *Extended Stay Order* does. No matter what the facts, no matter what the claims against the State, under the broad language of this Court's *Order*, no lawsuit of any kind can proceed against the Governor or the State Treasurer until one community—the City of Detroit—emerges from bankruptcy. Thus, both on its face and as applied, the *Extended Stay Order* (Dkt. 166) operates to deprive all who reside in the entire State of Michigan of their constitutional rights of access to the courts and to petition for a redress of grievances.

A court can hold a statute unconstitutional either because it is facially invalid or unconstitutional as applied in a particular set of circumstances. See *Coleman v. Ann Arbor Transp. Auth.*, 904 F. Supp. 2d 670, 682-83 (E.D. Mich. 2012) (citing *Women's Med. Prof'l Corp. v. Voinovich*, 130 F.3d 187, 193 (6th Cir. 1997)). In an 'as applied' challenge, "the plaintiff contends that application of the statute in the particular context in which he has acted, or in which he proposes to act, would be unconstitutional." *Women's Med. Prof'l Corp.*, 130 F.3d at

193 (internal citations omitted).

The stay of proceedings as applied to Petitioners' underlying case in *Phillips* violates their rights under the United States Constitution and the Civil Rights Act, 42 U.S.C. § 1983, to a full remedy for the deprivation of their constitutional rights. As such, Petitioners ask this Court to modify the stay with respect to the *Phillips* case in order to avoid such constitutional violations under the Fifth and Fourteenth Amendments.

Specifically, it violates Petitioners' right to due process in that they no longer have an avenue to vindicate the deprivation of their constitutional rights, as guaranteed by the enforcement power given to Congress by § 5 of the Fourteenth Amendment through 42 U.S.C. §1983, which provides:

Every person who, under color of any statute, ordinance, regulation, custom, or usage of any State . . . subjects, or causes to be subjected thereof to the deprivation of any rights, privileges, or immunities secured by the Constitution and laws, shall be liable to the party injured in an action at law, suit in equity, or other proper proceeding for redress . . . .”

42 U.S.C. § 1983.

When Congress adopted the Fourteenth Amendment in 1868, it took steps to ensure that the promise of that amendment—freedom from violations of due process and equal protection by public officials—would be e. Thus, in 1871, the United States Congress first enacted § 1 of the Klu Klux Klan Act, pursuant to § 5 of the Fourteenth Amendment with the express intent to provide for enforcement of that amendment to the United States Constitution, which is specifically entitled, “An Act to enforce the Provisions of the Fourteenth Amendment to the Constitution of the United States, and for other purposes.” 17 Stat. 13 (1871).

In 1874, Congress codified the substantive portion of the 1871 Act, passing a separate section identical to the present version of the Civil Rights Act, 42 U.S.C. § 1983. The Supreme Court has broadly described the primary purpose of § 1983 as follows:

As a result of the new structure of law that emerged in the post-Civil War era—and especially of the Fourteenth Amendment, which was its centerpiece—the role of the Federal Government as the guarantor of basic federal rights against state power was clearly established. **Section 1983 opened the federal courts to private citizens, offering a uniquely federal remedy against incursions under the claimed authority of state law upon rights secured by the Constitution and laws of the Nation . . . .**

**The very purpose of section 1983 was to interpose the federal courts between the States and the people, as guardians of the people’s federal rights—to protect the people from unconstitutional action under color of state law . . . .**

*Mitchum v. Foster*, 407 U.S. 225, 238-39, 242 (1972). (emphasis added). Throughout our nation’s history, therefore, the right of our citizens to enforce their rights under the U.S. Constitution in a United States District Court has been a bulwark of democratic principles. Taking away that right should not be taken lightly.

Petitioners’ federal statutory right to vindicate the deprivation of their constitutional rights includes the right to have the United States District Court and a jury of Petitioners’ peers adjudicate their § 1983 cause of action, as guaranteed by 28 U.S.C. § 1343(3). *See* U.S. Const. amend. VII (guaranteeing the right to trial by jury); 28 U.S.C. § 1343(3) (providing that “[t]he district courts shall have original jurisdiction of any civil action . . . [t]o redress the deprivation under color of any State law . . . of any right, privilege or immunity secured by the Constitution of the United States . . . .”).

Congress enacted § 1983 with the “goal of compensating the injured” and “preventing official illegality.” *Jaco v. Bloechle*, 739 F.2d 239, 244 (6th Cir. 1984) (internal quotations omitted). In doing so, it clearly established the Federal Government as the guarantor of “the basic federal rights of individuals against incursions by state power.” *Patsy v. Bd. of Regents of State of Fla.*, 457 U.S. 496, 503 (1981).

The application of the automatic stay herein to Petitioners’ case contravenes the very purpose and intent of Congress and the Supreme Court in enacting and enforcing § 1983, to



provide a judicial remedy for the violation of one’s rights under the Constitution. *Accord Felder v. Casey*, 487 U.S. 131, 148 (1988) (recognizing that civil rights actions “belong in court”) (quoting *Burnett v. Grattan*, 468 U.S. 42, 50 (1984); *Mitchum*, 407 U.S. at 242-43 (noting that the enforcement of federal rights is of the highest priority). By delaying proceedings in the underlying matter indefinitely, the stay has in essence taken from Petitioners—without any process, let alone adequate process—the opportunity to have the deprivations of their civil rights adjudicated by the district court and a jury of their peers. This stay thus precludes Petitioners from any relief for the violations of their constitutional rights wrought by PA 436. *See Felder*, 487 U.S. at 148.

In this regard, *Perez v. Campbell*, 402 U.S. 637 (1971) is noteworthy. In that case, the Court dealt with the conflict between the Bankruptcy Act and a state “financial responsibility” motorist statute. In so doing, it found that the conflicts presented by the state statute violated the Supremacy Clause. The Court also noted that the conflict was created, and the state law invalidated by the Supremacy Clause, because the state law undermined the “declared purpose” of the federal Bankruptcy Act. *Id.* at 654. In that case the court held that there was “no reason why the States should have broader power to nullify federal law.” *Id.* at 652.

Here, however, the Supremacy Clause is useless to resolve statutory conflicts with other federal legislation. It is not the federal Bankruptcy Act that is being frustrated and interfered with, but rather the Civil Rights Act – i.e. the protection of individuals’ rights under the United States Constitution -- that is being undermined. The exercise of this Court’s discretion in staying proceedings in the *Phillips* case – as well as other § 1983 cases -- interferes with the purpose, intent, and effectiveness of the federal Civil Rights Act. As in *Perez*, in the *Phillips* case there is “no reason” justifying this Court’s *Extended Stay Order*, (Dkt. 166), to “nullify federal law,” (i.e., the Civil Rights Act of 1871) such that it “frustrates” its “full effectiveness.” *Id.*

The constitutional conundrum caused by the application of the automatic stay to the *Phillips* case are well described in a recent opinion from the Eastern District of California, *V.W. ex rel. Barber v. City of Vallejo*, No. 12-1629, 2013 WL 3992403 (E.D. Cal. Aug. 2, 2013). In *Vallejo*, the court makes the following, highly pertinent observation with regard to the issue of a conflict between the purposes of the Bankruptcy Code and the Civil Rights Act:

[A]larming as it is, as the bankruptcy statute appears to be written, a municipality may erase its own liability to persons whom it and its officers have willfully and maliciously deprived of their civil rights—and even their lives—by filing for bankruptcy. This extraordinary result would appear to exalt the bankruptcy laws over the civil rights laws (even though the civil rights laws, like the bankruptcy laws, are anchored in the constitution).

*Id.* at 4. In *Vallejo*, however, because neither party had actually raised this issue --and indeed the plaintiff had conceded the jurisdiction of the Bankruptcy Court to discharge her claims -- the Court did not decide the merits of this issue. Nonetheless, the *Vallejo* court went out of its way to identify and flag how the Bankruptcy Code, if improperly applied, may well unconstitutionally interfere with rights secured by § 1983 and the Fourteenth Amendment.

Once again, it should be noted that, unlike the *Phillips* case herein, *Vallejo* involved direct claims for money damages against the debtor municipality. In *Phillips*, the application of the stay to the non-debtor defendants is even more contrary to public policy inasmuch as it allows those defendants to perpetuate constitutional violations by attaching themselves to a third-party bankruptcy proceeding.

Rather than “exalt” the Bankruptcy Code over the Civil Rights Acts, the automatic- and equitable-stay provisions of the Code should be construed to be consistent with § 1983, thus avoiding a constitutional conflict. Where a federal statute is overbroad, as the Bankruptcy Code is here, the Court should construe the statute to avoid constitutional problems if the statute is subject to such a limiting construction. *New York v. Ferber*, 458 U.S. 747, 769 (1982).

Here, the automatic- and equitable-stay provisions can be limited through a grant of relief from the stay, which is within this Court’s discretion. *In re Atl. Ambulance Assocs., Inc.*, 166 B.R. 613, 615 (Bankr. E.D. Va. 1994) (noting that the bankruptcy “code gives the court a fairly broad discretion to provide appropriate relief from the stay as may fit the facts of the case.”); *Capital Commc'ns Fed. Credit Union v. Boodrow*, 197 B.R. 409, 413 (N.D.N.Y. 1996) *aff'd sub nom. In re Boodrow*, 126 F.3d 43 (2d Cir. 1997) (“[A] court has broad discretion to lift the stay in appropriate circumstances.” (internal citations omitted)). Petitioners thus ask this Court to lift or modify the Stay as it applies to their case, to allow the Bankruptcy Code to be read consistently with the constitutionally imposed values and principles of § 1983 and, therefore, applied in a constitutional manner.

### CONCLUSION

For all of the reasons stated above in their Motion attached hereto, and for good cause shown, Petitioners respectfully request that *Extended Stay Order* (Dkt. 166) be clarified, modified, or lifted with respect to Petitioners’ claims against the underlying defendants in the *Phillips* case, so that: 1) the constitutionality of Public Act 436 may be properly adjudicated pursuant to 42 U.S.C. §1983 by an Article III United States District Court; and 2) Petitioners may amend their Complaint to provide for the voluntary withdrawal of individual plaintiffs Phillips, Valenti, and AFSCME Council 25 and the voluntary dismissal of Count I of their Complaint, without bearing on the Debtor’s rights in this bankruptcy proceeding.

Dated: September 23, 2013

Respectfully Submitted,

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**EXHIBIT 4**  
**CERTIFICATE OF SERVICE**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

CITY OF DETROIT, MICHIGAN,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

\_\_\_\_\_ /

**CERTIFICATE OF SERVICE**

I, WILLIAM H. GOODMAN, certify that on September 23, 2013, I electronically filed *Catherine Phillips, Et Al.'S Motion For Relief From Order Pursuant To Section 105(A) Of The Bankruptcy Code Extending The Chapter 9 Stay To Certain (A) State Entities, (B) Non Officer Employees And (C) Agents And Representatives Of The Debtor*, along with a *Summary of Attached Exhibits and Exhibits 1-6.3* (as listed on the Summary), with the Clerk of the Court using the ECF system which will send notification of such filing to ECF participants in this matter.

/s/William H. Goodman

William H. Goodman (P14173)  
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Attorneys for Creditor Catherine Phillips, et al.

**EXHIBIT 5**

**None**

**[No Affidavits Filed Specific to This Motion]**





# **EXHIBIT 6.1**

## **Complaint,**

***Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon,***

**Case No.13-CV-11370**

**[Doc. #1]**

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

Catherine Phillips, Staff Representative Michigan AFSCME Council 25, and Chief Negotiator with the City of Detroit; Joseph Valenti, Co-Chief Negotiator with the Coalition of Unions of the City of Detroit; Michigan AFSCME Council 25; Russ Bellant, President of the Detroit Library Commission; Tawanna Simpson, Lamar Lemmons, Elena Herrada, Detroit Public Schools Board Members; Donald Watkins, and Kermit Williams, Pontiac City Council Members; Duane Seats, Dennis Knowles, Juanita Henry, and Mary Alice Adams, Benton Harbor Commissioners; William "Scott" Kincaid, Flint City Council President; Bishop Bernadel Jefferson; Paul Jordan; Rev. Jim Holley, National Board Member, Rainbow Push Coalition; Rev. Charles E. Williams II, Michigan Chairman, National Action Network; Rev. Dr. Michael A. Owens, Rev. Lawrence Glass, Rev. Dr. Deedee Coleman, Bishop Allyson Abrams, Executive Board, Council of Baptist Pastors of Detroit and Vicinity;

Case No.  
Judge:

Plaintiffs,

vs.

RICHARD D. SNYDER, as Governor of the State of Michigan, and ANDREW DILLON, as the Treasurer of the State of Michigan, acting in their individual and/or official capacities,

***Complaint for Declaratory  
& Injunctive Relief***

Defendants.

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**THERE WAS ANOTHER PENDING CIVIL ACTION ARISING OUT OF THE SAME TRANSACTIONS OR OCCURRENCE AS ALLEGED IN THIS COMPLAINT, BEFORE THE HONORABLE JUDGE ARTHUR J TARNOW, THAT CIVIL ACTION BEING CASE NO. 12-11461.**

**COMPLAINT FOR DECLARATORY  
& INJUNCTIVE RELIEF**

NOW COME Plaintiffs, and by and through their attorneys and for their Complaint, do hereby allege as follows.

**I. NATURE OF PLAINTIFFS' CLAIMS**

1. This is a federal civil rights and voting rights cause of action brought pursuant to 42 USC §1983 for violations of the Plaintiffs' federal and constitutional rights under the United States Constitution, Art. 4, §4; Amend. I; Amend. XIII; Amend. XIV; and pursuant to the *Voting Rights Act of 1965*, 42 U.S.C. §§ 1973 *et. seq.*

2. The *Local Financial Stability and Choice Act*, Act No. 436, Public Acts of 2012, MCL §§ 141.1541 *et. seq.* (Public Act 436) effectively establishes a new form of government within the State of Michigan. The new form of government allows Michigan cities and other

forms of municipal corporations to be ruled by one unelected official, who is vested with broad legislative power and whose orders, appointments, expenditures, and other decisions are not reviewable by local voters.

3. Plaintiffs' rights under the United States Constitution, include:
  - a. A due process right to engage in collective bargaining.
  - b. A due process right to an elected, republican form of government;
  - c. A right to freedom of speech.
  - d. A right to petition local government.
  - e. A right to equal protection of laws granting Michigan citizens the right to vote in local elections and to remove emergency managers.

Each of these rights is violated by provisions of Public Act 436.

4. The Voting Rights Act of 1965 protects Plaintiffs from discriminatory laws that disenfranchise voters. Plaintiffs' voting rights are also violated by provisions of Public Act 436.

## **II. JURISDICTION AND VENUE**

5. Federal question jurisdiction is conferred by 28 USC §§ 1331, 1343(a)(3), 1343(a)(4), 1344, 2201 and 2202 over Plaintiffs' Constitutional and Voting Rights Act claims.

6. Venue is proper pursuant to 28 USC §1391, since all Defendants reside or are located in the Eastern District of Michigan and the events giving rise to this action occurred, in part, within this District.

## **III. PARTIES**

7. Plaintiff Catherine Phillips is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Catherine Phillips is also a Staff Representative for Michigan AFSCME Council 25, and Chief Negotiator with the City of Detroit.

8. Plaintiff Joseph Valenti is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Valenti is also Co-Chief Negotiator for the Coalition of unions of the City of Detroit.

9. Plaintiff, Michigan AFSCME Council 25 is an unincorporated, voluntary labor association certified by the Michigan Employment Relations Commission, pursuant to the Michigan Public Employee Relations Act, MCLA 432.201 *et seq.* Plaintiff Michigan AFSCME Council 25 has associational standing on behalf of its members as well as its own standing as party to collective bargaining agreements with numerous public entities that will be affected by PA 436, inclusive of, but not limited to the City of Detroit.

10. Plaintiff Russ Bellant is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Bellant is also President of the Detroit Library Commission.

11. Plaintiff Tawanna Simpson is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Simpson is also a Detroit Public Schools Board Member.

12. Plaintiff Lamar Lemmons is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Lemmons is also a Detroit Public Schools Board Member.

13. Plaintiff Elena Herrada is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Herrada is also a Detroit Public Schools Board Member.

14. Plaintiff Donald Watkins is a citizen of the United States, a resident of the City of Pontiac, County of Wayne, and the State of Michigan. Plaintiff Watkins is also a member of the Pontiac City Council.

15. Plaintiff Kermit Williams is a citizen of the United States, a resident of the City of Pontiac, County of Wayne, and the State of Michigan. Plaintiff Williams is also a member of the Pontiac City Council.

16. Plaintiff Duane Seats is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Seats is also a Benton Harbor Commissioner.

17. Plaintiff Dennis Knowles is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Knowles is also a Benton Harbor Commissioner.

18. Plaintiff Juanita Henry is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Henry is also a Benton Harbor Commissioner.

19. Plaintiff Mary Alice Adams is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Adams is also a Benton Harbor City Commissioner.

20. Plaintiff William "Scott" Kincaid is a citizen of the United States, a resident of the City of Flint Michigan, County of Genesee, and the State of Michigan. Plaintiff Kincaid is also President of the Flint City Council.

21. Bishop Bernadel Jefferson is a citizen of the United States, a resident of the City of Flint Michigan, County of Genesee, and the State of Michigan.

22. Plaintiff Paul Jordan is a citizen of the United States and a resident of the City of Flint, County of Genesee, and State of Michigan.

23. Plaintiff Rev. Jim Holley is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Holley is also a National Board Member of the Rainbow Push Coalition.

24. Rev. Charles E. Williams II is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Williams is also the Michigan Chairman of the National Action Network.

25. Plaintiff Rev. Dr. Michael A. Owens is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Dr. Michael A. Owens is also President of the Council of Baptist Pastors of Detroit and Vicinity.

26. Plaintiff Rev. Lawrence Glass is a citizen of the United States, a resident of the City of Redford, County of Wayne, and the State of Michigan. Plaintiff Rev. Lawrence Glass is also First Vice-President of the Council of Baptist Pastors of Detroit and Vicinity.

27. Plaintiff Rev. Dr. Deedee Coleman is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Dr. Deedee Coleman is also Second Vice-President of the Council of Baptist Pastors of Detroit and Vicinity.

28. Plaintiff Bishop Allyson Abrams is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Bishop Allyson Abrams is also Secretary of the Council of Baptist Pastors of Detroit and Vicinity.

29. Defendant Richard D. Snyder is the Governor of the State of Michigan. Governor Snyder maintains his principal residence in the City of Ann Arbor in Washtenaw County,



Michigan, and at all times relevant hereto was acting individually and in his official capacity as State Governor and top policymaker for the State of Michigan.

30. Defendant Andrew Dillon is the Treasurer of the State of Michigan. Treasurer Dillon maintains his principal residence in Redford Township in Wayne County, Michigan, and at all times relevant hereto was acting individually and in his official capacity as State Treasurer and as a policymaker.

#### **IV. COMMON FACTS**

31. Through its provisions, Public Act 436 establishes a new form of local government, previously unknown within the United States or the State of Michigan, where the people within local municipalities may be governed by an unelected official who establishes local law by decree.

#### ***Legislative Background Of Municipal Financial Distress In Michigan***

32. During the Great Depression in the 1930s, 4,770 cities defaulted on their debt. Among all states, Michigan had the fourth highest number of defaulting municipalities throughout the depression years. At that time, creditors of defaulting cities were commonly required to file a mandamus action in state courts seeking to compel the municipality to raise taxes to pay debt obligations. Courts then appointed receivers to oversee the finances of municipal debtors.

33. To improve procedures for creditors and municipal debtors, the federal government adopted Chapter 9 of the federal bankruptcy code in 1937. Chapter 9 permits the use of federal bankruptcy procedures for debt-ridden municipalities. Under Chapter 9, elected officials remain in office and retain significant autonomy while bankruptcy procedures oversee

the development of a plan to adjust debts and pay creditors. Before a Chapter 9 petition may be filed however, the state must authorize the municipality to file for bankruptcy.

34. Prior to 1988, unless proceeding through Chapter 9, municipalities were placed into receivership by the courts, not the state legislature or executive branch. Compensation for court-appointed receivers was derived from property that the courts placed within the care of the receiver.

35. Since 1937, two Michigan cities have defaulted on bond payments or been placed under a court imposed receivership due to insolvency. Muskegon Township defaulted on revenue bond payments in the early 1960s and the City of Ecorse was placed in receivership by a Wayne County Circuit Court in 1986.

36. Neither municipality sought the protections of Chapter 9 bankruptcy. Muskegon Township entered into a settlement agreement with its creditors that resolved their defaults. Ecorse remained under court receivership through 1990 and was subject to further state oversight until the late 1990s.

37. In response to the troubled insolvency of the City of Ecorse, the state enacted Public Act 101 of 1988 (PA 101). Public Act 101 allowed the state to intervene when local municipalities were found to be in financial distress. The statute allowed the state to appoint emergency financial managers over cities experiencing a financial emergency.

38. In 1990, the legislature replaced PA 101 with the *Local Government Fiscal Responsibility Act*, Act No. 72, Public Acts of 1990 (PA 72). Public Act 72 authorizes state officials to intervene when local governments face a financial emergency. Pursuant to PA 72, Michigan's local financial emergency review board can appoint an emergency financial manager (EFM) only after the Governor declares a financial emergency within the local government.

39. Under PA 72, local elected officials are not removed from office and the EFM's powers only extended to matters of municipal finances. Their powers did not extend to purely administrative or policy matters. Furthermore, EFMs had the power to renegotiate, but not unilaterally break contracts.

40. In the late 1990s, legislation was passed to revise municipal revenue sharing laws, severely reducing the amount of funds shared by the state with local government. Local governments saw further revenue reductions when income and property tax revenues sharply declined during the recession of 2000-2003. As a result, municipalities experienced significant financial stress during the late 1990s and early 2000s.

41. During this time period, the state local financial emergency review board appointed PA 72 EFMs in the cities of Hamtramck, Highland Park, and Flint.

42. These original Public Act 72 EFMs remained in place as follows:

- a. Hamtramck from 2000 until 2007 (7 years)<sup>1</sup>;
- b. Highland Park from 2001 until 2010 (9 years);<sup>2</sup> and
- c. Flint from 2002 until 2004 (2 years)<sup>3</sup>.

43. With the onset of the historic global recession that began in 2007 and resulted in record foreclosures and steep unemployment, cities and municipal corporations in Michigan saw further sharp reductions to income and property tax revenue. State revenue sharing laws were further amended in recent years to reduce revenue sharing with local governments and thereby balance state budgets. As a result, Michigan municipalities again faced widespread financial stress.

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<sup>1</sup> In 2010, the City of Hamtramck requested permission from the state to file for Chapter 9 bankruptcy. The state refused.

<sup>2</sup> One year later, DTE Energy repossessed the City of Highland Park's street lights due to the city's inability to pay its bills

<sup>3</sup> The City of Flint was again declared in a financial emergency in 2011.

44. Again, the state local financial emergency review board appointed PA 72 EFMs in various cities, including Pontiac, Ecorse, and Benton Harbor. Public Act 72 EFMs were also appointed over the Village of Three Oaks (2008) and the Detroit Public Schools and the review board entered into a PA 72 consent agreement with the city of River Rouge.

45. The second wave of Public Act 72 EFMs were appointed as follows:

- a. Pontiac from 2009 until the present (4+ years)
- b. Ecorse from 2009 until the present (4+ years)
- c. Benton Harbor from 2010 through the present (3+ years);
- d. Village of Three Oaks from 2008 until 2009 (1 year); and
- e. Detroit Public Schools from 2009 until the present (4+ years).

The state's consent agreement with the city of River Rouge has also remained in place from 2009 to the present. Notably, since the onset of the global recession in 2007, the Village of Three Oaks is the only municipality that has emerged from a financial emergency following the appointment of an emergency financial manager, appointment of an emergency manager, or the entering of a consent agreement.

46. Following elections in November of 2010 and the turnover of state offices in January 2011, the Michigan legislature introduced House Bill 4214 (2011) on February 9, 2011. The bill was widely seen as a response to a court ruling finding that the Detroit Public Schools' School Board, and not the EFM, possessed the power under state law to determine what curriculum would be taught and which texts would be used in the city's public schools. The decision provoked elements of the state legislature who then sought greater control over the content of the curriculum taught in Detroit's schools.

47. House Bill 4214 was rushed through the legislature and quickly presented to the Governor for signature. Defendant Governor Richard D. Snyder signed the *Local Government and School District Fiscal Accountability Act*, Act No. 4, Public Acts of 2011 (PA 4) into law on March 16, 2011. Public Act 4 repealed Public Act 72 and was given immediate effect. Public Act 4 automatically converted all EFMs to Public Act 4 Emergency Managers (EM) and greatly expanded the scope of their powers. The Act also brought all existing consent agreements under the new law.

***Public Act 4's Radical Revision of State Law***

48. Public Act 4 radically revised state law governing the appointment of EMs over cities and school districts during times of financial stress.

49. Public Act 4 provided that once the Governor had declared a financial emergency, the Governor could then appoint an individual to be the municipality's emergency manager. The Governor was granted broad discretion to declare a financial emergency and, in fact, a municipality was not actually required to be in a fiscal crisis before an EM could be appointed.

50. Tellingly, the Act changed the title of municipal "emergency financial managers" to "emergency managers" and expanded the scope of their powers to cover all the conduct of local government.

51. The PA 4 EM's powers extended not only to financial practices and fiscal policy, but rather permitted such managers to fully act "for and in the place of" the municipality's elected governing body. The grant of powers also included a general grant of legislative power (the power to unilaterally adopt local laws and resolutions) to PA 4 EMs.

52. Public Act 4's grant of legislative power to EMs extended to the full scope of legislative power possessed by local elected officials. In the state of Michigan, local legislative power is of the same scope and nature as the police power possessed by the state - limited only by the jurisdictional limits of the municipality and where preempted by the general laws of the state. Public Act 4's grant of general legislative power to EMs thus extended to a grant of the full of scope of the local government's police power, previously reserved to local government's elected legislative body and elected mayor.

53. Emergency managers were further granted powers to act in disregard of the local government's local laws – including city charters, ordinances, administrative regulations, school district bylaws, etc.

54. The Act further granted a state financial review team the power to enter into a consent agreement with local government, again without a finding that a financial emergency existed.

55. At the time PA 4 became law, reports from the State indicated that, based on their financial conditions, over eighty (80) municipalities and/or school systems were eligible to have emergency managers.

56. After passage of PA 4, existing EFMs in the cities of Benton Harbor, Ecorse and Pontiac and over the Detroit Public Schools were converted to EMs and vested with PA 4 powers. The state's consent agreement with the city of River Rouge was also converted to a PA 4 agreement.

57. With the continuing global economic recession and steep declines in state revenue sharing and municipal property tax and income tax revenue collection, PA 4 EMs were newly appointed as follows:

- a. Flint from 2011 until the present (2+ years);
- b. Highland Park Public Schools from 2012 until the present (1+ year); and
- c. Muskegon Heights Public Schools until the present (1+ year).

Additionally, the state entered PA 4 consent agreements with the cities of Detroit<sup>4</sup> and Inkster.

58. After becoming vested with Public Act 4 powers, EMs in Benton Harbor, Ecorse, Flint, and Pontiac have all exercised general legislative power to enact, repeal and suspend local laws and resolutions and have voided various contracts.

***Michigan Citizen's Rejection of Public Act 4  
And the State's Resurrection of Public Act 72***

59. In opposition to Public Act 4, citizens began circulating petitions in May 2011. The petitions were to place a referendum on the ballot that would reject the law. Over 200,000 signatures were gathered and the petitions were submitted to the Secretary of State in February 2012. However to prevent Michigan citizens from having the opportunity to vote on the matter, the petitions were challenged by a lobbying group.

60. The petitions were challenged on the basis that the title of the petitions were not printed in 14 point font but rather were printed in slightly smaller font of approximately 13.75 or larger.<sup>5</sup>

61. Along party-line votes, the members of the state Board of Canvassers deadlocked and as a result, the petitions were not certified for the ballot.

62. The matter was then appealed to the Michigan Court of Appeals. A panel of the Court of Appeals recognized and found that existing law required the referendum to be placed on

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<sup>4</sup> The state has struggled to identify the state law(s) providing legal authority for the transfer of powers and oversight that was created by the agreement with the city of Detroit. Over time, the state seems to have settled into a belief that PA 4 provided such authority.

<sup>5</sup> No evidence was submitted and it was not argued that signatories of the petitions had been confused or misunderstood what they had signed. In fact, the difference in point size as argued by the challenger was invisible to the naked eye of many.

the ballot. However, the panel sought to overturn existing law, and thereby keep the referendum off the ballot. The panel requested that the full Court of Appeals be polled to convene a special panel to reconsider existing law. The full Court of Appeals however declined to convene the special panel.

63. An appeal was taken to the state Supreme Court. The Michigan Attorney General in his individual capacity and Governor in his individual and/or official capacity joined the challengers as amici at the state Supreme Court.

64. On August 3, 2012, the Michigan Supreme Court issued an opinion ordering the state Board of Canvassers certify the petitions and place the referendum on the ballot.

65. However on August 6, 2012, the state Attorney General issued a formal opinion stating that once the petitions were certified<sup>6</sup>, PA 72 would spring back into effect and would remain in effect if voters rejected PA 4 at the November 2012 election.

66. The state Board of Canvassers certified the petitions on August 8, 2012 and by operation of Michigan law, PA 4 was then suspended until the November.

67. In response, state officials reappointed all existing PA 4EMs as PA 72 EFM's and proclaimed that all existing consent agreements would continue in place as PA 72 consent agreements.

68. After certification of the referendum, existing PA 4 EMs were converted to EFM's in the cities of:

- a. Benton Harbor;
- b. Ecorse;
- c. Flint; and

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<sup>6</sup> Pursuant to Michigan law, once the petitions were certified PA 4 was then suspended until the voters could decide the matter at the next general election.



d. Pontiac.

69. Additionally EMs over the following school districts were converted to Public Act 72 EMs:

- a. Detroit Public Schools;
- b. Highland Park Public Schools; and
- c. Muskegon Heights Public Schools.

70. Finally, the state's consent agreements with the cities of Detroit, Inkster and River Rouge were proclaimed converted to PA 72 agreements.

71. At the general election on November 6, 2012, Michigan voters overwhelmingly elected to reject PA 4.

***Michigan Legislature's Attempt to Overturn Citizen's Vote to  
Reject Public Act 4 by Enacting Public Act 436***

72. In response to the decision of Michigan voters to reject PA 4, incensed state officials and segments within the state legislature quickly moved to reenact a new law with emergency manager provisions that are substantially identical to the rejected law.

73. During the lame-duck session, the state legislature moved quickly to reenact the emergency manager provisions of Public Act 4. The new bill passed the state House and Senate on December 13, 2012 and was signed into law as the *Local Financial Stability and Choice Act*, Act No. 436, Public Acts of 2012, on December 26, 2012.

74. Public Act 436 again changes the title of existing PA 72 "emergency financial managers" to "emergency managers" and again expands the scope of their powers to cover all the conduct of local government.

75. The PA 436 EM's powers are substantially identical to the powers that had been granted under PA 4. Public Act 436 EMs are empowered to fully act "for and in the place of"

the municipality's governing body. The grant of powers again includes a general grant of legislative power to emergency managers.

76. Along with the general grant of legislative power to emergency managers, Public Act 436 exempts the EM from following existing city charters and local ordinances.

77. The new law does not provide any process that EMs must follow in the adoption or repeal of local laws, but rather permits the EM to do so by private orders, not subject to open meetings requirements.

78. Public Act 436 states that EMs appointed under PA 4 and EFMs appointed under PA 72 shall be considered EMs under PA 436 once the new law takes effect.

79. Additionally, PA 436 permits the Governor to appoint persons appointed as EMs under PA 4 and as EFMs under PA 72 to serve as PA 436 EMs under the new law.

80. Under PA 436, all EMs serve at the pleasure of the Governor and continue to serve until removed by the Governor or until the Governor finds that the financial emergency has been rectified.

81. Public Act 436 permits the Governor to delegate his powers and duties to the state treasurer and the state treasurer oversees the activities of emergency managers.

82. When PA 436 takes effect on March 28, 2013, EMs will be in place over the cities of Allen Park, Benton Harbor, Ecorse, Flint, Pontiac and Detroit and over the Detroit Public Schools, Highland Park Public Schools, and Muskegon Heights Public Schools. Finally, the state's consent agreements with Inkster and River Rouge will again be converted – now to PA 436 agreements.

83. Under PA 436, elected officials in each of these communities will be displaced and/or be divested of governing and law-making authority and citizens will have effectively lost their right to vote for their local legislative bodies, chief executive officers, and school boards.

84. Local elected officials are thereby effectively removed from office under PA 436 and this removal occurs without any showing of malfeasance or misfeasance causing or contributing to the financial circumstances faced by their municipality or school district. In so doing, the Act implicitly assumes that these local officials were guilty of corruption or gross incompetence that caused or contributed to the financial circumstances of their municipality or school district. Public Act 436 makes this assumption of guilt and removes elected officials without any finding of fault on the part of local elected officials and without any form of due process.

85. In each of these communities, citizens will have effectively lost their right to vote for local elected officials or had that right diluted so as to render it an exercise in form without substance.

86. There is no question that Michigan's emergency manager laws have disproportionately impacted the state's population of citizens from African-American descent.

87. The Black/African-American population of each of the cities where an emergency manager or consent decree will be in place when PA 436 takes effect, is as follows:

- a. Benton Harbor: 8,952 persons comprising 89.2% of the city's population;
- b. Ecorse: 4,315 persons comprising 46.4% of the city's population;
- c. Pontiac: 30,988 persons comprising 52.1% of the city's population;
- d. Flint: 57,939 persons comprising 56.6% of the city's population;
- e. Inkster: 18,569 persons comprising 73.2% of the city's population;

- f. River Rouge: 3,994 persons comprising 50.5% of the city's population;
- g. Detroit: 590,226 persons comprising 82.7% of the city's population,
- h. Highland Park: 10,906 persons comprising 93.5% of the city's population;
- i. Muskegon Heights: 8,501 persons comprising 78.3% of the city's population;  
and
- j. Allen Park: 587 persons comprising 2.1% of the city's population.

The Black/African-American population of these cities totals 734,947 persons.

88. As a result of the Defendants' actions under Public Act 436, fifty two (52%) of the state's Black/African-American population will come under the governance of an emergency manager or consent agreement. In each of these communities, citizens will have either lost or experienced severe restrictions imposed on their right to vote and to participate in public affairs.

89. There is also no question that each of the aforementioned cities is economically poor communities where significant household wealth has been lost since the onset of the current recession. In these communities, the percentage of persons living below the poverty level is:

- a. Benton Harbor – 48.7%;
- b. Ecorse – 32.7%;
- c. Pontiac- 32%;
- d. Flint – 36.6%;
- e. Inkster – 33.2%;
- f. River Rouge – 40.1%;
- g. Detroit – 34.5%; and
- h. Highland Park – 43.7%; and
- i. Muskegon Heights – 45.6%.

The Michigan average is 15.7%. The City of Allen Park is thus the only city with an EM where

the poverty level is not at least double the state average.

90. Like PA 4, Public Act 436 reestablishes a new form of local government that is repugnant to the constitutional liberties of all Americans.

91. Despite a long national history of municipal financial crises following national and global economic depressions and recessions, no other state in the nation has engaged in similar experiments in undemocratic governance as a solution to economic downturns.

92. Under Public Act 436, the people become subject to government that is composed of one unelected official who wields absolute power over all aspects of local government and whose decisions are without review by either local elected officials or local voters.

***Continued Frustration of Contractual Rights of City of Detroit Employees  
By Public Act 436 and Its Precursor Public Act 4***

93. The loss of rights suffered by the citizenry and the workforce of the City of Detroit reveals how emergency manager legislation threatens basic civil rights of Michiganders.

94. In November 2011, the City of Detroit announced a financial crisis and requested that its labor unions offer wage and benefit concessions to alleviate the crisis. At that time, more than thirty of the City of Detroit's forty-eight unions banded together in a "Coalition of Unions" to jointly negotiate concessions with the City of Detroit. This Coalition represented approximately 5,000 City employees.

95. The Coalition and the City of Detroit reached a Tentative Agreement, resulting in hundreds of millions of dollars in cost savings and revenue to the City, according to accounting estimates. The City encouraged the Coalition of unions to ratify the Tentative Agreement, which they did on March 22, 2012. The City celebrated the ratification, and planned for execution and implementation of this Coalition contract.

96. Following Coalition ratification of the Tentative Agreement, the State of Michigan and its top-level agents threatened the City of Detroit's elected leadership with the appointment of an EM if City officials continued to bargain collectively with the City unions. The Defendants ordered the City Mayor and City Council not to sign the Coalition contract.

97. The Defendants' issues with the contract were not financial. Indeed, the Defendants acknowledged the significant financial concessions made within the Coalition contract. However, the Defendants wanted unspecified nonfinancial changes made to the agreement.

98. As a result of the Defendants' actions and interference, Detroit's Mayoral Administration asked the City Council not to finalize and execute the contract. To date, the Defendants have prevented the execution of the Coalition contract. Detroit's elected officials acknowledge that the State's threats caused them not to finalize contract.

99. Under state labor law, the Public Employment Relations Act (MCLA sec 423.210, 215), cities have an obligation to bargain with its unionized workforce over terms and conditions of employment. The statutory obligation to bargain includes the obligation "to execute a written contract, ordinance, or resolution incorporating any agreement reached if requested by either party..." MCLA sec 423.215(1).

100. At the insistence of the Defendants, the City of Detroit negotiated and signed a Consent Agreement with the state, on April 4, 2012, under Public Act 4. The consent agreement outlined various employment terms for Coalition employees.

101. Due to the existence of the consent agreement and citing PA 4, the City of Detroit claimed authority to ignore the obligation to bargain with its unions. As such, it imposed

dramatic wage and benefit concessions on the unionized workforce without bargaining, during the months following the execution of the consent agreement.

102. Following the Michigan voters' rejection of PA 4 in November 2012, the Defendants still have refused to permit the City of Detroit to execute a contract with the Coalition unions. Thus, even though the PA 4 has been rejected, the City is enjoying the consequence of this rejected and unconstitutional law by refusing to adjust the wage and benefit concessions it had imposed on the Coalition members.

103. With its continued refusal to permit the City to execute a contract with the Coalition union, the Defendants are frustrating the substantive and procedural due process of the Coalition members.

104. Public Act 436 continues Defendants violation of the due process rights through provisions that seek to retroactively validate actions taken pursuant to powers and authority granted by Public Act 4 and consent agreements entered thereunder.

## **V. CAUSES OF ACTION**

### **COUNT I – 42 U.S.C. §1983 - Constitutional Violation** **US Const, Amend. XIV – Substantive & Procedural Due Process –** **Right to Collectively Bargain – City of Detroit**

105. Plaintiffs incorporate by reference paragraphs 1 through 106 above as though fully stated herein.

106. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

107. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and official capacities, have engaged in conduct that violates Plaintiffs' Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 rights under Amend. XIV of the U.S. Constitution.

108. Amendment XIV of the United States Constitution holds, in pertinent part: “nor shall any state deprive any person of life, liberty, or property without due process of Law.”

109. Under the Due Process Clause, each person has a property interest in their employment, in the terms of employment negotiated pursuant to contract, and in rights granted under state law and these rights may not be taken away without due process of law.

110. Under state law, Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 were granted a right to collectively bargain with their employer, the City of Detroit.

111. State law provides that:

To bargain collectively is to perform the mutual obligation of the employer and the representative of the employees to meet at reasonable times and confer in good faith with respect to wages, hours, and other terms and conditions of employment, or to negotiate an agreement, or any question arising under the agreement, and to execute a written contract, ordinance, or resolution incorporating any agreement reached if requested by either party, but this obligation does not compel either party to agree to a proposal or make a concession.#

MCL§ 423.215(1).

112. The Defendants Snyder and Dillon, acting in their respective individual and/or official capacities, violated Plaintiff’s Due Process rights protected by US Const., Amend. XIV, by acts including but not limited to:

- a. Issuing threats and ultimatums to the Detroit City Council that if it approved the contract, then the State would appoint an EM to govern in the place of City Council;
- b. Issuing threats and ultimatums to the Detroit City Council that if it did not approve a consent agreement, before considering the contract, then an EM would be appointed;
- c. Subjecting the tentative agreement and any amended or renegotiated agreements to the approval of the Financial Advisory Board under the terms



- d. Subjecting the tentative agreement and any amended or renegotiated agreements to the approval of the Project Management director under the terms of the consent agreement; and
- e. Subjecting future bargaining to the terms of the consent agreement.

113. On its face, as applied, and in practice, Public Act 436 violates the Due Process Clause of US Const., Amend. XIV and rights of Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 through provisions of the statute that ratify actions taken by under Public Act 4. See provisions including but not limited to MCL §141.1570.

114. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the purported government interests of achieving local government financial stability.

115. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT II – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV – Substantive Due Process –**  
**Right to a To Elect Officials Who Possess General Legislative Power**

116. Plaintiffs incorporate by reference paragraphs 1 through 115 above as though fully stated herein.

117. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

118. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities,

Defendants have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV of the U.S. Constitution.

119. Amendment XIV of the U. S. Constitution holds, in pertinent part: "nor shall any state deprive any person of life, liberty, or property without due process of Law."

120. Under the Due Process Clause, each person has a liberty interest in their right to a democratically elected from of local government.

121. Under the Due Process Clause, each person has a liberty interest in their right to elect officials of any level of government that exercise general legislative powers.

122. Under state law, Michigan cities possess local legislative power to enact make charters, adopt and repeal local laws, and pass resolutions.

123. Under state law, Michigan cities' legislative power over matters within their jurisdiction is of the same scope and nature as the police power of the state.

124. When a state establishes a local government with legislative power, it must be democratic in form and substance.

125. The right to a democratic form of government is a fundamental right afforded to all citizens in the state of Michigan through the United States Constitution.

126. The right to a vote for the officials of local government who exercise general legislative powers is a fundamental right afforded to all citizens in the state of Michigan through the United States Constitution. When a state grants general legislative power to a governmental official, the official must be democratically elected.

127. On its face, as applied, and in practice, Public Act 436 violates the Due Process Clause of US Const., Amend. XIV and disenfranchises citizens from their right to a

democratically elected form of local government and their right to elect local officials who possess general legislative power, through provisions that delegate to EMs the power to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

128. On its face, as applied, and in practice, Public Act 436 violates the Due Process Clause of US Const., Amend. XIV and disenfranchises citizens from their right to a democratically elected form of local government and their right to elect local officials who possess general legislative power, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

129. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the purported government interests of achieving local government financial stability.

130. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their

constitutionally-protected rights.

**COUNT III – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Art 4, §4 – Republican Form of Government**

131. Plaintiff incorporates by reference paragraphs 1 through 130 above as though fully stated herein.

132. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

133. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective official capacities, Defendants have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Art. 4, §4 of the U.S. Constitution.

134. Article 4, section 4 of the U.S. Constitution states that the "United States shall guarantee to every state in this union a republican form of government."

135. Since our nation's founding, federal, state, and local governments throughout the country have been republican forms of government – governments of representatives chosen by the people governed.

136. In the United States and in Michigan, local governments are traditionally democratically elected and republican in form.

137. Public Act 436 unconstitutionally strips local voters of their right to a republican form of government by transferring governance, including but not limited to legislative powers, from local elected officials to one unelected emergency manager.

138. On its face, as applied, and in practice, Public Act 436 violates the US Const., Art. 4, §4 through provisions of the statute that permit EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;

- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

139. On its face, as applied, and in practice, Public Act 436 violates the US Const., Art. 4, §4 through provisions of the statute that ratify the legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

140. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the governing authority and legislative powers of duly elected public officials in affected municipalities throughout the state of Michigan.

141. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT IV – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, § 1 –Equal Protection a Fundamental Right – Voting Rights**

142. Plaintiffs incorporate by reference paragraphs 1 through 141 above as though fully stated herein.

143. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

144. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violated Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

145. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

146. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

147. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

148. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

149. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

150. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

151. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly revoke and/or impermissibly dilute the community's right to vote for local officials. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village

charters and ordinances; See provisions including but not limited to MCL §141.1552; and

- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

152. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly revoke the community's right to vote for local officials, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

153. Under Public Act 436, Defendants have authority to deprive Plaintiffs of their rights to equal protection by divesting communities of their right to vote for local officials and by removing the authority of duly elected public officials in favor of an unelected EM in such communities.

154. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities with disproportionately high poverty rates.

155. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

156. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT V – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, § 1 –Equal Protection based on Race – Voting Rights**



157. Plaintiffs incorporate by reference paragraphs 1 through 156 above as though fully stated herein.

158. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

159. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

160. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

161. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

162. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

163. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

164. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing

authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

165. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

166. Under Public Act 436, all stated criteria for appointing an EM are based on a community's wealth and by extension, the wealth of the persons who reside within a community.

167. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for local officials based on the racial composition of that community. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;

- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

168. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for local officials based on the racial composition of that community and that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

169. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities comprising more than 53% of the state's population of citizens who are of African American descent.

170. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

171. As a direct and proximate result of the enactment of Public Act 436 and

Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally protected rights.

**COUNT VI – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const. Amend. XIV, § 1 –Equal Protection based on Wealth – Voting Rights**

172. Plaintiffs incorporate by reference paragraphs 1 through 171 above as though fully stated herein.

173. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

174. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

175. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

176. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

177. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

178. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

179. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local

government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

180. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

181. Under Public Act 436, all stated criteria for appointing an EM are based on a community's wealth and by extension, the wealth of the persons who reside within a community.

182. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that condition the revocation of the community's right to vote for local officials based on the wealth of that

community and the individuals who reside there. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

183. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly revoke citizen's right to vote for local officials based on the wealth of their community and themselves, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

184. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities with disproportionately high poverty rates.

185. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government

interests of achieving local government financial stability.

186. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT VII- Voting Rights Act of 1965,**  
**42 U.S.C. § 1973 et. seq.**

187. Plaintiffs incorporate by reference paragraphs 1 through 186 above as though fully stated herein.

188. Section 2 of the Voting Rights Act of 1965, as amended, reads:

(a) No voting qualification or prerequisite to voting or standard, practice, or procedure shall be imposed or applied by any State or political subdivision in a manner which results in a denial or abridgement of the right of any citizen of the United States to vote on account of race or color, or in contravention of the guarantees set forth in section 4(f)(2), as provided in subsection (b).

(b) A violation of subsection (a) is established if, based on the totality of circumstances, it is shown that the political processes leading to nomination or election in the State or political subdivision are not equally open to participation by members of a class of citizens protected by subsection (a) in that its members have less opportunity than other members of the electorate to participate in the political process and to elect representatives of their choice.

189. Section 2 of the Voting Rights Act, 42 U.S.C. § 1973 prohibits the abridgement or dilution of Black/African-American citizens' right to vote in state and local elections.

190. Michigan's population is estimated at 9,876,187 persons. The Black/African-American's comprise approximately 14.2% of the state's population (1,400,362 persons).

191. As a result of the passage of PA 436, once the law comes into effect more than fifty percent of the state's Black/African-American population will have had their voting rights in local elections effectively revoked.

192. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

193. Public Act 436 impermissibly dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

194. On its face, as applied, and in practice, Public Act 436 violates the Voting Rights Act through provisions that provide for the appointment of EMs and entering of consent agreements that abridge and dilute the voting rights of citizens within these localities. Such provisions include those that provide for EMs to:



- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

195. On its face, as applied, and in practice, Public Act 436 violates the Voting Rights Act through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for local officials based on the racial composition of that community and that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

196. Under the totality of the circumstances, the application of Public Act 436 and enforcement has resulted in Black/African American citizens having dramatically less opportunity for self-governance than other members of Michigan's electorate.

197. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT VIII – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. I –Freedom of Speech & Right to Petition Government**

198. Plaintiffs incorporate by reference paragraphs 1 through 197 above as though fully stated herein.

199. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

200. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. I of the U.S. Constitution.

201. Amendment I of the US Constitution states in pertinent part, "Congress shall make no law ... abridging the freedom of speech ... and to petition the Government for a redress of grievances."

202. Plaintiffs, as citizens of the State of Michigan, have engaged in constitutionally-protected speech on matters of public concern by voting and electing local government officials to serve as their elected representatives.

203. Plaintiffs, as citizens of the State of Michigan, have engaged in a Constitutionally protected right to petition their local governments on matters of public concern by interacting with duly elected local officials, expressing their concerns, and having them serve as their elected representatives.

204. The elected officials chosen by the Plaintiffs to serve as their representatives have been inclusive of, but not limited to, mayors, city councils, and local school board members of various municipalities.

205. Plaintiffs, as citizens of the State of Michigan, have engaged in their Constitutionally protected right to free speech and to petition their government, by repealing Public Act 4.

206. On its face, as applied, and in practice, Public Act 436 is the mirror image of Public Act 4 and its enactment contrary to the expressed will of the people through the referendum process violates the US Const., Amend. I.

207. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. I through provisions that empower EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

208. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. I through provisions that provide for the appointment of EMs with powers that strip all authority of local elected officials, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

209. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

210. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT IX – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend, I –Right to Petition Government – City of Detroit**

211. Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 incorporate by reference paragraphs 1 through 210 above as though fully stated herein.

212. Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 bring this claim pursuant to 42 U.S.C. §1983

213. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 rights under Amend. I of the U.S. Constitution.

214. Amendment I of the US Constitution states in pertinent part, "Congress shall make no law ... abridging ... [right] to petition the Government for a redress of grievances."

215. Plaintiffs have a clearly established Constitutionally protected right to organize, assemble, and to engage in political, social and economic activities to advance their views and petition their local governments on matters of public concern by interacting with duly elected local officials, expressing their concerns, and having their concerns heard.

216. The state Local Emergency Financial Assistance Loan Board appointed Kevyn Orr as EFM, and by the terms of the new law, he will be made an EM under Public Act 436 on and after March 28, 2013.

217. Kevyn Orr is a partner in the Jones Day law firm and retains a financial interest in

the firm. Alternatively, Kevyn Orr nominally resigned from the Jones Day law firm at or about the time of his appointment as EFM of the City of Detroit.

218. At the same time, the Jones Day law firm has been selected as “restructuring counsel” for the City of Detroit under EM Kevyn Orr as the government of the City of Detroit. As such, the law firm is a contractual creditor to the City of Detroit.

219. Upon information and belief, the Jones Day law firm represents other financial institutions, including but not limited to the Bank of American, who are potential creditors to the City of Detroit.

220. On its face, as applied, and in practice, Public Act 436 and appointment of the City of Detroit’s EFM and as EM violates the US Const., Amend. I through provisions that:

- c. Permit Kevyn Orr to act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Vest the full powers of the local government of the City of Detroit, legislative, executive, administrative, police power, taxing power, powers to sue and be sued, to sell, lease, or purchase assets, to make governmental decisions regarding economic development, public safety, environmental health and, without limitation, all other powers of local government, would be concentrated and held by a single entity represented by Kevyn Orr and the Jones Day law firm;
- e. Concentrate all local government powers in this way in a single entity abridges the rights of people who are citizens and residents of the City of Detroit to engage in core protected First Amendment activities to petition government, to organize, assemble, engage in political, social and economic activities to advance their views and interests;
- f. Allow concentration of all local government powers in this way in a single entity offers opportunities to Defendants to exploit, profit, sell, lease, purchase, develop, contract and otherwise use their powers of local government for their own private and political as well as economic benefit, and that of their clients and associates, with no significant check or balance because of the disenfranchisement of Plaintiffs and all other residents of the

City of Detroit from participation in any of the decisions of local government, in violation of the First Amendment and the State Constitution;

- g. Plaintiffs have no personal, political, commercial, economic or social connection or access to Defendants, and their fundamental First Amendment Rights to petition government, to organize, assemble, engage in political, social and economic activities to advance their views and interests, among other rights and constitutionally protected interests, are therefore violated by this new and unprecedented unitary form of local government of the City of Detroit.

221. The provisions of PA 436 and the powers granted thereby and the actions of the Defendants are not necessary, narrowly tailored, rationally or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

222. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs Catherine Phillips, Joseph Valenti, and Michigan AFSCME Council 25 have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT X – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIII, § 1 – Vestiges of Slavery – Voting Rights**

223. Plaintiffs incorporate by reference paragraphs 1 through 222 above as though fully stated herein.

224. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

225. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIII of the U.S. Constitution

226. Amendment XIII, § 1 bans and form of "slavery or involuntary servitude" within the jurisdiction of the United States of America. The Thirteenth Amendment further bans acts which perpetuate the badges and incidents of servitude.

227. Systematic denial of voting rights in local elections to Michigan's Black/African-American citizens is a perpetuation of the vestiges of slavery and involuntary servitude.

228. Public Act 436 effectively revokes the right to vote by intentionally stripping governing authority from local elected officials and transferring such authority to one unelected EM who serves as the overseer of municipalities or school districts, which are overwhelming Black/African American majority communities, with no accountability to local citizens.

229. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. XIII, § 1 through provisions of the statute that perpetuate the vestiges of slavery by discriminatorily and intentionally revoking the community's right to vote for local officials based on the racial composition of that community. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and

- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

230. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. XIII, § 1 through provisions of the statute that perpetuate the vestiges of slavery by discriminatorily revoking the community's right to vote for local officials based on the racial composition of the community that ratify appointments made and legislative acts taken by EMS acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

231. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by intentionally terminating and/or removing the authority of duly elected public officials in various municipalities comprising more than fifty-two percent (52%) of the state's population of citizens who are of African American descent.

232. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

233. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT XI – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, §1 –Equal Protection – Removal of Emergency Managers**

234. Plaintiffs incorporate by reference paragraphs 1 through 233 above as though fully stated herein.

235. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

236. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities,



have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution.

237. Amendment XIV, §1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

238. The Equal Protection Clause protects against laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

239. The Equal Protection Clause also protects against laws and the application of laws that discriminate among similarly situated individuals or between groups of persons when no rational basis exists for such discrimination.

240. Public Act 436 permits cities and school boards to pass a resolution by a 2/3 vote and with the approval of strong mayors thereby remove their EMs after 18 months in office.

241. At the same time, Public Act 436 converts all existing EFMs to EMs. Many of the existing managers have been in place for months and even years longer than the 18 month time period after which elected officials to pass a resolution by a 2/3 vote and the approval of strong mayors for the removal such managers.

242. Thus, the law discriminates against cities and school districts where EFMs and EM have been and are currently in place. The law discriminates against these municipalities requiring them to suffer an additional 18 months with an EM despite their having had such officials in place much longer than this time period. At the same time, municipalities that newly receive such managers will be permitted to after which elected officials to pass a resolution by a 2/3 vote and the approval of strong mayors for the removal of such officials after they have been in office for 18 months.

243. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute discriminate between cities and school boards that presently have had EMs for significantly longer than 18 months and those that will receive EMs after March 28, 2013. Such provisions include but are not limited to MCL §141.1549(11).

244. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

245. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray this Honorable court enter Judgment against Defendants providing:

- a. For declaratory relief holding that Public Act 436 violates the United States Constitution, Art. 4, §4; Amend I; Amend XIII; and Amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973 *et. seq.*;
- b. For injunctive relief restraining the Defendants and any present and future EMs from implementing or exercising authority and powers purportedly conveyed Public Act 436;
- c. For declaratory relief finding that Defendants have impaired and are impairing the rights of the Plaintiffs Catherine Phillips, Joseph Valenti, Michigan AFSCME Council 25 and their covered members in violation of their right to due process of law;
- d. For injunctive relief restraining Defendants, and all persons and entities acting in concert with them, from taking any actions to oppose or frustrate the City of Detroit's recognition and ratification of the Coalition-ratified contract or encourage rejection of said contract;

- e. For injunctive relief invalidating and restraining the terms of present and future consent agreements entered into under Public Act 436 that abridge or diminish powers granted to local elected officials under local charters and ordinances;
- f. For liquidated, compensatory, and punitive damages in an amount fair and just under the circumstances;
- g. For attorneys' fees and costs; and
- h. For such further relief as is just and equitable.

March 27, 2013

Respectfully Submitted,

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## **EXHIBIT 6.2**

**Notice of Pendency of Bankruptcy Case and Application of the Stay  
in *Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon*,  
Case No. 13-CV-11370  
[Doc. #29]**

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

CATHERINE PHILLIPS, Staff Representative  
Michigan AFSCME Council 25, and Chief  
Negotiator with the City of Detroit; JOSEPH  
VALENTI, Co-Chief Negotiator with the  
Coalition of Unions of the City of Detroit;  
MICHIGAN AFSCME COUNCIL 25; RUSS  
BELLANT, President of the Detroit Library  
Commission; TAWANNA SIMPSON, LAMAR  
LEMMONS, ELENA HERRADA, Detroit  
Public School Board Members; DONALD  
WATKINS AND KERMIT WILLIAMS,  
Pontiac City Council Members; DUANE  
SEATS, DENNIS KNOWLES, JUANITA  
HENRY AND MARY ALICE ADAMS, Benton  
Harbor Commissioners; WILLIAM "SCOTT"  
KINCAID, Flint City Council President;  
BISHOP BERNADEL JEFFERSON; PAUL  
JORDAN; REV. JIM HOLLEY, National  
Board Member, Rainbow Push Coalition; REV.  
CHARLES E. WILLIAMS II, Michigan  
Chairman, National Action Network; REV.  
DR. MICHAEL A. OWENS, REV.  
LAWRENCE GLASS, REV. DR. DEEDEE  
COLEMAN, BISHOP ALLYSON ABRAMS,  
Executive Board, Council of Baptist Pastors of  
Detroit and Vicinity,

Plaintiffs,

v

RICHARD D. SNYDER, as Governor of the  
State of Michigan, and ANDREW DILLON, as  
the Treasurer of the State of Michigan, acting  
in their individual and/or official capacities,

Defendants.

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No. 2:13-cv-11370

HON. GEORGE CARAM STEEH

MAG. R. STEVEN WHALEN

**NOTICE OF PENDENCY OF  
BANKRUPTCY CASE AND  
APPLICATION OF THE  
AUTOMATIC STAY**

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**NOTICE OF PENDENCY OF BANKRUPTCY CASE AND  
APPLICATION OF THE AUTOMATIC STAY**

On July 18, 2013, the City of Detroit, Michigan filed a petition for relief under Chapter 9 of Title 11 of the United States Code. (Document 1, *In re City of Detroit, Michigan*, Case No. 13-53846, (Bankr. E.D. Mich.)) In accordance with the automatic stay imposed by operation of §§ 362 and 922 of the Bankruptcy Code, 11 U.S.C. §362 and 922, no cause of action filed prior to, or relating to the period prior to, the Petition Date may be continued or commenced against (i) the City and/or its employees, or (ii) an officer, employee, or inhabitant of the City, in any judicial, administrative or other court or tribunal to enforce a claim against the City without the Bankruptcy Court first issuing an order lifting or modifying the Stay for such specific purpose. Further, no related judgment or order may be entered or enforced against the City without the Bankruptcy Court first issuing an order lifting or modifying the State for such specific purpose.

On July 25, 2013, the provisions of this automatic stay were extended in all respects (to the extent not otherwise applicable) to include certain "State Entities" defined as "the Governor, the State Treasurer and the members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity's staff, agents and representatives." (Exhibit 1). Governor Snyder and Treasurer Dillon are named Defendants in the captioned matter which was filed prior to the Petition Date and which is subject to this Bankruptcy Court Order extending the automatic stay.



Actions taken while this Stay is in effect and/or in violation of this Stay, including proceedings in this case, are void and without effect.

The Bankruptcy Court for the Eastern District of Michigan has not issued an order lifting or modifying the Stay for the specific purpose of allowing any party in the captioned case to continue this action against the Governor or Treasurer.

Under these circumstance, the above-captioned proceeding may not be prosecuted, and no valid judgment or order may be entered or enforced against these “certain State Entities.”

These certain “State Entities” will not defend against, or take any other action with respect to, the above-captioned proceeding while the Stay remains in effect.

These certain “State Entities” hereby expressly reserve all rights with respect to the above-captioned proceeding, including, but not limited to, the right to move to vacate any judgment entered in the above-captioned proceeding as void.

Respectfully submitted,

BILL SCHUETTE  
Attorney General

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Dated: August 7, 2013

**CERTIFICATE OF SERVICE**

I hereby certify that on August 7, 2013, I electronically filed the foregoing paper with the Clerk of the Court using the ECF system which will send notification of such. I also mailed the foregoing paper via US Mail to all non-ECF participants.

*s/Denise C. Barton*

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## **EXHIBIT 6.3**

### **Order**

**Regarding Notice of Pendency of Bankruptcy Case and  
Application of the Automatic Stay, in  
*Catherine Phillips, et al. v. Richard Snyder and Andrew Dillon,*  
Case No.13-CV-11370  
[Doc. #30]**

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

CATHERINE PHILLIPS, et al.,

Plaintiffs,

Case No. 2:13-CV-11370

v.

HON. GEORGE CARAM STEEH

RICHARD D. SNYDER et al.,

Defendants.

---

**ORDER REGARDING NOTICE OF PENDENCY OF BANKRUPTCY  
CASE AND APPLICATION OF THE AUTOMATIC STAY [DOC. 29]**

On August 7, 2013, defendants filed a Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay. The Notice references the automatic stay imposed by operation of sections 362 and 922 of the Bankruptcy Code, 11 U.S.C. §§ 362 and 922, as well as the order entered by the bankruptcy court on July 25, 2013, which extended the automatic stay to include certain "State Entities" defined as "the Governor, the State Treasurer and the members of the Loan Board . . . ." *In re City of Detroit, Michigan*, Case No. 13-53846 (Bankr. E.D. Mich.); Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor ("Extension Order"). Governor Snyder and Treasurer Dillon are named defendants in the captioned matter which was filed prior to the petition date and which defendants contend is subject to the bankruptcy court order extending the automatic stay.

**Although it is not apparent that any interests of the City of Detroit bankruptcy**

proceedings are implicated in the case, the plain language of the stay order would apply to this lawsuit.

In accordance with the broadly worded Extension Order issued by the bankruptcy court, this court will abide by the stay unless and until such time as an order issues lifting or modifying the stay to permit the captioned matter to proceed. Accordingly,

IT IS HEREBY ORDERED that proceedings in this case are STAYED until further order of the court.

IT IS HEREBY FURTHER ORDERED that this case is CLOSED for administrative and statistical purposes without prejudice because the defendants are covered by the bankruptcy court Extension Order. This closing does not constitute a decision on the merits.

IT IS FURTHER ORDERED that if the bankruptcy stay is removed, or a party obtains relief from the stay, then the case may be reopened upon the motion of any party.

IT IS FURTHER ORDERED that any party may apply to the bankruptcy court for relief from the automatic stay under 11 U.S.C. § 362 or for relief from the Extension Order.

So ordered.

Dated: August 22, 2013

s/George Caram Steeh \_\_\_\_\_  
GEORGE CARAM STEEH  
UNITED STATES DISTRICT JUDGE

CERTIFICATE OF SERVICE

Copies of this Order were served upon attorneys of record on August 22, 2013, by electronic and/or ordinary mail.

s/Marcia Beauchemin  
Deputy Clerk

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
3.	10/7/2013	1107	State of Michigan's Brief in Opposition to Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

CITY OF DETROIT, MICHIGAN,  
  
Debtor.

Chapter 9  
Case No. 13-53846  
Hon. Steven W. Rhodes

---

**BRIEF IN OPPOSITION TO MOTION FOR RELIEF FROM  
ORDER PURSUANT TO SECTION 105(A) OF THE  
BANKRUPTCY CODE EXTENDING THE CHAPTER 9 STAY TO  
CERTAIN (A) STATE ENTITIES,  
(B) NON OFFICER EMPLOYEES, AND  
(C) AGENTS AND REPRESENTATIVES OF THE DEBTOR**

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## INTRODUCTION

Petitioners are plaintiffs who filed a lawsuit in the United States District Court for the Eastern District of Michigan (the “District Court”), against Governor Rick Snyder and State Treasurer Andy Dillon, commencing Case No. 2:13-cv-11370 (the “lawsuit”) and seeking, among other things, “declaratory relief holding that Public Act 436 violates the United States Constitution . . . .” Complaint, *Phillips, et al. v. Snyder, et al.*, No. 2:13-cv-11370, Dkt. No. 1 (E.D. Mich. Mar. 27, 2013), at Pg ID 49.

On August 7, 2013, Respondents, Defendants in the lawsuit, filed a notice advising the District Court of the City of Detroit’s petition for bankruptcy and requesting a stay in light of the Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (a) State Entities, (b) Non Officer Employees, and (c) Agents and Representatives of the Debtor that was entered on July 25, 2013 (the “Stay Order”) which extended the Chapter 9 stay to certain State Entities<sup>1</sup> including Governor Snyder and Treasurer Andrew Dillon. *See*

---

<sup>1</sup> Capitalized terms not defined herein have the meaning given to them in the Stay Order.

Defendants' Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay, *Phillips, et al. v. Snyder, et al.*, No. 213-cv-11370, Dkt. No. 29 (E.D. Mich. Aug. 7, 2013); *see also* Stay Order, Dkt. No. 166, July 25, 2013. The District Court agreed with Respondents' position. *See* Order Regarding Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay, *Phillips, et al. v. Snyder, et al.*, No. 213-cv-11370, Dkt. No. 30 (E.D. Mich. Aug. 22, 2013).

Petitioners now move this Court for an order lifting the stay. In support, Petitioners argue that: (1) this Court's stay extension order does not apply to the lawsuit, either because it only applies to the prepetition lawsuits specifically mentioned in the City's motion for extension of the stay or because it should not be construed to apply to all lawsuits against Governor Snyder and Treasurer Dillon; (2) to the extent this Court's stay applies to the lawsuit, this Court should not have ordered the same; and (3) equity demands that Petitioners' lawsuit not be stayed. Because none of these arguments has merit, Respondents respectfully request that this Court deny Petitioners' request for relief from stay.

## ARGUMENT

### I. This Court's Order extending the Chapter 9 Stay applies to this case.

Petitioners' argument that the Stay Order does not apply to the lawsuit should be rejected. As a threshold matter, the Stay Order does not apply only to the specified Prepetition lawsuits. The Stay Order states, in relevant part:

2. Pursuant to section 105(a) of the Bankruptcy Code, the Chapter 9 Stay hereby is extended to apply in all respects (to the extent not otherwise applicable) to the State Entities (defined as the Governor, the State Treasurer and the members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity's staff, agents and representatives) ...

3. For the avoidance of doubt, each of the Prepetition lawsuits hereby is stayed ....

Stay Order, Dkt. No. 166, July 25, 2013.

Had the Court intended that the Stay Order apply only to the Prepetition lawsuits, there would have been no need for the broader language in paragraph 2 of the Stay Order, extending the stay to the State Entities. Likewise, if actions against State Entities were stayed only to the extent they applied to the Prepetition lawsuits, the language in paragraph 2 extending the stay to the State Entities "to the extent not otherwise applicable" would be superfluous and without effect in

light of the language in paragraph 3 expressly staying the Prepetition lawsuits.

Nor did the City of Detroit's Motion for Entry of Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (a) State Entities, (b) Non Officer Employees, and (c) Agents and Representatives of the Debtor (the "Stay Motion") extend the Chapter 9 Stay to every case in which State Entities are parties. *See* Stay Motion, Dkt. No. 56, July 19, 2013. Instead, the Stay Motion sought to extend the Chapter 9 Stay "to actions or proceedings against the Governor, the State Treasurer and the members of the Loan Board,...that, directly or indirectly, seek to enforce claims against the City, interfere with the City's activities in this Chapter 9 case or otherwise deny the city the protections of the Chapter 9 stay." *Id.* at 13. As this Court's stay extension order simply "granted" the relief the Debtor sought in its motion, there is no support for Petitioners' argument that this Court's order extends the Chapter 9 bankruptcy stay to all lawsuits involving the specified State entities, regardless of

the relationship between those lawsuits and Detroit's bankruptcy proceedings.<sup>2</sup>

The Stay Order applies to Petitioner's lawsuit because the lawsuit seeks to interfere with the City's activities in its Chapter 9 case or otherwise deny the City the protections of the Chapter 9 Stay.

Petitioners seek a declaration that PA 436 is unconstitutional, which would threaten to constrain Detroit's Emergency Manager's filing of Chapter 9 on behalf of the City of Detroit. Put another way, were Petitioners to prevail in their lawsuit and Public Act 436 be found unconstitutional, Detroit's Chapter 9 filing would be constrained before this Court has even had the opportunity to determine the City's eligibility.

---

<sup>2</sup> To the extent Petitioners request that this Court clarify its stay extension order by adopting verbatim the Debtor's language that the stay should apply to all actions "that, directly or indirectly, seek to enforce claims against the City, interfere with the City's activities in this Chapter 9 case or otherwise deny the City the protections of the Chapter 9 stay," Respondents do not oppose Petitioners' request.

**II. This Court was well within its authority to extend the automatic stay to this case.**

Petitioners ask that this Court conclude that the Stay Order is overbroad as applied to their lawsuit or otherwise wrongfully imposed against them. Clearly established law shows the opposite is true.

Although Petitioners argue that applying a stay to a non-debtor third party is inequitable, they appear ultimately to concede that this Court has authority to extend automatic bankruptcy stays to non-debtor entities when, among other circumstances, “there is such identity between the debtor and the third-party defendant that the debtor may be said to be the real party defendant and that a judgment against the third-party defendant will in effect be a judgment or finding against the debtor.” *Am. Imaging Servs., Inc. v. Eagle-Picher Indus., Inc. (In re Eagle-Picher Indus., Inc.)*, 963 F.2d 855, 861 (6th Cir. 1992). *see also* Petitioners’ Brief in Support of Motion, Dkt. No. 1004–4, Sept. 23, 2013 (citing *A.H. Robins Co. v. Piccinin*, 788 F.2d 994, 999 (4th Cir. 1986)).

Governor Snyder and Treasurer Dillon are parties to the lawsuit which seeks a declaratory judgment that Public Act 436, the law by which all Emergency Managers including Kevyn Orr have been



appointed, is unconstitutional. Again, if Petitioners prevail, Detroit may lose its Emergency Manager and the actions he has taken, including the filing for bankruptcy on Detroit's behalf. A judgment for Petitioners would directly or indirectly interfere with this Chapter 9 case as the Emergency Manager has already exercised his authority to represent the City in bankruptcy proceedings. With no one to represent it in bankruptcy proceedings, Detroit's bankruptcy could come to a halt. Thus, in this case, a "judgment against the third-party defendant will in effect be a judgment or finding against the debtor." In sum, as the lawsuit could directly impact whether the City is eligible to be a Chapter 9 debtor, and thus, whether the City will be able to adjust its debts in a Chapter 9 proceeding, the lawsuit is related to this Chapter 9 case and this Court acted within its sound discretion in entering the Stay Order.

**III. Petitioners have not demonstrated that imposition of this Court's stay extension order to the lawsuit is inequitable.**

Finally, this Court should reject Petitioners' argument that the equities associated with this case militate against continuing to impose this Court's stay extension order. Petitioners offer several "balancing"

tests from which this Court could choose, but each test ultimately leads to the same conclusion: the mere fact that Petitioners raise constitutional questions in their lawsuit does not mean that this Court cannot have or should not have temporarily stayed the lawsuit because of its potential to directly or indirectly interfere with the City of Detroit's Chapter 9 proceeding. As discussed above, Petitioners arguments that the lawsuit is unrelated to the Chapter 9 proceeding simply because they do not seek money damages from the City and the City is not a party should be rejected in light of the reality that Petitioners' requested relief, if granted, could vitiate Detroit's ability to restructure its debts. Likewise, there is no support for Petitioners' claim that temporarily delaying their lawsuit during the pendency of this Court's proceeding would "nullify federal law" as this Court's stay extension order does not deny Petitioners the right to be heard, but merely delays the adjudication of their claims.

While Petitioners instead focus on the tests other jurisdictions have used, it is noteworthy that the five factors enumerated in *In re Garzoni*, 35 F. App'x 179, 181 (6th Cir. 2002) weigh heavily in favor of upholding the Chapter 9 Stay. In that case, the Sixth Circuit explained

that bankruptcy courts consider the following factors in deciding whether to lift a stay: “1) judicial economy; 2) trial readiness; 3) the resolution of preliminary bankruptcy issues; 4) the creditor’s chance of success on the merits; and 5) the cost of defense or other potential burden to the bankruptcy estate and the impact of the litigation on other creditors.” *Id.* (internal citation omitted).

*First*, Petitioners’ lawsuit directly challenges the constitutionality of Public Act 436. As the Court is well aware, various parties who have filed pleadings in opposition to the City’s eligibility to be a Chapter 9 debtor have made arguments virtually identical to those raised by Petitioners. Because the lawsuit and this Court’s pending determination concerning eligibility address the same issues, judicial economy dictates staying the lawsuit. If Petitioners’ claims are heard in a separate forum, concurrent with this Court’s adjudication of the eligibility objections, inconsistent adjudications on the same issues could potentially result.

*Second*, the lawsuit is not “trial ready.” To the contrary, no discovery has been conducted and while the Defendants have filed a motion to dismiss, it has not yet been decided by the District Court.

The District Court has not yet decided whether there will be a trial, let alone have the parties readied themselves for one to the point that imposition of a stay would be inequitable.

*Third*, as stated above, currently before the Court is the threshold issue of whether the City is eligible to be a Chapter 9 debtor, and various parties have raised challenges to PA 436 in their objections to eligibility which are the same challenges raised in the lawsuit. The fact that the threshold eligibility issue—a preliminary bankruptcy issue—has yet to be decided by the Court weighs heavily against finding cause to grant relief from the Chapter 9 Stay.

*Fourth*, Petitioners have not demonstrated a strong chance of success on the merits of the lawsuit. Indeed, as more fully explained in Respondents' motion to dismiss, Petitioners lack standing to bring the lawsuit in the first place. Yet even if the District Court finds standing, Petitioners' claims universally fail because none of them survive the threshold requirement to state a valid claim for which relief can be granted. *See* Defendants' Motion to Dismiss and Brief in Support, *Phillips, et al. v. Snyder, et al.*, No. 213-cv-11370, Dkt. No. 20 (E.D. Mich. May 16, 2013).

*Fifth*, Petitioners assert that because the City is not a defendant in the lawsuit, and because they seek no money damages from the City, the lawsuit imposes no impact on the City or its property. This assertion ignores the tremendous impact continuation of the lawsuit will have on the process of this Chapter 9 case. As explained above, adjudication in another forum of issues relating to PA 436 threaten to invalidate the City's Chapter 9 filing or at the very least constrain it from moving forward in the proceeding, before this Court has even had the opportunity to determine the City's eligibility.

### **CONCLUSION AND RELIEF REQUESTED**

Petitioners have not demonstrated that this Court's order does not extend the automatic bankruptcy stay to this case, nor have they shown that this Court could not or should not have issued its order. To the contrary, it is clear that this Court properly extended the bankruptcy stay to this case because the two matters are so intrinsically related that if Petitioners are successful in their lawsuit against Governor Snyder and Treasurer Dillon, Detroit's bankruptcy could be constrained.

Accordingly, Respondents respectfully request that this Court deny Petitioners' motion for relief from this Court's stay extension order.

Respectfully submitted,

/s/Matthew Schneider

Matthew Schneider

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Attorneys for Respondents

Dated: October 7, 2013

## CERTIFICATE OF SERVICE (E-FILE)

I hereby certify that on October 7, 2013 I electronically filed the above document(s) with the Clerk of the Court using the ECF System, which will provide electronic copies to counsel of record.

/s/Matthew Schneider

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
4.	10/7/2013	1108	Debtor's Objection to Catherine Phillips, et al.'s Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor



IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

-----	X	
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
-----	X	

**DEBTOR’S OBJECTION TO CATHERINE PHILLIPS, et al.’s MOTION FOR RELIEF FROM ORDER PURSUANT TO SECTION 105(a) OF THE BANKRUPTCY CODE EXTENDING THE CHAPTER 9 STAY TO CERTAIN (A) STATE ENTITIES, (B) NON OFFICER EMPLOYEES AND (C) AGENTS AND REPRESENTATIVES OF THE DEBTOR**

The City of Detroit (the “City”) objects to Catherine Phillips, et al.’s (collectively, the “Plaintiffs”) Motion for Relief from the Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor [Dkt. No. 1004] (the “Stay Relief Motion”) and supporting brief (the “Stay Relief Brief”). In support of this Objection, the City incorporates in their entirety the arguments set forth in the Brief in Opposition to the Stay Relief Motion, filed contemporaneously herewith (the “Brief in Opposition”) and respectfully represents as follows:



## Objection

For all of the reasons set forth in the Brief in Opposition, the relief requested in the Stay Relief Motion must be denied.

WHEREFORE, for the reasons set forth herein and in the Brief in Opposition, the City respectfully requests that this Court: (a) deny the Stay Relief Motion; and (b) grant such other and further relief to the City as the Court may deem proper.

Dated: October 7, 2013

Respectfully submitted,

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ATTORNEYS FOR THE CITY OF DETROIT

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re  CITY OF DETROIT, MICHIGAN,  Debtor.	No. 13-53846  Chapter 9  HON. STEVEN W. RHODES
--	--

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN’S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

Item	Date Filed	Docket #	Description
5.	10/7/2013	1109	Debtor’s Brief in Opposition to Catherine Phillips, et al.’s Motion for Relief from Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor (Attachments: Exhibit A; Exhibit B; Exhibit C)

IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

-----	X	
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
-----	X	

**DEBTOR’S BRIEF IN OPPOSITION TO CATHERINE PHILLIPS, et al.’s  
MOTION FOR RELIEF FROM ORDER PURSUANT TO SECTION 105(a)  
OF THE BANKRUPTCY CODE EXTENDING THE CHAPTER 9 STAY TO  
CERTAIN (A) STATE ENTITIES, (B) NON OFFICER EMPLOYEES AND  
(C) AGENTS AND REPRESENTATIVES OF THE DEBTOR<sup>1</sup>**

Two days after Mr. Orr formally took office, the Plaintiffs filed the Lawsuit seeking a judgment enjoining Mr. Orr from taking any actions under PA 436 and declaring PA 436 to be unconstitutional. Yet, the Plaintiffs somehow assert that granting them relief from stay to prosecute this Lawsuit to judgment will “not interfere with the progression of the Debtor’s bankruptcy case” because the City will not be “in any way affected.” Stay Relief Motion at 12; Stay Relief Brief at 14. This is not accurate nor is the timing of the Lawsuit’s filing a coincidence. Although some of the Plaintiffs are citizens of municipalities other than the City --

<sup>1</sup> Capitalized terms not otherwise defined in this Brief in Opposition have the meanings given to them in the Debtor’s Objection, filed contemporaneously herewith.



Flint, Pontiac and Benton Harbor -- as the Complaint acknowledges, these municipalities have all had emergency managers for at least two years. The fact that the Plaintiffs did not file the Lawsuit until several years after the appointment of those emergency managers while doing so just two days after Mr. Orr formally took office, cannot be dismissed as mere happenstance. Instead, it is apparent that the Lawsuit is a direct challenge to Mr. Orr's appointment as Emergency Manager and inescapably, an attack on any actions he may take, including his decision to file and prosecute this chapter 9 case.

This Lawsuit, much like the suit and stay relief motion filed by the NAACP [Dkt. No. 740], is an effort to litigate the City's eligibility before a different court in circumvention of the Court's Stay Extension Order and the process this Court adopted to resolve eligibility objections. Granting stay relief to the Plaintiffs will open the flood gates allowing other parties to file suits in different courts which, at the end of the day, would be little more than eligibility challenges to the City's chapter 9 case.<sup>2</sup> As this Court emphasized, litigating eligibility issues in two different courts, simultaneously "does not promote judicial or party efficiency; it is the antithesis. The most efficient way to litigate eligibility in this case is in one court – the bankruptcy court – and then on appeal in the next." Opinion and Order

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<sup>2</sup> It would appear to be axiomatic that granting stay relief to the Plaintiffs, would also compel the Court to grant stay relief to the NAACP.

Denying Motion to Stay Proceedings Pending Determination of Motion to Withdraw the Reference at 19. [Dkt. No. 1039]. As such, the Plaintiffs have not identified any cause, much less sufficient cause, to allow them to proceed with the Lawsuit. Accordingly, the Stay Relief Motion must be denied.

## **I. BACKGROUND**

### **A. Appointment of the Emergency Manager**

On February 19, 2013, a review team appointed by Rick Snyder, Governor of the State of Michigan (the “Governor”), pursuant to Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, MCL § 141.1201, et seq. (“PA 72”), issued its report with respect to the City and its finances (the “Review Team Report”). The Review Team Report concluded that a local government financial emergency exists within the City.

On March 14, 2013, in response to the Review Team Report and the declining financial condition of the City and at the request of the Governor, the Local Emergency Financial Assistance Loan Board of the State of Michigan appointed Kevyn D. Orr as emergency financial manager with respect to the City under PA 72, effective as of March 25, 2013.

On March 28, 2013, upon the effectiveness of Public Act 436, the Local Financial Stability and Choice Act, MCL § 141.1541, et seq. (“PA 436”), Mr. Orr

became, and continues to act as, emergency manager with respect to the City under PA 436 (in such capacity, the “Emergency Manager”).

On July 18, 2013, the Governor issued his written decision (the “Authorization”) approving the Emergency Manager’s recommendation that the City be authorized to proceed under chapter 9 of title 11 of the United States Code (the “Bankruptcy Code”). Thereafter, also on July 18, 2013, the Emergency Manager issued an order approving the filing of the City’s chapter 9 case consistent with the Authorization (the “Approval Order”).

In accordance with the Authorization and Approval Order, on July 18, 2013 (the “Petition Date”), the City commenced this case under chapter 9 of the Bankruptcy Code.

#### **B. The Plaintiffs’ Lawsuit in the District Court**

On March 27, 2013, the Plaintiffs filed the Complaint against the Governor and State Treasurer Andrew Dillon (collectively, the “Defendants”), commencing Case No. 13-11370 (the “Lawsuit”), in the United States District Court for the Eastern District of Michigan, Southern Division (the “District Court”). The Complaint seeks a judgment (a) declaring PA 436 unconstitutional (Prayer A); (b) enjoining and restraining the Defendants and any present and future emergency managers from implement or exercising authority and powers purportedly conveyed by PA 436 (Prayer B); and (c) invalidating and restraining the terms of



present and future consent agreements entered into under PA 436 that abridge or diminish powers granted to local elected officials under local charters and ordinances (Prayer C). Complaint at 49-50.

Approximately six weeks later, the Defendants filed their Motion to Dismiss (the “Motion to Dismiss”). The Motion to Dismiss is attached as Exhibit A. As set forth in the Motion to Dismiss, the Complaint should be dismissed because the Plaintiffs fail to assert any cognizable legal claims.

On May 30, 2013, the District Court entered an order setting June 27, 2013, as the deadline for the Plaintiffs to file a response to the Motion to Dismiss and July 22, 2013, as the Defendants’ reply deadline. The order also set a hearing on the Motion to Dismiss for August 22, 2013.

On August 7, 2013, the Defendants filed a Notice of Pendency of Bankruptcy Case and Application of the Automatic Stay and on August 22, 2013, the District Court entered an order staying the Lawsuit. The order provides that the “plain language” of the Stay Extension Order applies to the Lawsuit.

### **C. The Stay Extension Order and Eligibility**

On July 19, 2013, the City filed the Motion of Debtor for Entry of an Order (A) Directing and Approving Form of Notice of Commencement of Case and Manner of Service and Publication of Notice and (B) Establishing a Deadline for Objections to Eligibility and a Schedule for Their Consideration [Dkt. No. 18] (the

“Eligibility Objection Motion”). The Eligibility Objection Motion requested that the Court set August 19, 2013 (“Objection Deadline”), as the deadline for all parties to file objections to the City’s eligibility to obtain relief under chapter 9 of the Bankruptcy Code (“Eligibility Objections”). The Eligibility Objection Motion also asked the Court to set a schedule for hearing and resolving Eligibility Objections. Eligibility Objection Motion ¶ 28. The Court granted the Eligibility Objection Motion on August 2, 2013, and entered an order setting the Objection Deadline (“Objection Order,” Dkt. No. 296). The Objection Order also set a schedule for hearing and resolving Eligibility Objections.

Plaintiffs Charles E. Williams II [Dkt. No. 391], Russ Bellant [Dkt. Nos. 402 & 405], AFSCME [Dkt. No. 505], and numerous creditors and other parties in interest objected to the City’s eligibility to be a debtor under chapter 9 of the Bankruptcy Code on the basis that, for one reason or another, PA 436 is unconstitutional on its face or as applied (“PA 436 Eligibility Objections”). See list of objecting parties in the First Amended Order Regarding Eligibility Objections Notices and Hearings and Certifications Pursuant to 28 U.S.C. §2403(a) & (b) [Dkt. No. 821]. The Court conducted a hearing on some of the PA 436 Eligibility Objections and the remainder are scheduled to be heard next week.

On July 19, 2013, the City filed the Motion of Debtor, Pursuant to Section 105(a) of the Bankruptcy Code, for Entry of an Order Extending the Chapter 9

Stay to Certain (A) State Entities, (B) Non-Officer Employees and (C) Agents and Representatives of the Debtor [Dkt. No. 56] (the “Stay Extension Motion”). The Stay Extension Motion requested that the Court extend the automatic stay provisions of sections 362 and 922 of the Bankruptcy Code (the “Automatic Stay”) to, among others, the Governor and the Treasurer. The City requested such relief to “(a) aid in the administration of [the City’s] bankruptcy case, (b) protect and preserve property for the benefit of citizens and stakeholders and (c) ensure that the City is afforded the breathing spell it needs to focus on developing and negotiating a plan for adjusting its debts.” Stay Extension Motion at ¶ 15. The City specifically expressed the concern that litigation against the Governor and Treasurer could be used as a means to pursue claims against the City or interfere with the chapter 9 process. Id. at ¶ 22.

Plaintiff AFSCME objected to the Stay Extension Motion on several grounds, including those set forth in the Stay Relief Motion. See AFSCME Objection ¶¶ 45-46 [Dkt. No. 84]. The Plaintiffs and AFSCME also made these same arguments at the hearing during which this Court considered the Stay Extension Motion. See July 24, 2013, Hearing Tr. 1-2, 19-24, 52-54. Relevant portions of the July 24, 2013, Hearing Transcript are attached as Exhibit B.

On July 25, 2013, this Court overruled the objections and entered the Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay

to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor [Dkt. No. 166] (the “Stay Extension Order”). The Stay Extension Order is not subject to appeal and is a final order of the Court.

## **II. ARGUMENT**

In support of the Stay Relief Motion, the Plaintiffs advance three arguments: (1) the Stay Extension Order does not apply to the Lawsuit; (2) the Stay Extension Order applies to the Lawsuit but this Court did not have authority to enter it either because it is impermissibly broad or it does not further the purposes of the Bankruptcy Code; and (3) cause exists to grant relief from the Stay Extension Order either because the Complaint alleged constitutional violations or a balance of the equities favors the Plaintiffs. Again, these are essentially the same arguments asserted by the NAACP in its motion for relief from stay and none have any merit.

### **A. The Stay Extension Order Applies to the Lawsuit**

The Plaintiffs misunderstand or misconstrue the relief granted in the Stay Extension Order. The Lawsuit is precisely the type of case that the Stay Extension Order was intended to cover and, contrary to the Plaintiffs’ assertions, it does not stay “all actions” against the Defendants. Stay Relief Brief at 6. The City addressed these assertions at pages two through five in its brief in response to the NAACP’s motion for relief from stay and will not repeat the same arguments here. [Dkt. No. 1044]. The City’s Brief in Opposition to the NAACP’s motion for relief

from stay is attached as Exhibit C. Moreover, it appears that the Plaintiffs have conceded that the Stay Extension Order applies to the Lawsuit since they state that “No matter what the facts, no matter what the claims against the State, under the broad language of this Court’s *Order*, no lawsuit of any kind can proceed against the Governor or the State Treasurer until one community—the City of Detroit—emerges from Bankruptcy.” Stay Relief Brief at 15.

**B. The Court Had Authority to Enter the Stay Extension Order**

The Plaintiffs next argue, after conceding that the plain language of the Stay Extension Order applies to the Lawsuit, that this Court did not have the authority to enter the Stay Extension Order. Significantly, the Plaintiffs and AFSCME previously objected to the Stay Extension Motion on these same grounds. The Court overruled the objections and entered the Stay Extension Order. For the same reasons the Court articulated in overruling these objections, it should reject the Plaintiffs arguments here and find that the Stay Extension Order was properly entered. Furthermore, the Plaintiffs are precluded from relitigating these same issues in the context of the Stay Relief Motion. See e.g., Georgia-Pacific Consumer Products LP v. Four-U-Packaging, Inc., 701 F.3d 1093, 1098 (6th Cir. 2012) (holding that issue preclusion precludes relitigation where (1) the precise issue was raised and litigated in the prior proceeding; (2) the determination of the issue was necessary to the outcome of the prior proceedings; (3) the prior proceedings

resulted in a final judgment on the merits; and (4) the party against whom estoppel is sought had a full and fair opportunity to litigate the issue in the prior proceeding).

Moreover, as the Plaintiffs recognize, a bankruptcy court may extend the automatic stay where “there is such identity between the debtor and the third-party defendant that the debtor may be said to be the real party defendant and that a judgment against the third-party defendant will in effect be a judgment or finding against the debtor.” In re Eagle-Picher Indus., Inc., 963 F.2d 855, 861 (6th Cir. 1992) (quoting A.H. Robins Co., Inc. v. Piccinin, 788 F.2d 994, 999 (4th Cir. 1986)). The Lawsuit seeks a judgment enjoining Mr. Orr from taking any actions under PA 436 and declaring PA 436 to be unconstitutional. Thus, any judgment against the Defendants would in effect be a judgment or finding against the City. As a result, under well-established Sixth Circuit precedent, this Court had the authority to enter the Stay Extension Motion. The Plaintiff’s arguments to the contrary must be rejected.

**C. No Cause Exists to Grant Plaintiffs Relief from the Automatic Stay**

Finally, the Plaintiffs allege that relief from the Automatic Stay should be granted for “cause.” Rather than addressing the concept of cause, as interpreted by courts in this circuit, the Plaintiffs primarily assert that the alleged Constitutional violations take precedence over applying the Automatic Stay to non-debtor

defendants. The Plaintiffs also seem to assert that the Constitutional violations they allege may only be determined by an Article III court and not this Court. However, as this Court recently decided, it has authority to determine constitutional questions and that referral of such questions to an Article III court is not necessary. Opinion and Order Denying Motion to Stay Proceedings Pending Determination of Motion to Withdraw the Reference at 4-12. [Dkt. No. 1039]. Further, mere allegations of Constitutional violations do not constitute a separate or independent basis to grant relief from the Automatic Stay. Accordingly, no cause (much less sufficient cause) exists to grant the Plaintiffs relief from the Automatic Stay.

**1. Under Sixth Circuit Law, No Cause Exists to Grant the Plaintiffs Relief from the Automatic Stay**

Although not directly discussed by the Plaintiffs, under the factors generally applied to stay motions in this circuit, there is no cause for relief from stay. Section 362(a) of the Bankruptcy Code provides in relevant part that:

a petition filed under . . . this title . . . operates as a stay, applicable to all entities, of . . . the commencement or continuation . . . of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the debtor that arose before the commencement of the case . . .

11 U.S.C. § 362(a). The Automatic Stay “is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors. It stops all collection efforts, all harassment, and all foreclosure actions.” Javens v. City of Hazel Park (In re Javens), 107 F.3d 359, 363 (6th Cir. 1997) (quoting H.R. REP. NO. 95-595, at 340 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 6296).

Section 362(d) of the Bankruptcy Code authorizes a bankruptcy court to grant relief from the Automatic Stay in limited circumstances. See 11 U.S.C. § 362(d). In particular, section 362(d)(1) of the Bankruptcy Code provides that a party in interest may obtain relief from the Automatic Stay “for cause, including the lack of adequate protection of an interest in property of such party in interest.” 11 U.S.C. §362(d)(1).

“The Bankruptcy Code does not define ‘cause’ as used in [section] 362(d)(1). Therefore, under [section] 362(d), ‘courts must determine whether discretionary relief is appropriate on a case by case basis.’” Chrysler LLC v. Plastech Engineered Prods., Inc. (In re Plastech Engineered Prods., Inc.), 382 B.R. 90, 106 (Bankr. E.D. Mich. 2008) (quoting Laguna Assocs. L.P. v. Aetna Casualty & Surety Co. (In re Laguna Assocs. L.P.), 30 F.3d 734, 737 (6th Cir. 1994)). The determination of whether to grant relief from the Automatic Stay “resides within the sound discretion of the Bankruptcy Court.” Sandweiss Law Center, P.C. v.



Kozlowski (In re Bunting), No. 12-10472, 2013 WL 153309, at \*17 (E.D. Mich. Jan. 15, 2013) (quoting In re Garzoni, 35 F. App'x 179, 181 (6th Cir. 2002)).

To guide the bankruptcy court's exercise of its discretion . . . the Sixth Circuit identifies five factors for the court to consider: (1) judicial economy; (2) trial readiness; (3) the resolution of the preliminary bankruptcy issues; (4) the creditor's chance of success on the merits; and (5) the cost of defense or other potential burden to the bankruptcy estate and the impact of the litigation on other creditors.

Bunting, 2013 WL 153309, at \*17 (quoting Garzoni, 35 F. App'x at 181) (internal quotation marks omitted). In determining whether cause exists, however, “the bankruptcy court should base its decision on the hardships imposed on the parties with an eye towards the overall goals of the Bankruptcy Code.” Plastech, 382 B.R. at 106 (quoting In re C & S Grain Co., 47 F.3d 233, 238 (7th Cir. 1995)).

Here, consideration of these factors confirms that no cause (much less sufficient cause) exists to justify relief from the Automatic Stay to allow the Lawsuit to proceed. With respect to the first factor, the interests of judicial economy weigh heavily in favor of denying the Stay Relief Motion. Numerous parties, including three of the Plaintiffs, have raised similar eligibility issues in this chapter 9 case that the Plaintiffs seek to litigate in the Lawsuit in front of the District Court. As set forth above, litigating eligibility issues in two different courts, simultaneously “does not promote judicial or party efficiency; it is the antithesis.” Opinion and Order Denying Motion to Stay Proceedings Pending

Determination of Motion to Withdraw the Reference at 19. [Dkt. No. 1039].

Accordingly, judicial economy dictates staying the Lawsuit so as to permit this Court to address the PA 436 Eligibility Objections in the single, unified context of the eligibility trial.

With respect to the second factor, the Lawsuit is in its preliminary stages. The Defendants' motion to dismiss remains pending. No discovery has been taken. Thus, the Lawsuit has not even advanced beyond the pleading stage and is not trial ready. The third factor also weighs in favor of denying the Stay Relief Motion as the Court has not even resolved the City's eligibility for relief in this chapter 9 case. Nothing could be more basic or preliminary to the ultimate outcome. Further, concerning the fourth factor, as set forth in the Defendants' motion to dismiss, the Plaintiffs have not demonstrated a likelihood of success on the merits.

Finally, the fifth factor weighs in favor of denying the Stay Relief Motion. Although the City is not currently a party in the Lawsuit, the impact that the Lawsuit may have on the City and its restructuring efforts may require the City to intervene or otherwise become further involved and take other actions if the Stay Relief Motion is granted. Requiring the City to defend the Lawsuit in the District Court would distract the City from its efforts to restructure, diverting its limited resources at a time when it is both working to negotiate and deliver a plan of

adjustment quickly and engaged in a substantial amount of discovery and litigation (all on its own expedited timeframe) arising in the bankruptcy case itself. The City does not need further impediments to its restructuring efforts. This Court has consistently endeavored to bring all matters which may affect the eligibility of the City before it and have the issues resolved in one forum. Allowing the Lawsuit to proceed in the District Court would cast uncertainty<sup>3</sup> over the eligibility and restructuring process and may chill negotiations among the parties or adversely affect the confirmation of the plan of adjustment. Further, if relief is granted here, it will likely engender further constitutional challenges by other parties in different courts.

In short, allowing the Lawsuit to proceed would undermine the protections of the Automatic Stay and interfere with the City's efforts to restructure. The City sought relief under chapter 9 in part to obtain the “breathing spell” afforded by the Automatic Stay and the consequent protection from its creditors while it restructures its affairs and prepares a plan of adjustment. The City's finances would be further depleted and its personnel distracted from their mission to operate

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<sup>3</sup> This Court acknowledged that the uncertainty occasioned just by the eligibility objections already before it will likely slow, if not stall entirely, the “City’s progress in recovering its financial, civic, commercial, and cultural life and in revitalizing itself.” Opinion and Order Denying Motion to Stay Proceedings Pending Determination of Motion to Withdraw the Reference at 23. [Dkt. No. 1039]. Having the City’s eligibility adjudicated simultaneously in two courts obviously compounds that uncertainty.

the City for the benefit of its citizens and restructure its affairs if it were denied this basic protection of chapter 9 and forced to defend itself against the Plaintiffs so early in the case. Accordingly, the overall goals of chapter 9 weigh largely in favor of denying stay relief to the Plaintiffs.

## **2. The Automatic Stay Does Not Deprive the Plaintiffs of their Constitutional Rights**

The Plaintiffs also argue that the Automatic Stay, as applied to the Lawsuit, violates their Fourteenth and Fifth Amendment right to due process. This argument misses the point. The Plaintiffs day in court is not denied but only delayed. See Cont’l Ill. Nat’l Bank & Trust Co. of Chicago v. Chicago, Rock Island & Pac. Ry. Co., 294 U.S. 648, 680-81 (1935) (holding that delaying a creditor from implementing a contract remedy via a stay issued under the Bankruptcy Act did not violate the Fifth Amendment’s due process requirement). Indeed, coordinating the Plaintiffs’ alleged rights with those of many others is patently different from depriving the Plaintiffs of those same rights. In re Singer, 205 B.R. 355, 357 (Bankr. S.D.N.Y. 1997) (noting that the Second Circuit has held that the automatic stay does not violate due process) (citation and internal quotation marks omitted); Kagan v. St. Vincents Catholic Med. Ctrs. of N.Y. (In re St. Vincents Catholic Med. Ctrs. of N.Y.), 449 B.R. 209, 213-14 (Bankr. S.D.N.Y. 2011) (holding that 11 U.S.C. § 362 does not offend the First, Fifth, Tenth, or Fourteenth Amendments in stay of state FOIA claim) (“[I]f this claim had any

merit, every stay of a judicial proceeding imposed by a Bankruptcy Court would violate the substantive due process rights of the litigants in that proceeding.

Clearly this is not the law.”). Indeed, the Second Circuit determined that the automatic stay helps balance parties’ rights.

The policy considerations underlying [the automatic stay] are considerable. The automatic stay . . . is designed to prevent a chaotic and uncontrolled scramble for the debtor’s assets in a variety of uncoordinated proceedings in different courts. The stay insures that the debtor’s affairs will be centralized, initially, in a single forum in order to prevent conflicting judgments from different courts and in order to harmonize all of the creditors’ interests with one another.

Fid. Mortg. Invs. v. Camelia Builders, Inc. (In re Fid. Mortg. Invs.), 550 F.2d 47, 55 (2d Cir. 1977) (interpreting Bankruptcy Act). Further, the Bankruptcy Code and Rules implementing the automatic stay provide a means to ensure that the stay does not deprive parties of their due process rights, including the opportunity to obtain relief from the stay in this Court if there is sufficient cause to grant relief.

Id.

The Plaintiffs argument fails to account for the City’s rights, and, when these are added into the equation, the balance of harms to the City against the potential harm to the Plaintiff strongly favors leaving the stay in place at this juncture. The idea that providing the City with “breathing room” to reorganize somehow denies the Plaintiffs their Constitutional rights is simply not true. The

Automatic Stay ensures that the Plaintiff's rights are not enforced to the detriment of both the City and its creditors.

### III. CONCLUSION

For the reasons set forth in this Brief in Opposition, the City respectfully requests that this Court: (a) deny the Stay Relief Motion; and (b) grant such other and further relief to the City as the Court may deem proper.

Dated: October 7, 2013

Respectfully submitted,

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EXHIBIT A



UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

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with the City of Detroit; JOSEPH VALENTI, Co-  
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DEEDEE COLEMAN, BISHOP ALLYSON  
ABRAMS, Executive Board, Council of Baptist  
Pastors of Detroit and Vicinity,

Plaintiffs,

v

RICHARD D. SNYDER, as Governor of the State of  
Michigan, and ANDREW DILLON, as the Treasurer  
of the State of Michigan, acting in their individual  
and/or official capacities,

Defendants.

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No. 2:13-cv-11370

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**DEFENDANTS' MOTION TO  
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12(B)(1) & (6) AND BRIEF IN  
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## DEFENDANTS' MOTION TO DISMISS

Defendants Richard D. Snyder, Governor of the State of Michigan, and Andrew Dillon, Treasurer of the State of Michigan, move to dismiss Plaintiffs' Complaint for Declaratory and Injunctive Relief for the following reasons:

1. Plaintiffs lack standing to bring any of their claims.
2. 2012 Mich. Pub. Acts 436, Mich. Comp. Laws § 141.1541 *et seq.* (P.A. 436), does not violate the Due Process Clause or U.S. Const. art. IV, § 4 (Counts 1, 2, 3).

3. P.A. 436 does not violate the Equal Protection Clause (Counts 4, 5, 6, 11).
4. P.A. 436 does not violate Section 2 of the Voting Rights Act (Count 7).
5. P.A. 436 does not violate First Amendment free speech and petition rights (Count 8).
6. The City of Detroit emergency manager appointment of Kevin Orr does not violate the First Amendment right to petition (Count 9).
7. And P.A. 436 does not violate the Thirteenth Amendment (Count 10).
8. Defendants sought concurrence from Plaintiffs' counsel but concurrence was not given.
9. Under Fed. R. Civ. P. 12(b)(6), a complaint may be dismissed if no relief could be granted under any set of facts that could be proved consistent with the allegations of the complaint. *Ludwig v. Bd of Trustees*, 123 F.3d 404, 408 (6th Cir. 1997). "To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). "Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements" are not facially plausible. *Id.* at 678 (citing *Twombly*, 550 U.S. at 555). "Nor does a complaint suffice if it tenders 'naked assertion[s]' devoid of 'further factual enhancement.'" *Id.* (quoting *Twombly*, 550 U.S. at 557).
10. Fed. R. Civ. P. 12(b)(1) allows dismissal for lack of subject-matter jurisdiction. It is a plaintiffs' burden to prove jurisdiction. *Moir v. Greater Cleveland Reg'l Transit Auth.*, 895 F.2d 266, 269 (6th Cir. 1990).

Applying the standard of review set out in paragraphs 9 and 10 to each argument in the brief, and for the reasons stated in this motion, Plaintiffs' Complaint fails as a matter of law.

Defendants respectfully request that this Court dismiss Plaintiffs' Complaint in its entirety and with prejudice.

Respectfully submitted,

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Dated: May 15, 2013

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

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with the City of Detroit; JOSEPH VALENTI, Co-  
Chief Negotiator with the Coalition of Unions of the  
City of Detroit; MICHIGAN AFSCME COUNCIL  
25; RUSS BELLANT, President of the Detroit  
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WATKINS AND KERMIT WILLIAMS, Pontiac City  
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ABRAMS, Executive Board, Council of Baptist  
Pastors of Detroit and Vicinity,

No. 2:13-cv-11370

HON. GEORGE CARAM STEEH

MAG. R. STEVEN WHALEN

Plaintiffs,

v

RICHARD D. SNYDER, as Governor of the State of  
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of the State of Michigan, acting in their individual  
and/or official capacities,

Defendants.

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**BRIEF IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS**

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## CONCISE STATEMENT OF ISSUES PRESENTED

1. Should all counts be dismissed under 12(b)(1) because Plaintiffs lack standing?
2. Should the entire Complaint be dismissed under Fed. R. Civ. P. 12(b)(6) because Plaintiffs have failed to state a claim for which relief may be granted under any asserted cause of action?

## CONTROLLING OR MOST APPROPRIATE AUTHORITY

Authority:

*ACLU of Ohio Found., Inc., v. Ashbrook*  
*Canfora v. Old*  
*City of Cleburne v. Cleburne Living Center, Inc.*  
*Ctr. For Bio-Ethical Reform, Inc. v. Napolitano*  
*FCC v. Beach Commc'ns, Inc.*  
*Holt v. City of Tuscaloosa*  
*Home Building & Loan Ass'n v. Blaisdell*  
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*Roth v. Bd. of Regents*  
*Rodriguez v. Popular Democratic Party*  
*Smith v. Arkansas State Highway Employees, Local 1315*  
*TriHealth, Inc. v. Board of Comm'rs, Hamilton County, Ohio*  
*Village of Arlington Heights v. Metro. Housing Dev. Corp.*  
*Washington v. Glucksberg*

## INTRODUCTION

The concept of an emergency manager is not new to Michigan. Indeed, both major political parties have used such managers to solve local economic difficulties for over 20 years. But in an economic environment where a disturbingly high number of local governments and school districts are teetering on the brink of financial catastrophe, more flexibility and new tools were required. The Michigan Legislature responded with 2012 Public Act 436 (P.A. 436), which replaces Michigan's previous emergency-manager law, P.A. 72.

Having lost the political battle to stop P.A. 436 on the steps of the Lansing Capitol, Plaintiffs filed this lawsuit, an action that contains no cognizable legal claims or alternative solutions to the financial problems that have plagued many communities. Because Plaintiffs' proper remedy is the political process, not the courts, the Complaint should be dismissed in its entirety.

## STATEMENT OF FACTS

### Nature of the Case

Plaintiffs bring this action under 42 U.S.C. § 1983, alleging that P.A. 436 violates the U.S. Const. art. IV, § 4 (Republican Form of Government); the First Amendment (freedom of speech and the right to petition government); the Thirteenth Amendment (vestiges of slavery); the Fourteenth Amendment (due process and equal protection); and the Voting Rights Act, 42 U.S.C. § 1973, *et seq.* (R. 1, Compl., ID# 2.) Where specific factual allegations are necessary for deciding this motion, those facts have been taken from the Complaint. Although Plaintiffs allege both facial and as-applied challenges, they make no specific applications of P.A. 436 to any factual occurrence in any paragraph of the Complaint. (Id. at, ¶¶ 122, 128, 138, 139, 151, 152, 167, 168, 182, 183, 194, 195, 206, 207, 208, 220, 229, 230 and 243, ID## 25-28, 30-31, 33-

34, 36-37, 39-40, 42, 44, 46-47, 49.) Thus, this is only a facial challenge to the constitutionality of the Act. And their allegations focus exclusively on the Act's emergency-manager component.

### **Michigan's Emergency Financial Manager Acts**

The Legislature enacted P.A. 436 in December 2012, effective March 28, 2013. P.A. 436 followed the period of time from August 6, 2012 to March 28, 2013, when the State and its political subdivisions operated under 1990 Mich. Pub. Acts 72 (P.A. 72), Mich. Comp. Laws § 141.1201, *et seq.* which, for purposes of this brief, will be referred to as the original act allowing the appointment of emergency managers. P.A. 72 was the operative statute because of the referendum and rejection of the earlier fiscal responsibility legislation, 2011 Mich. Pub. Acts 4 (P.A. 4).<sup>1</sup> Under P.A. 72, emergency managers had fewer powers than they previously possessed under P.A. 4, which contained more tools and authority to rectify financial emergencies in distressed local communities and school districts.

In December 2012, the Legislature passed P.A. 436—*not* to reenact P.A. 4, previously rejected by voters but to replace P.A. 72, which was in effect at the time. The Legislature reasonably determined that local fiscal stability is necessary for the State's health, welfare, and safety, and thus, P.A. 436 was necessary to protect those interests as well as the credit ratings of the State and its political subdivisions. Mich. Comp. Laws § 141.1543.

### **Key Features of P.A. 436**

Unlike earlier laws, P.A. 436 includes two key features: expanded local government options—chosen by the local government—to address the financial emergency; a time limit for a financial manager's appointment; and, authority to petition for removal of a financial manager. Mich. Comp. Laws §§ 141.1547, 1549(2), 1549(11). The statute also builds in checks on an

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<sup>1</sup> See OAG, 2011-2012, No 7267, p 6 (August 6, 2012), available at <http://www.ag.state.mi.us/opinion/datafiles/2010s/op10346.htm>.

emergency manager's authority. See, e.g., Mich. Comp. Laws §§ 141.1552(1)(k) & (u) (collective bargaining agreements and borrowing money), 1552(4) (selling or transferring public utilities), 1555(1) (selling of assets), 1559(1) (proposed contracts, sales, and leases).

## ARGUMENT

### I. **Plaintiffs lack standing to bring any of their counts.**

This Court should dismiss all counts of Plaintiffs' Complaint for lack of standing. To invoke the subject matter jurisdiction of an Article III federal court, individual plaintiffs must establish, among other things, an injury-in-fact that is concrete and particularized, not conjectural or hypothetical. *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992). Because injunctive and declaratory relief is sought, these Plaintiffs also have the heightened burden of showing a substantial likelihood they will be injured in the future. *City of Los Angeles, v. Lyons*, 461 U.S. 95, 105 (1983). The Organizational Plaintiffs have standing only if (a) their members otherwise have standing to sue in their own right; (b) the interests to be protected are germane to the organization's purpose; and (c) neither the claim asserted nor the relief requested requires participation of individual members in the lawsuit. *ACLU of Ohio Found., Inc. v. Ashbrook*, 375 F.3d 484, 489 (6th Cir. 2004). None of these requirements are met here.

#### A. **Individual, Non-Elected Plaintiffs Bellant, Jefferson, Jordan, Holley, Williams, Owens, Glass, Coleman, and Abrams lack standing to bring Counts 2-8 and 10-11.**

This group of Plaintiffs are residents of localities with emergency managers. (R. 1, Compl., at ¶10, ¶¶ 21-28, ID## 5, 6-7.) Yet, they do not allege that Defendants' actions have injured them in a manner distinguishable from the harm incurred by any resident of any locality with an emergency manager.

Rather, these Plaintiffs raise only general grievances regarding Defendants' policy choices related to fiscally distressed local governments. Their claims are strikingly similar to

those considered and rejected by the Supreme Court, the Sixth Circuit, and this Court for lack of standing. *See, e.g., City of Los Angeles*, 461 U.S. at 111 (resident challenging police department’s chokehold policy was “no more entitled to an injunction than any other citizen”); *Miyazawa v. City of Cincinnati*, 45 F.3d 126, 126-28 (6th Cir. 1995) (resident challenging city charter amendment suffers “no harm, nor will she suffer any greater harm than that of any other voter in the City of Cincinnati”); *Anthony v. State of Michigan*, 35 F. Supp. 2d 989, 1003 (E.D. Mich. 1999) (Detroit citizens challenging consolidation of Detroit Recorder’s Court did not “articulate how they [were] *particularly* harmed as a result of the merger”).

**B. Individual, Elected Plaintiffs Simpson, Lemmons, Herrada, Watkins, Williams, Seats, Knowles, Henry, Adams, and Kincaid lack standing to bring Counts 2–8 and 10–11.**

This group of Plaintiffs lack standing in the same manner as the Plaintiffs discussed in Section A. They have met neither the irreducible constitutional requirement of a concrete and particularized injury nor the applicable, heightened standard requiring a substantial likelihood that they will be the unique target of future harm. *See Lujan*, 504 U.S. at 560-61; *City of Los Angeles*, 461 U.S. at 105. Their identification as public officials for units of local government who are subject to P.A. 436 gives them no special status and certainly no greater claim to standing than any of the other named Plaintiffs in Section A. (R. 1, ¶ 11-20, I.D. ## 5, 6.) To the extent they may purport to bring this action in their official capacities as members of various local boards, commissions or councils, there is no indication in the Complaint that these local governmental bodies have authorized any of them to act for or on their behalf.

**C. Individual Union Negotiator-Plaintiffs Phillips and Valenti lack standing.**

For the same reasons, Plaintiffs Phillips and Valenti lack standing to assert Counts 1–11. While they purportedly belong to the Plaintiffs’ labor organization, Plaintiff Michigan AFSCME Council 25 (Council 25), neither mere union affiliation nor the factual allegations in Plaintiffs’

Complaint suggests that Phillips and Valenti have sustained any particularized injury vis-à-vis other residents of localities with emergency managers or union members whose collective bargaining agreements or bargaining “rights” have been impacted.

Indeed, the facts related to the Count I allegations were the basis for an earlier action by Valenti and Council 25 against the City of Detroit, Governor Snyder and Treasurer Dillon. See, *Valenti, et. al. v. Snyder, et. al.*, USDC-ED No. 12-11461, R. 6, Amended Complaint. The coalition of unions, for which Valenti was a negotiator and which included Council 25, had negotiated tentative employee concessions with the City of Detroit. But these terms were never ratified by the City Council and never became effective. Detroit Charter, §6.408. The City’s duty to collectively bargain was suspended effective April 4, 2012 with the approval of a consent agreement—the Financial Security Agreement—negotiated with the State under P.A. 4. Thus, the allegations here do not establish any particularized injury to Phillips or Valenti.

Further, with respect to Count 9, the right to petition government, is personal and does not extend to petitioning activity on behalf of others. C.J.S CONST. LAW § 975 (citing Const. Amend. 1 and *In re Foster*, 253 P.3d 1244 (Colo. 2011); see also C.J.S CONST. LAW § 973, citing *Hague v. Committee for Indus. Organization*, 307 U.S. 496 (1939)). Phillip’s and Valenti’s positions as union negotiators do not provide standing on this claim either.

**D. Council 25 lacks organizational standing to bring any claims.**

Council 25 also lacks standing to bring Counts 1 – 11. None of its members have standing to sue for the alleged violations in their own right, as discussed above. *Ashbrook*, 375 F.3d at 489. And like Phillips and Valenti, Council 25 lacks standing to bring Count 9 in a representative capacity.

In sum, Plaintiffs collectively lack standing to bring Counts 1 - 11. Accordingly, this Court should dismiss these Counts with prejudice under Fed. R. Civ. P. 12(b)(1).



**II. P.A. 436 does not violate the Due Process Clause or U.S. Const. art. IV, § 4 (Counts 1, 2, 3).**

**A. No substantively protected right to collective bargaining is violated.**

To properly analyze Plaintiffs' substantive due-process claim based on collective bargaining, this Court is required to carefully identify the fundamental right or liberty interest allegedly implicated. The substantive component of the Due Process Clause protects fundamental rights and liberty interests that are so "implicit in the concept of ordered liberty" that "neither liberty nor justice would exist if they were sacrificed." *Palko v. Connecticut*, 302 U.S. 319, 326 (1937). Only when a state law infringes these fundamental rights and interests is it subject to strict scrutiny. *Washington v. Glucksberg*, 521 U.S. 702, 721 (1997).

Those fundamental rights and interests accorded substantive protection under the Due Process Clause include matters related to marriage, family, procreation, bodily integrity, and directly related privacy interests. *Id.* at 720; *Kallstrom v. City of Columbus*, 136 F.3d 1055, 1062 (6th Cir. 1998). The Supreme Court is reluctant to expand the concept of substantive due-process further "because guideposts for responsible decision making in this unchartered area are scarce and open-ended." *Glucksberg*, 521 U.S. at 720 (quotation marks and citation omitted).

Here, Plaintiffs' claim is not based on a right found within the Bill of Rights or identified by the Supreme Court as "implicit in the concept of ordered liberty" or among those narrowly drawn "liberty" and privacy interests accorded substantive protection. *Id.* at 721. It is premised on an alleged "property interest in their employment, in the terms of employment negotiated pursuant to contract, and in rights granted under state law. . . ." (R. 1, Compl., ¶ 109, ID# 23.) And while state law property interests may give rise to a procedurally protected interest, they do not create a *substantively* protected fundamental right or interest. *Glucksberg*, 521 U.S. at 720.

Their substantive claim fails because their alleged substantively protected liberty interest in employment relates only to a generalized right to choose one's field of private employment—"the right of the individual . . . to engage in any of the common occupations of life"—not an expansive right of public employment or to collectively bargain for employment terms. *Roth v. Bd. of Regents*, 408 U.S. 564, 572 (1978); *Parate v. Isibor*, 868 F.2d 821, 831 (6th Cir. 1989).

Plaintiffs fail to allege any plausible substantive due-process right, any facts indicating Defendants interfered with a substantively protected interest, or that P.A. 436 facially violates substantive due process. This claim fails as a matter of law and fact and should be dismissed.

**B. No procedurally protected right to collective bargaining is violated.**

Analysis of Plaintiffs' procedural due-process claim involves a dual inquiry: (1) whether a liberty or property interest exists that the State has interfered with; and (2) whether the procedures attendant upon the deprivation were constitutionally sufficient—that is, provided at a meaningful time and in a meaningful manner. *Cleveland Bd. of Educ. v. Loudermill*, 470 U.S. 532, 538 (1985); *Matthew v. Eldridge*, 424 U.S. 319, 333, 349 (1976).

But no protected right or interest invoking procedural due process protection is at issue. Plaintiffs' procedural due-process claim is premised on an alleged "property interest in the terms of employment negotiated pursuant to contract, and in rights granted under state law." Plaintiffs rely on Michigan's Public Employment Relations Act (PERA) as creating this right. Mich. Comp. Laws § 423.215(1). (R.1, Compl., ¶ 111, ID# 23). PERA provides, "A public employer shall bargain collectively with the representatives of its employees" and "may make and enter into collective bargaining agreements . . ." *Id.* Yet, the Legislature has also imposed limitations on this duty to collectively bargain. Mich. Comp. Laws § 141.1567(3). See also P.A. 436 Enacting Clause 2; Mich. Comp. Laws §§ 423.215(8), 215(9).

The Michigan Legislature has the authority to define and modify the powers, duties and obligations of its local governments, which are derived from the State in the first instance. Mich. Const. 1963, art. VII, §§ 1-34; *Mack v. City of Detroit*, 467 Mich. 186, 194; 649 N.W.2d 47(2002); Michigan’s Home Rule City Act reiterates this principle—all local charters, resolutions and ordinances are subject to and shall not conflict with or contravene the State’s Constitution or laws. Mich. Comp. Laws. § 117.36.

State law confers a procedurally protected benefit, such as the claimed property interest here, only when it mandates specific action in a manner that constrains bureaucratic discretion. *Kentucky Dept. of Corrections v. Thompson*, 490 U.S. 454, 463 (1989). Here, no such limitations exist. First, while a public employer “shall bargain collectively,” it retains discretion: “*may* make and enter into collective bargaining agreements.” Mich. Comp. Laws § 423.215(1) (emphasis added). Second, PERA does not confer a “right to bargain” that infringes the exercise of power under P.A. 436. Finally, both PERA and P.A. 436 suspend the duty to collectively bargain when the local government is in receivership. Thus, there is no protected property interest to bargain the terms of public employment and no procedural due process violation.

**C. No substantive due-process right to elect officials who possess general legislative power is violated.**

The “right to vote” is not expressly enumerated in the federal constitution. *San Antonio Independent School Dist. v. Rodriguez*, 411 U.S. 1, 35, n. 78 (1973). Rather, the right to vote is an implicit “fundamental political right” that is “preservative of all rights.” *Reynolds v. Sims*, 377 U.S. 533, 562 (1964). *Yet*, the Supreme Court has repeatedly recognized that the Fourteenth Amendment does not protect this generalized “right to vote” but instead protects a citizen’s right to participate in elections on equal footing with other citizens in the jurisdiction. *Rodriguez v.*

*Popular Democratic Party*, 457 U.S. 1, 9-10 (1982); *San Antonio*, 411 U.S. at 35. This right to equal participation is protected by the Equal Protection Clause. *Rodriguez*, 457 U.S. at 9-10.

In this context, it is perhaps easiest to understand Plaintiffs' substantive due-process claim by first determining what it is *not* about. (R. 1, Compl., ¶¶ 127, 128, ID## 25, 26.) Plaintiffs do not claim a denial or impairment of their right to vote. Nor do they claim their vote is not being counted. Rather, their claim is premised on an undefined, unrecognized right to have the elected official continue to carry out the duties of office—here, legislative powers. No federal court has ever recognized such a right. *Rodriguez*, 457 U.S. at 9-10.

Dismissal of this claim is consistent with Supreme Court precedent expressing a reluctance to expand the concept of substantive due process, *Glucksberg*, 521 U.S. at 720, and determining that where a more explicit textual context than the generalized Due Process Clause exists within the federal constitution, it must guide the constitutional analysis. *Graham v. Connor*, 490 U.S. 386, 394-395 (1989). That Court has determined that the appropriate context is the Equal Protection Clause as applied to the right of equal participation in the voting process.

**D. U.S. Const., art. IV, § 4 is not violated.**

The United States Constitution guarantees that “every State in this Union a Republican form of government.” U.S. Const., art. IV, § 4. Generally, this guarantee does not extend to local units of government. Political subdivisions of a State have never “been considered as sovereign entities.” Rather, they are “traditionally regarded as subordinate governmental instrumentalities created by the State to assist in the carrying out of state governmental functions.” *Sailors v. Bd. of Ed. of Kent County*, 387 U.S. 105, 107-108 (1967) (quoting *Hunter v. City of Pittsburgh*, 207 U.S. 161, 178 (1907)). Any recognition of a specific form of local government ignores the nature of this traditional relationship. While the Supreme Court has clarified that a state cannot manipulate its political subdivisions to defeat a federally

protected right, the consistent theme of these court decisions is not the form of local government but protection of the “right to vote” against “dilution or debasement.” *Sailors*, 387 U.S. at 108; *Hadley v. Jr. College Dist. of Metro. Kansas City, Mo.*, 397 U.S. 50, 54-55 (1970).

Significantly, federal courts do not meddle in how States structure their local political subunits. Such political questions and a State’s authority to define and regulate its relationship with subordinate political units are generally not justiciable. *Baker v. Carr*, 369 U.S. 186, 208-226 (1962); *Morgan v. Rhodes*, 456 F.2d 608, 618-620 (6th Cir. 1972).

In the absence of any infringement on the Plaintiffs’ equal participation in the voting process, Michigan’s choice to address the significant issues arising from a local government’s financial distress and their temporary impact on the structure of that government do not violate any protected federal right within this Court’s purview. This claim fails as a matter of law.

### **III. P.A. 436 does not violate the Equal Protection Clause (Counts 4, 5, 6, 11).**

Counts 4, 5, 6, and 11 assert that P.A. 436 violates the Equal Protection Clause of the Fourteenth Amendment to the U.S. Constitution. These claims lack merit.

#### **A. P.A. 436 does not unconstitutionally burden Plaintiffs’ fundamental right to vote.**

The Equal Protection Clause states that no State shall “deny to any person within its jurisdiction the equal protection of the laws.” U.S. Const. amend. XIV, § 1. The clause prevents states from making distinctions that (1) burden a fundamental right; (2) target a suspect class; or (3) intentionally treat one individual differently from others similarly situated without any rational basis. *Radvansky v. City of Olmsted Falls*, 395 F.3d 291, 312 (6th Cir. 2005).

Plaintiffs assert that P.A. 436 violates their fundamental right to vote protected by the Equal Protection Clause in two ways. First, they argue the Act “effectively revoke[s] the right to vote by stripping governing authority from local elected officials and transferring such authority

to one unelected emergency manager with no accountability to local citizens.” (R. 1, Compl., ¶ 148, ID# 29.) Second, they argue the Act “impermissibly dilutes citizen’s right to vote in local elections where emergency managers have been appointed” because the emergency managers become vested with all governing authority, leaving local elected officials with only conditional powers and “the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their elected officials.” (*Id.* at ¶¶ 149-150, ID# 29.)

**1. Plaintiffs are not similarly situated to people residing in communities that do not have an emergency manager.**

As a threshold matter, Plaintiffs must demonstrate they are similarly situated to the persons allegedly receiving more favorable treatment “in all material respects.” *Ctr. for Bio-Ethical Reform, Inc. v. Napolitano*, 648 F.3d 365, 379 (6th Cir. 2011) (quotation marks omitted); *TriHealth, Inc. v. Board of Com’rs, Hamilton County, Ohio*, 430 F.3d 783, 790-791 (6th Cir. 2005). “Disparate treatment of persons is reasonably justified if they are dissimilar in some material respect.” *Id.* In determining whether individuals are “similarly situated,” a court should “not demand exact correlation, but should instead seek relevant similarity.” *Perry v. McGinnis*, 209 F.3d 597, 601 (6th Cir. 2000) (citation omitted).

Here, Plaintiffs, who are residents of local units of government under the administration of an emergency manager (Detroit, Detroit Public School District, Benton Harbor, Pontiac, and Flint), allege they are being disparately treated as compared to residents of local units of government with no emergency manager. That is not true. Each of these named local units, whether under P.A. 72 or P.A. 4, underwent a rigorous review of their financial condition, as assessed against set criteria, and were determined to be in a financial emergency by the Governor

or other executive official. The serious financial problems facing these local units of government cannot be overstated and are laid bare within each letter confirming the financial emergencies.

Plaintiffs are not similarly situated to residents of local units of government that have not been declared to be in a financial emergency. The significant financial condition of their local unit of government is the whole reason an emergency manager was appointed. Thus, comparisons to residents of local units of government in better financial condition do not advance Plaintiffs' claims. Nor do Plaintiffs identify any specific local units of government whose financial conditions are the same as or are sufficiently similar to Plaintiffs' communities that were not placed under the administration of an emergency manager after financial review. As a result, Plaintiffs have failed to make the threshold "similarly situated" showing and their equal-protection claims necessarily fail. *TriHealth, Inc*, 430 F.3d at 790.

## **2. Plaintiffs have not been denied their fundamental right to vote.**

The right to vote is a "fundamental" political right. *Harper v. Va. State Bd. of Elections*, 383 U.S. 663, 670 (1966), and the Equal Protection Clause applies when a state either classifies voters in disparate ways, or places restrictions on the right to vote. *League of Women Voters v. Brunner*, 548 F.3d 463, 477–78 (6th Cir. 2008) (citing *Bush v. Gore*, 531 U.S. 98, 104 (2000)). The specific character of the state's action and the nature of the burden on voters will determine the applicable equal-protection standard. See *Biener v. Calio*, 361 F.3d 206, 214 (3d Cir. 2004) ("The scrutiny test depends on the [regulation's] effect on [the plaintiff's] rights.").

If a plaintiff asserts only that a state treated the plaintiff differently than similarly situated voters, without a reciprocal burden on the fundamental right to vote, the rational basis standard of review should apply. *McDonald v. Bd. of Election Comm'rs*, 394 U.S. 802, 807-09 (1969) (applying rational basis to a state statute prohibiting plaintiffs' access to absentee ballots where no right-to-vote burden was shown); *Biener*, 361 F.3d at 214-15 (applying rational basis absent a

showing of an “infringement on the fundamental right to vote”). But when a State’s classification “severely” burdens the right to vote, strict scrutiny is appropriate. *Burdick v. Takushi*, 504 U.S. 428, 434 (1992). Where the burden is somewhere in the middle, courts apply the “flexible standard” outlined in *Anderson v. Celebrezze*, 460 U.S. 780 (1983), and *Burdick*. See *Hunter v. Hamilton Cty. Bd. of Elections*, 635 F.3d 219, 238 (6th Cir. 2011) (applying the balancing test in an equal-protection challenge to the counting of provisional ballots).

Here, there is no suspect class and P.A. 436 does not burden Plaintiffs’ right to vote. Residents in local units of government under an emergency manager’s administration retain all their rights to exercise the franchise and vote for the candidates of their choice, including candidates for local government, and to have those votes counted. While P.A. 436 may temporarily prohibit a local unit’s chief executive officer and governing body from exercising the powers of those offices during the receivership, Mich. Comp. Laws § 141.1549(2), it does not preclude residents from voting candidates into these offices, or the candidates from continuing to hold those offices during the receivership.

Plaintiffs’ complaint really is that the officials they have already elected into office are prohibited (at least temporarily) from exercising some or all of the powers and duties they were elected to do—in other words, that their candidates can no longer be effective. But this is not a recognized violation of the right to vote.

### **3. Plaintiffs’ fundamental right to vote has not been diluted.**

Plaintiffs’ claim of vote dilution is that the appointment of an emergency manager in and of itself dilutes Plaintiffs’ right to vote, and/or that the appointment of an emergency manager for a particular local unit of government by the Governor, who is elected by voters statewide, dilutes the right to vote of the local residents: “The vote of citizens for their local government in



affected localities is grossly diluted by the statewide participation of the electorate.” (R. 1, Compl., ¶ 150, ID# 30.) These arguments are likewise without merit.

“[T]he right of suffrage can be denied by a debasement or dilution of the weight of a citizen’s vote just as effectively as by wholly prohibiting the free exercise of the franchise.” *Reynolds*, 377 U.S. at 555. A vote-dilution claim invokes the principle of “one person, one vote,” a requirement under the Fourteenth Amendment. See 16B CJS, Constitutional Law, § 1264 (explaining that each person’s vote must count the same as any other person’s); *see also Carlson v. Wiggins*, 675 F.3d 1134, 1139 (8th Cir. 2012).

P.A. 436 does not violate this requirement. As explained above, residents in local units of government under the administration of an emergency manager retain the same rights to vote for and elect candidates of their choosing, and their votes count the same as residents in other local units of government voting for their local officials. Again, Plaintiffs’ real complaint is that their elected candidates will, on a temporary basis, no longer be effective or as effective in their offices. But this “injury,” if it exists, does not stem from any recognized violation of the fundamental right to vote or the “one person, one vote” principle.

**B. P.A. 436 does not discriminate based on race.**

In Count 5, Plaintiffs vaguely assert that P.A. 436 discriminates based on race. They observe that the Equal Protection Clause “protects [sic] laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.” (R. 1, Compl., ¶ 161, ID# 32.) They then assert that voting in local elections is a fundamental right and that P.A. 436’s provisions “effectively revoke the right to vote.” *Id.*, ¶ 162, ID# 32. In paragraphs 168 and 169, Plaintiffs allege that P.A. 436 “discriminate[s] in the appointment of an EM and revocation of the community’s right to vote for local officials based on the racial composition of that community” and that Defendants have

caused injury by exercising authority under the Act in “various municipalities comprising more than 53% of the State’s [African American] population.”

Initially, as noted above, Plaintiffs have failed to allege or show that they have been disparately treated compared to citizens of a different race in communities that are similarly situated financially to Plaintiffs’ communities. *TriHealth, Inc.*, 430 F.3d at 790. Thus, this race-based equal-protection claim fails.

In addition, P.A. 436 does not embody a racial classification. Neither does it say or imply that voters are to be treated differently on account of their race. The purpose of the Act—resolving financial emergencies within local units of government—encompasses any local unit of government in financial distress, regardless of the racial makeup of its population. As a result, P.A. 436 is facially neutral.

“Where facially neutral legislation is challenged on the grounds that it discriminates on the basis of race, the enactment will be [analyzed under] strict scrutiny only if the plaintiff can prove that it ‘was motivated by a racial purpose or object,’ or ‘is unexplainable on grounds other than race.’” *Moore v. Detroit School Reform Bd.*, 293 F.3d 352, 369 (6th Cir. 2002) (internal quotation marks and citations omitted). So “[p]roving that a law has a racially disparate impact, without more, is [] insufficient to establish a violation of either the Fourteenth or the Fifteenth Amendment.” *Id.* at 369, citing *Village of Arlington Heights v. Metro. Housing Dev. Corp.*, 429 U.S. 252, 264–65 (1977) (rejecting disproportionate impact as constitutionally infirm).

The Supreme Court has identified five factors relevant to determining whether facially neutral state action was motivated by a racially discriminatory purpose: (1) the impact on particular racial groups, (2) the historical background of the challenged decision, especially if it reveals numerous actions being taken for discriminatory purposes, (3) the sequence of events that

preceded the action, (4) procedural or substantive departures from the government’s normal procedural process, and (5) the legislative or administrative history. *Village of Arlington Heights*, 429 U.S. at 266–68; see also *Moore*, 293 F.3d at 369-370 (addressing these factors in a challenge against Michigan School Reform Act and finding no equal protection violation). To the extent Plaintiffs’ allegations even plead these factors, none of the allegations reveal a racially discriminatory purpose on the part of the Michigan Legislature or the Governor in enacting and signing P.A. 436. As a result, Plaintiffs fail to state a claim under a racial discrimination theory.

**C. P.A. 436 does not discriminate based on wealth.**

In Count 6, Plaintiffs allege that P.A. 436 violates equal-protection principles by discriminating based on wealth. They assert that “[u]nder Public Act 436, all stated criteria for appointing an EM are based on a community’s wealth and by extension, the wealth of the persons who reside within a community.” (R. 1, Compl., ¶ 181, ID#36.) They further allege that P.A. 436 has been implemented “in various municipalities with disproportionately high poverty rates.” (*Id.*, ¶ 184, ID# 37.) Plaintiffs thus conclude that P.A. 436 violates equal protection “through provisions of the statute that unduly revoke citizen’s right to vote for local officials based on the wealth of their community and themselves . . . .” (*Id.*, ¶ 183, ID# 37.)

Once again, these claims fail because Plaintiffs have failed to allege or show they have been disparately treated compared to communities or residents that are similarly situated with respect to wealth (or poverty). *TriHealth, Inc.*, 430 F.3d at 790. And P.A. 436 does not discriminate against local units of government, let alone their residents, based on wealth (or poverty). It is the overall financial condition and prognosis of a local unit of government that will subject it to review and the possible appointment of an emergency manager under P.A. 436, not its wealth or lack thereof. For example, a “wealthy” community whose financial books are in order would not be subject to review under P.A. 436, but neither would a “poor” community

whose books are also in good order. P.A. 436 is directed at rectifying financial mismanagement, which can occur in local units of government of any size and any degree of wealth.

In any event, P.A. 436 does not unconstitutionally burden the right to vote. Thus, no fundamental right is at issue. Moreover, wealth-based classifications do not discriminate against a suspect class. *Jonson v. Bredesen*, 624 F.3d 742, 746 (6th Cir. 2010) (citing *Papasan v. Allain*, 478 U.S. 265, 283-84 (1986)). So P.A. 436 is subject to rational basis review, if any review applies at all. *Bredesen*, 624 F.3d at 746. To survive rational basis scrutiny, P.A. 436 need only be “rationally related to legitimate government interests[.]” *Doe v. Mich. Dep’t of State Police*, 490 F.3d 491, 501 (6th Cir. 2007) (internal quotation marks and citation omitted), and “must be upheld against equal protection challenge if there is any reasonably conceivable state of facts that could provide a rational basis for the classification.” *FCC v. Beach Commc’ns, Inc.*, 508 U.S. 307, 313 (1993). “When social or economic legislation is at issue, the Equal Protection Clause allows the States wide latitude, and the Constitution presumes that even improvident decisions will eventually be rectified by the democratic processes.” *City of Cleburne v. Cleburne Living Center, Inc.*, 473 U.S. 432, 440 (1985) (internal citation omitted).

Michigan has a legitimate government interest in preventing or rectifying the insolvency of its political subdivisions. The insolvency of a local unit of government threatens the health, safety, and welfare of its residents. Mich. Comp. Laws §141.1543. It also threatens the interests of the citizens of this State as a whole because it is detrimental to the State’s overall economic condition and credit rating. *Id.* P.A. 436 thus survives rational basis review.

**D. P.A. 436 does not discriminate against local units of government with emergency managers appointed under P.A. 72 or P.A. 4.**

In Count 11, Plaintiffs assert that P.A. 436 “discriminates against cities and school districts where EFMs and EM[s] have been and are currently in place,” because those

communities will not benefit from a provision in P.A. 436 that permits local units of government to vote to remove emergency managers after 18 months. (R. 1, Compl., ¶¶ 240-242, ID## 48.) “The law discriminates against these municipalities requiring them to suffer an additional 18 months with an EM despite their having had such officials in place much longer than this time period.” (*Id.*, ¶ 242, ID# 48.)

The provision Plaintiffs refer to is Mich. Comp. Laws §141.1549(6)(c), which allows the emergency manager, by resolution, to be removed by a 2/3 vote of the governing body of the local government, and if the local unit has a strong mayor, with strong mayoral approval. Neither P.A. 72 nor P.A. 4 had such a provision. But P.A. 436, Mich. Comp. Laws §141.1549(10), provides that appointed emergency managers “shall be considered an emergency manager under this act [P.A. 436] and shall continue under this act to fulfill his or her powers and duties.” Thus, beginning March 28, 2013, P.A. 436’s effective date, all local units of government currently under the administration of an emergency manager are eligible to use this provision at the expiration of 18 months.

Plaintiffs argue that because their affected local units of government have already been under the administration of an emergency manager longer than 18 months, it is discriminatory to make these communities wait the additional 18 months to take advantage of this section. But again, as stated above, to prove an equal-protection claim Plaintiffs must demonstrate that they are being treated disparately as compared to similarly situated persons. *Ctr. for Bio-Ethical Reform, Inc.*, 648 F.3d at 379. Plaintiffs have not alleged or shown that they are similarly situated to persons in local units of government with emergency managers newly appointed under the P.A. 436 process. Moreover, there is no fundamental right involved, and Plaintiffs do

not allege discrimination against a suspect class. Again, the rational-basis standard applies to any review of this particular provision of P.A. 436. *Bredesen*, 624 F.3d at 746.

The rational-basis standard is met. The Legislature had a legitimate government interest in both setting a potential 18-month endpoint to a local unit of government's administration by an emergency manager and in not making this option immediately available to communities who have had emergency managers longer than 18 months. This is because neither P.A. 72 nor P.A. 4 had a similar time limit, and the financial plans put in place by these pre-existing emergency managers were not likely designed to resolve a financial crisis within 18 months. Thus, subjecting existing local units of government to the additional 18 months allows their emergency managers to modify or amend their plans in light of the new time limitation. Moreover, P.A. 436 expressly provides these local units of government with the interim alternative of petitioning the Governor to remove an emergency manager who has served *less* than 18 months under P.A. 72. Mich. Comp. Laws §141.1549(11). P.A. 436 survives rational basis review, and Plaintiffs have failed to state a claim for relief.

#### **IV. P.A. 436 does not violate the Voting Rights Act (Count 7).**

Count 7, an alleged violation of Section 2 of the Voting Rights Act, 42 U.S.C. § 1973, also fails to state a claim upon which relief may be granted. To state a claim for violation of Section 2, a minority group must demonstrate what are commonly referred to as the "*Gingles* factors": (1) "that it is sufficiently large and geographically compact to constitute a majority in a single-member district;" (compactness); (2) "that it is politically cohesive" (cohesiveness); and (3) that "the white majority votes sufficiently as a bloc to enable it – in the absence of special circumstances, such as the minority candidate running unopposed – usually to defeat the minority's preferred candidate" (white-bloc voting). *Mallory v. Ohio*, 173 F.3d 377, 381-382 (6th Cir. 1999) (internal citations omitted).

First, Plaintiffs’ claims should be dismissed because they have not alleged that they constitute a “minority group” capable of bringing a Section 2 claim. *Id.* Second, Plaintiffs’ vote-dilution claim—predicated on the purported “statewide participation of the electorate” in their local governance—does not implicate any of the *Gingles* factors. (R. 1, Compl., ¶ 193, ID# 39.) Indeed, their Complaint is devoid of *any* allegations related to compactness, cohesiveness, or white-bloc voting. Instead, it focuses exclusively on their disagreement with Defendants’ policy choice in enacting P.A. 436. Yet, the Sixth Circuit has specifically recognized that regardless of the mechanism alleged to cause vote dilution, the *Gingles* factors *must* be satisfied *Mallory*, 173 F.3d at 386. Accordingly, this Court should dismiss Count 7.

**V. P.A. 436 does not violate the First Amendment rights of free speech and petition (Count 8).**

Count 8 is brought only by individual Plaintiffs, not by Council 25. (R. 1, Compl., ¶¶ 202-203, ID# 41.) The bases for this claim is that P.A. 436 strips the local officials of all authority, mirrors P.A. 4, which was rejected by voter referendum, and improperly vests P.A. 436 powers in previously appointed emergency financial managers. (*Id.* at ¶ 206-207, ID# 42.)<sup>2</sup>

These claims fail for two reasons. First, P.A. 436 neither abridges Plaintiffs’ speech nor prohibits them from petitioning their government for the redress of grievances. They can still vote and continue to voice their concerns to their elected officials. Second, even if this Court were to determine that an emergency manager abridges these First Amendment rights, the Act is still constitutional because the abridgement is content-neutral and justified by the financial exigencies of the local governments to which it is applicable.

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<sup>2</sup> Plaintiffs frame their First Amendment claim in part based on “speech on matters of public concern.” But the “public concern” balancing test set out by the United States Supreme Court in *Pickering v. Board of Education*, 391 U.S. 563 (1968), is applicable where an public employee is being disciplined, or subjected to an adverse employment decision, for his or her speech or associations. See *Piscottano v. Town of Somers*, 396 F. Supp. 2d 187, 200 (D. Conn., 2005) (citation omitted).

**A. P.A. 436 does not abridge speech or prohibit Plaintiffs from petitioning the Government.**

The First Amendment provides in part that “Congress shall make no law . . . abridging the freedom of speech . . . or the right of the people . . . to petition the Government for a redress of grievances.” U.S. Const., amend. I. Freedom of speech, though a fundamental right, is not absolute. *Konigsberg v State Bar of California*, 366 U.S. 36, 49 (1961). The right to petition and the right to free speech are separate guarantees, yet they are related and generally subject to the same constitutional analysis. *Thaddeus-X v. Blatter*, 175 F.3d 378, 390 (6th Cir. 1999)

A threshold issue in any First Amendment analysis is whether there has been an abridgement of First Amendment rights. Here, for four reasons, Plaintiffs’ claims fail at the onset because there is no abridgement of free speech or petition rights.

**1. P.A. 436 gives local officials both voice and choice.**

An emergency manager is not simply thrust on local elected officials. Even before a preliminary review is conducted, the local governmental unit is notified and has an opportunity to provide comments to the state financial authority. Mich. Comp. Laws § 141.1544(2). Once the local unit is under review, it then has an opportunity to provide information concerning its financial condition. *Id.* at § 1545(2). If after review it is determined that a financial emergency exists, the local unit may appeal this determination. *Id.* at § 1546(3). Once the financial emergency is confirmed, the local government has options, including a consent agreement, an emergency manager, a neutral evaluation process option, or bankruptcy. *Id.* at § 1547(1)(a)-(d). Thus, an emergency manager is but one of the choices available to a local unit. Additionally, the process is only an interim one: an emergency manager may, by resolution, be removed after 18 months, or earlier if financial conditions are corrected. *Id.* at § 1549(6)(c), (7), (11).



**2. Plaintiffs have no constitutional right to local self-government and an emergency manager is accountable to the State's elected officials.**

“Viable local governments may need many innovations, numerous combinations of old and new devices, great flexibility in municipal arrangements to *meet changing urban conditions.*” *Holt Civil Club v. City of Tuscaloosa*, 439 U.S. 60, 74-75 (1978) (quoting *Sailors*, 387 U.S. at 110-111 (emphasis added)). Moreover, “[m]unicipal corporations are political subdivisions of the [s]tate, created as convenient agencies for exercising such of the governmental powers of the [s]tate as may be entrusted to them. . . . The number, nature, and duration of the powers conferred upon these corporations and the territory over which they shall be exercised rests in the absolute discretion of the [s]tate.” *Hunter*, 207 U.S. at 178-179 (1907).

Accordingly, a state may take action including destroying the municipal corporation entirely, “conditionally or unconditionally, with or without the consent of the citizens, or even against their protest,” and may do so “unrestrained by any provision of the Constitution of the United States.” *Id.* Thus, the U.S. Supreme Court in *Hunter v. City of Pittsburgh*, 207 U.S. 161, 178 (1907), upheld an act authorizing city consolidation and providing for temporary government and payment of the consolidated city’s debts.

Although the Supreme Court has placed limitations on this expansive power—none of which apply here<sup>3</sup>—*Hunter* remains good law. *Hess v. Port Auth. Trans-Hudson Corp.*, 513 U.S. 30, 47 (1994) (citing *Hunter* and affirming that “ultimate control of every state-created

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<sup>3</sup> Neither states nor their political subdivisions may draw boundaries that discriminate on an invidious basis, such as race or sex. *See Gomillion v. Lightfoot*, 364 U.S. 339, 341 (1960) Also, equal protection prohibits states from restricting or diluting votes in violation of the “one person, one vote” principle announced in *Reynolds v. Sims*, 377 U.S. 533 (1964), and extended to local governments in *Avery v. Midland County*, 390 U.S. 474 (1968). Too, unjustified discrimination in determining who may participate in political affairs or in the selection of public officials undermines the legitimacy of representative government. *Kramer v. Union Free School Dist. No. 15*, 395 U.S. 621, 626 (1969). But, as argued above, Plaintiffs have no valid equal protection or Voting Rights Act claims.

entity resides with the State ... [and p]olitical subdivisions exist solely at the whim and behest of their State”) (internal quotation marks omitted); *Kelley v. Metropolitan County Bd. of Educ. of Nashville & Davidson County, Tenn.*, 836 F.2d 986, 994 (6th Cir. 1987).

Moreover, a State’s broad authority does not leave citizens without a voice or petition rights in local government affairs. In *Holt Civil Club v. City of Tuscaloosa*, 439 U.S. at 73-74, a case upholding Alabama’s decision to allow cities to exercise extraterritorial jurisdiction over nearby settlements, the Court recognized that it did not “sit to determine whether Alabama has chosen the soundest or most practical form of internal government possible.” Instead, the “[a]uthority to make those judgments resides in the state legislature, and Alabama citizens are free to urge their proposals to that body.” *Id.* (emphasis added, citation omitted).

The same is true here. As was true in *Holt Civil Club*, it is not for this Court to second-guess whether P.A. 436 is the most practical solution. And as in *Holt Civic Club*, Michigan must continue to respond to evolving economic challenges and in doing so has broad authority over local units of government. Plaintiffs are free to urge their proposals to their state elected officials—even where an emergency manager has temporarily limited the powers of their local officials. And they *still* get to vote, *still* get to voice their views about how local government is run, and *still* can seek to replace officials with whom they are dissatisfied.

Significantly too, while the local unit of government is in receivership, emergency managers are accountable to the State’s *elected* officials—who, in turn, are accountable to Plaintiffs and other voters. At the six-month mark and each three months thereafter, the emergency manager must submit an accounting of expenditures, contracts, loans, new or eliminated positions, and his or her financial and operating plan to the Governor, the state treasurer, various legislative representatives of the local government, and the clerk of the local

government. Mich. Comp Laws § 141.1557 (a)-(h). The Governor ultimately determines whether the financial emergency has been rectified, *id.* at § 1562(2), and has the power to appoint a new emergency manager, *id.* at § 141.1564.

In sum, how local government is organized is up to the State. And the way to change state law is through the political process, not the courts.

### **3. The Petition Clause does not guarantee a particular result.**

The Petition Clause guarantees only that an individual may “speak freely and petition openly” and that he will be free from retaliation by the government for doing so. *Smith v. Arkansas State Highway Employees, Local 1315*, 441 U.S. 463, 464–65 (1979) (per curiam). But it does not guarantee that the government will listen or respond, or that a particular petition will be effective. *Id.* (holding that the state’s highway commission did not violate unions’ First Amendment petition rights merely because it ignored the union, which it was free to do); *Canfora v. Old*, 562 F.2d 363, 363 (6th Cir. 1977) (“[N]either in the First Amendment [or] elsewhere in the Constitution is there a provision guaranteeing that all petitions for the redress of grievances will meet with success).

Here, Plaintiffs may exercise their petition rights by informing their state elected officials—and even their local officials during the receivership under P.A. 436—of their desires with respect to the passage or enforcement of laws such as P.A. 436. But they cannot control the outcome, and that is really the essence of their claim. If they are unhappy with the outcome of their previous attempts to petition the government, their remedy for a law they dislike is at the polls. *Minnesota State Bd. for Community Colleges v. Knight*, 465 U.S. 271, 285 (1984) (explaining that disagreement with public policy and disapproval of officials’ responsiveness is to be registered principally at the polls).

**4. Rejection of P.A. 4 is not an abridgement of speech or petition and P.A. 436 is not the mirror image of P.A. 4.**

Voters exercised their speech and petition rights when they rejected P.A. 4. They also exercised their speech and petition rights when their elected officials enacted P.A. 436. P.A. 436 is not a reenactment of P.A. 4.<sup>4</sup> It replaces P.A. 72, which was in effect at the time. And the Legislature determined that P.A. 436 was necessary to ensure local fiscal stability.

This is the political process at work. Plaintiffs may exercise their speech and petition rights to express their discontent with current elected officials and/or elect new state officials. The Legislature's decision to vest formerly appointed emergency financial managers with P.A. 436 powers represents this same political process. If Plaintiffs are unhappy with the result of the political process, they can attempt to have their current elected state officials hear and respond to them, or they can seek to elect new officials—again, all part of the political process.

**B. P.A. 436 is also justified by local financial emergencies.**

As courts have recognized, there are free speech compromises that are not unconstitutional. E.g., *Burson v. Freeman*, 504 U.S. 191 (1992) (upholding a law prohibiting display or distribution of campaign materials within 100 feet of a polling place); *Hill v. Colorado*, 530 U.S. 703, 725 (2000) (upholding a statute making it a misdemeanor to pass out material or counsel within 8 feet of a person entering or leaving a health care facility in order to pass out material or counsel). That is why courts routinely uphold all manner of restrictions on petitioning, including registration and disclosure requirements for lobbyists, *United States v. Harriss*, 347 U.S. 612, 625 (1954); limiting access to the courts, *Swekel v. City of River Rouge*,

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<sup>4</sup> However, even if P.A. 436 was a mirror image of P.A. 4, there is no legal prohibition to the Michigan Legislature re-enacting a law identical or similar to one disapproved by referendum. See, e.g. *Reynolds v. Bureau of State Lottery*, 240 Mich. App. 84; 610 N.W.2d 597 (2000).

119 F.3d 1259, 1263 (6th Cir. 1997); and subjecting petitioning to neutral time, place and manner restrictions consistent with public safety and order, *Buckley v. Valeo*, 424 U.S. 1 (1976).

A free speech violation occurs only when the restricted speech is constitutionally protected and when the government's justification for the restriction is insufficient. *Frisby v. Schultz*, 487 U.S. 474, 479 (1988). The test for whether a state actor violated a plaintiff's First Amendment right to free speech is: (1) whether plaintiff's speech is protected by the First Amendment; (2) the nature of the forum: public, designated or limited public, or nonpublic; and (3) whether the defendant's justifications for limiting the plaintiff's speech satisfy the requisite standard. *Cornelius v. NAACP Legal Defense & Educ. Fund*, 473 U.S. 788, 797 (1985).

Here, the requisite standard is intermediate scrutiny because P.A. 436 (if it abridges speech at all) is content-neutral. See *Ward v. Rock Against Racism*, 491 U.S. 781, 791 (1989) (quotation omitted) (“[T]he government may impose reasonable [content-neutral] restrictions on the time, place, or manner of protected speech, provided the restrictions: (1) ‘serve a significant governmental interest;’ (2) ‘are narrowly tailored;’ and (3) ‘leave open ample alternative channels for communication of the information.’”). There is no indication that P.A. 436 was intended to suppress any ideas or that it has had that effect.

P.A. 436 satisfies intermediate scrutiny. The State has a significant and compelling interest in addressing the financial distress of local units of government. And the Act does not abridge more speech or petition rights than necessary to address that distress. It gives local elected officials options in solving its difficulties, and if locals choose an emergency manager, provides narrowly tailored procedures for the manager's removal. Again, Plaintiffs have ample channels to voice their concerns to their state elected officials. Moreover, the financial exigencies of the local units of government that are subject to the Act justify any temporary

abridgment of speech or petition rights. Indeed, governments exercise emergency powers that allow them to temporarily suspend constitutional rights.

These emergencies are often economic. As early as 1934, the Supreme Court addressed an economic emergency in *Home Building & Loan Ass'n v. Blaisdell*, 290 U.S. 398, 435 (1934), and upheld Minnesota's mortgage moratorium law in response to the Great Depression. The Court noted, "[The] principle of harmonizing the constitutional prohibition with the necessary residuum of state power has had progressive recognition in the decisions of this Court." *Id.* "When major emergencies strike, the 'law of necessity' is the one rule that trumps all the others." William H. Rehnquist, "All the Laws But One: Civil Liberties in Wartime" (1998).

In sum, P.A. 436 does not abridge First Amendment free-speech or petition rights, and any alleged abridgement cannot be unconstitutional. This claim fails as a matter of law.

**VI. The appointment of Detroit's emergency manager does not violate the right to petition (Count 9).**

Count 9 is brought by Council 25, its representative and its negotiator, and alleges abridgment of the First Amendment petition right. (R. 1, Compl., ¶ 212, 214, ID# 43.) The basis for this claim is the appointment of the City of Detroit's Emergency Manger, Kevyn Orr, formerly the City's Emergency Financial Manager under P.A. 72. (*Id.*, ¶ 220, ID# 44-45.) Plaintiffs allege that P.A. 436 allows the Governor and Treasurer to use their powers over local government for their own political and economic benefit. (*Id.*, ¶ 220(f), ID# 44-45.)

For the same reasons Count 8 fails, Count 9 fails as well. Plaintiffs have not lost the right to petition their elected state officials or even their Detroit elected officials. They simply do not have the constitutional right to a particular result.

As to the allegations that P.A. 436 provides the opportunity for Defendants to benefit privately, politically, and economically, they are wholly conclusory. The Act provides numerous

safeguards against any overreaching of power. See, e.g., Mich. Comp. Laws §§ 141.1552(1)(k) & (u) (safeguards as to collective bargaining agreements and borrowing money), 1552(4) (safeguards for selling or transferring public utilities), 1555(1) (safeguards for selling of assets), and 1559(1) (safeguards for proposed contracts, sales, and leases). Count 9 should be dismissed for failure to state a claim.

**VII. P.A. 436 does not violate the Thirteenth Amendment (Count 10).**

In Count 10, Plaintiffs claim that their Thirteenth Amendment rights have been violated because the communities impacted by the appointment of an emergency manager consist mostly of African-American residents. This claim should be rejected.

The Thirteenth Amendment bars slavery and involuntary servitude and gives Congress the power to impose legislation that prohibits such actions. U.S. Const. amend. XIII. As an initial matter, this claim offers no greater protection than Plaintiffs' equal-protection claim and should therefore be dismissed as redundant. See *Johnson v. Harron*, 1995 WL 319943 at 6 (N.D.N.Y., May 23, 1995) (“[I]n the realm of equal protection, the Thirteenth Amendment offers no protection not already provided under the Fourteenth Amendment.”)

In any event, there is no violation of the Thirteenth Amendment and no legislation enacted by Congress pursuant to the Thirteenth Amendment. The official actions challenged in this case all emanate from the impact of legislation to fix financially troubled local units of government. P.A. 436 does not benefit white citizens within these communities in a way that it does not benefit black citizens. Nor does P.A. 436 “place[] a burden on black citizens as an unconstitutional ‘badge of slavery.’” *City of Memphis v. N.T. Green*, 451 U.S. 100, 124 (1981). Quite the opposite, P.A. 436’s purpose is to benefit all Michigan citizens, of every race and ethnicity. Count 10 should be dismissed for failure to state a claim.

**CONCLUSION**

For the reasons set forth above, Plaintiffs have failed to state claims upon which relief may be granted, and the Complaint should be dismissed in its entirety, with prejudice.

Respectfully submitted,

BILL SCHUETTE  
Attorney General

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Dated: May 15, 2013

**CERTIFICATE OF SERVICE**

I hereby certify that on May 15, 2013, I electronically filed the foregoing paper with the Clerk of the Court using the ECF system which will send notification of such.

*s/Denise C. Barton*  
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## EXHIBIT B

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

IN RE: CITY OF DETROIT, . Docket No. 13-53846  
MICHIGAN, .  
. Detroit, Michigan  
. July 24, 2013  
Debtor. . 10:02 a.m.  
. . . . .

HEARING RE. MOTION OF DEBTOR, PURSUANT TO SECTION 105(a)  
OF THE BANKRUPTCY CODE, FOR ENTRY OF AN ORDER CONFIRMING  
THE PROTECTIONS OF SECTIONS 362, 365 AND 922 OF THE  
BANKRUPTCY CODE (DOCKET #53) AND MOTION OF DEBTOR, PURSUANT  
TO SECTION 105(a) OF THE BANKRUPTCY CODE, FOR ENTRY OF AN  
ORDER EXTENDING THE CHAPTER 9 STAY TO CERTAIN (A) STATE  
ENTITIES, (B) NON-OFFICER EMPLOYEES AND (C) AGENTS AND  
REPRESENTATIVES OF THE DEBTOR (DOCKET #56)  
BEFORE THE HONORABLE STEVEN W. RHODES  
UNITED STATES BANKRUPTCY COURT JUDGE

APPEARANCES:

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1           THE COURT: All right. So I will allow 15 minutes  
2 for each of the creditors that have filed objections. These  
3 are the Michigan Council 25 of AFSCME, Syncora, the UAW  
4 together with Creditors Robbie Flowers, Michael Wells, Janet  
5 Whitson, Mary Washington, and Bruce Goldman, the Detroit  
6 public safety unions, if I can refer them -- refer to them by  
7 that, and the General Retirement System of the City of  
8 Detroit and the Police and Fire Retirement System of the  
9 city. It doesn't matter to me, counsel, the order in which  
10 you proceed, so I will leave that to you to work out.

11           MS. LEVINE: I'm going to go with alphabetical.

12           THE COURT: Okay.

13           MS. LEVINE: Good morning, your Honor. Sharon  
14 Levine, Lowenstein Sandler, for Michigan Council 25 of the  
15 American Federation of State, County, and Municipal Employees  
16 or AFSCME, as it's been referred to here today.

17           Your Honor, very briefly, it's clear that your Honor  
18 has read all the papers, and we very much appreciate that  
19 given the short time frame that we've been before this Court.  
20 Bankruptcy Code Section 105 is extraordinary relief,  
21 extraordinary in that it's only used to enforce rights that  
22 already exist under the Bankruptcy Code, so it's not there to  
23 create new rights that don't currently exist under the Code.  
24 What we have here in a Chapter 9 case, which is more  
25 restrictive than, for example, a Chapter 11 case, is the

1 situation where if, in fact, the state has not properly  
2 authorized the Chapter 9 filing, there are rights that don't  
3 exist under the Bankruptcy Code. If Chapter 9, as has  
4 historically been seen through the unconstitutional finding  
5 of predecessors to Chapter 9, is really being used here to  
6 avoid state constitutional rights, then Chapter 9 in and of  
7 itself is potentially unconstitutional. If not, it has to be  
8 construed narrowly in order to read it constitutionally. We  
9 would respectfully submit that using 105 to find rights that  
10 don't otherwise exist, particularly of a constitutional  
11 nature, is an extremely broad use of 105. This isn't a  
12 situation where we're saying to the controller or the  
13 governor or Mr. Orr, you know, don't respond to discovery  
14 requests in a state court action in a foreign jurisdiction  
15 because we need your attention here. We're taking away very  
16 fundamental constitutional rights.

17           Secondly, your Honor, if, in fact --

18           THE COURT: So your argument about the narrow  
19 application of Section 105 in this case is really a result of  
20 the fact that it's a Chapter 9.

21           MS. LEVINE: Yes, your Honor.

22           THE COURT: It's not an argument that's based on  
23 Section 105, per se.

24           MS. LEVINE: Yes, your Honor. In a Chapter 11  
25 you'll have circumstances, for example, where even in the

1 broader case of a Chapter 11, you won't use Article -- you  
2 won't use Section 105 to grant a casino license or a liquor  
3 license or tell a utility board they can't change rates, but  
4 we have an even narrower situation here because we're in  
5 Chapter 9.

6 Two, Chapter 9 can't be used if, in fact, the state  
7 has not authorized under its constitution and its laws the  
8 Chapter 9 filing. The Chapter 9 filing here is arguably  
9 flawed because it intends to go after the pensions. If it  
10 goes after the pensions, it arguably violates the state  
11 constitution and can't be before this Court, so, again, the  
12 issue with regard to whether or not we have an appropriate  
13 state constitutional flaw -- sorry. The issue with regard to  
14 whether or not we have an appropriate filing is necessarily  
15 limited by whether or not we have an appropriate state -- we  
16 have an inappropriate state constitutional authorization. If  
17 we have an inappropriate state constitutional authorization,  
18 that is not simply an implementation tool under 105. That  
19 is, in essence, a substantive right that's being creative --  
20 created under 105 that does not exist in the state court.

21 In addition to that, your Honor, and also  
22 importantly, three, individual citizens of the City of  
23 Detroit have the absolute right to protect their own  
24 constitutional rights. If we say to them they can't go to  
25 the state courts that are there for the protection of their

1 constitutional rights in part, then we are -- then we're  
2 using 105 again way more broadly than it gets used in the  
3 ordinary course as simply an implementation tool. We're  
4 creating more substantive rights. And while this Court  
5 has --

6 THE COURT: Well, but why isn't the extended stay  
7 that the city seeks here simply a procedural mechanism to  
8 funnel such challenges to the Bankruptcy Court and,  
9 therefore, does not have the effect of denying citizens or  
10 other creditors of their rights to have their constitutional  
11 claims heard?

12 MS. LEVINE: Your Honor, if this Court is a court of  
13 secondary jurisdiction, no disrespect, with -- but if you  
14 look at federalism, comity, abstention, and the state courts  
15 are the courts of primary jurisdiction, we would respectfully  
16 submit that unlike, for example, determining in a Chapter 11  
17 case that there's a validly perfected security interest  
18 because you've looked at state law and the UCC is properly  
19 filed, we have a very fundamental right here that this Court  
20 is being asked to address, so what we're saying is instead of  
21 going to the court that's primarily responsible, we're going  
22 to come into this Court instead, and it's not as if there's  
23 delay or uncertainty with regard to the fact that those  
24 matters are going to get heard and considered quickly. We  
25 already have state court litigation pending, and the state

1 appellate courts are poised and ready to rule, so there's no  
2 reason to divest them of that appropriate jurisdiction under  
3 concepts of federalism, comity, and abstention and move that  
4 here to a court of secondary jurisdiction on those issues.

5           Your Honor, fourth, with regard to the form over  
6 substance, the procedural arguments with regard to 105, in  
7 certain circumstances where 105 is being used for things like  
8 stopping discovery or minimal things like that, that's one  
9 set, but the Federal Rules of Civil Procedure are put in  
10 place in order to protect parties and provide due process.  
11 There can't be a more fundamental situation where you need to  
12 enforce those types of rights than when you're dealing with  
13 basic fundamental constitutional rights, and we respectfully  
14 submit that even though there are circumstances where  
15 expediency mandates the use of 105 quickly, this is not one  
16 of those circumstances.

17           Your Honor, the breathing spell under 105 -- the  
18 breathing spell under the Bankruptcy Code and the use of 105  
19 to extend the breathing spell is only appropriate if, in  
20 fact, the underlying bankruptcy is an appropriate bankruptcy.  
21 The idea that there's a breathing spell to continue what is  
22 potentially an unconstitutional or illegal -- not  
23 intentionally, no motive or anything, your Honor, but --  
24 proceeding is clearly not anything that 105 was designed to  
25 implement.



1           Your Honor, we would respectfully submit that these  
2 are very, very fundamental rights, and unlike a Chapter 11  
3 case where you have a defined benefit plan where if, in fact,  
4 it is terminated, there's federal insurance under the PBGC up  
5 to \$57,000, or if you have a multi-employer plan, even if an  
6 employer withdraws, the beneficiaries themselves are  
7 protected, here our members who participate at most are at or  
8 below \$19,000 a year. Clearly there's no safety net. These  
9 issues are hard issues. The collateral advantage to sending  
10 this back to the state court for an appropriate decision is  
11 that the conversations which we believe should have been  
12 happening more robustly before the filing could happen now.  
13 We respectfully -- we thank your Honor for the time, and we  
14 appreciate your Honor's consideration.

15           THE COURT: Thank you. Sir.

16           MR. BENNETT: Good morning, your Honor. Ryan  
17 Bennett of Kirkland & Ellis on behalf of Syncora Guarantee  
18 and Syncora Capital Assurance. Your Honor, as we attempted  
19 to describe in our papers, my client insures, in some cases  
20 owns certain securities called the certificates of  
21 participation, which were taken out in 2006 to fund some of  
22 the city's pension liabilities. We also insure a swap --  
23 four swaps related to those securities that are tied to the  
24 interest rate, the floating interest rate associated with  
25 them.

1 THE COURT: Um-hmm.

2 MR. BRENT: However, this is the city's option.  
3 This isn't a requirement of law that they indemnify these --

4 THE COURT: Um-hmm.

5 MR. BRENT: -- just as -- my lawsuit is also against  
6 various state actors within the State of Michigan, which --  
7 but, again, their wanting to extend this to them would  
8 prevent me from litigating my claims against the state  
9 officials that have already been denied immunity, and it is  
10 currently pending. Those portions they've appealed to the  
11 Circuit Court. So now that they're trying to extend this  
12 stay, now the Sixth Circuit Court of Appeals case of Brent  
13 versus Wayne County, et al. will be stayed as well where the  
14 different state defendants -- state employees have uphill  
15 decision to deny their qualified and absolute immunity.

16 THE COURT: The defendants in your particular suit  
17 are both city employees and other defendants are state  
18 employees?

19 MR. BRENT: Yes, and there's also state contractors  
20 involved in the lawsuit.

21 THE COURT: Contractors also. Thank you, sir.  
22 Would anyone else like to be heard?

23 MR. SANDERS: Good morning, your Honor. My name is  
24 Herb Sanders, and I represent the plaintiffs in the case of  
25 Phillips versus Snyder pending before this Court, Case Number

1 2:13-CV-11370, before Judge Steeh. That is a case that  
2 challenges the constitutionality of PA 436. Motions for  
3 summary -- for at least one summary disposition or summary  
4 judgment argument have been scheduled. As I initially read  
5 the request for stay extension motion filed by the city, it  
6 appeared that the city was seeking an extension of stay  
7 concerning financial matters that were being litigated, but  
8 pursuant to the oral presentation of the city's attorney, it  
9 concerns me when she has indicated -- and I paraphrase --  
10 that she seeks relief concerning any litigation that might  
11 interfere with the city's rights as a Chapter 9 debtor. And  
12 I would suggest to the Court to the extent that it might be  
13 proposed or suggested that the litigation which I have  
14 referenced in which the constitutionality of PA 436 is to be  
15 determined by another judge in this court interferes with the  
16 rights of the city as a Chapter 9 debtor, that that case not  
17 be included as part of the stay order that this Court would  
18 issue. I believe it's imperative to this community, to this  
19 state that those issues be determined and, in fact, should  
20 probably be determined before the bankruptcy proceeds, but I  
21 would encourage the Court to not give a broad order if any  
22 order were to issue that would be inclusive of matters that  
23 are not financial matters such as there are other matters  
24 that I know that the union, AFSCME, and others are a part of  
25 seeking FOIA requests from the city, injunctive relief as it

1 relates to these types of matters, and I would ask the Court  
2 to consider not giving such a broad order --

3 THE COURT: Um-hmm.

4 MR. SANDERS: -- that that type of information could  
5 not be obtained and we could not have a determination as to  
6 the constitutionality of PA 436 by this Court.

7 THE COURT: Um-hmm.

8 MR. SANDERS: Thank you, your Honor.

9 THE COURT: Thank you. Sir, can you just give me  
10 your name again, please?

11 MR. SANDERS: Herb Sanders.

12 THE COURT: Mr. Sanders. Thank you, sir.

13 MR. SCHNEIDER: May it please the Court, Matthew  
14 Schneider, chief legal counsel to the Attorney General. I'm  
15 here on behalf of the State of Michigan. Your Honor, I'm  
16 here for a very, very limited purpose. As counsel to the  
17 debtor has indicated, they are not seeking to abrogate the  
18 exceptions in Section 362(b), and I know that this is a  
19 motion regarding Section 362, so our position is is that if  
20 the Court is, indeed, inclined to grant the motion regarding  
21 the stay, that the Court's order reflect that nothing in the  
22 Court -- nothing what the Court is doing will actually  
23 abrogate the exceptions afforded under 362(b).

24 THE COURT: Is there a specific exception you're  
25 concerned about?

EXHIBIT C

**IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

	x	
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
	x	

**DEBTOR’S BRIEF IN OPPOSITION TO PETITION FOR ORDER  
LIFTING STAY<sup>1</sup>**

Six weeks after the Emergency Manager’s appointment became effective, the Plaintiffs filed the Lawsuit seeking a judgment declaring not only the Emergency Manager’s appointment to be invalid, but all actions he has taken, including the filing of this chapter 9 case, to be unenforceable. Yet, the Plaintiffs somehow assert that granting them relief from stay to prosecute this Lawsuit to judgment will have “no effect whatsoever on the City’s ability to reorganize” because it is “completely unrelated” to the chapter 9 case. Stay Relief Brief at 3, 8. This is not accurate nor is the timing of the Lawsuit’s filing a coincidence. The Stay Relief Motion is nothing more than a thinly veiled attempt to litigate the

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<sup>1</sup> Capitalized terms not defined in this Brief in Opposition, have the meanings given to them in the City’s Objection to Petition for Order Lifting Stay, filed contemporaneously with this brief.



City's eligibility before a different court in circumvention of the Court's Stay Extension Order and the process this Court adopted to resolve eligibility objections. The Plaintiffs have not identified any cause, much less sufficient cause, to allow them to proceed with the Lawsuit. Accordingly, the Stay Relief Motion must be denied.

### **ARGUMENT**

In support of the Stay Relief Motion, the Plaintiffs advance three arguments: (1) the Stay Extension Order does not apply to the Lawsuit, either because it did not specifically identify the Lawsuit or because it cannot be read so broadly as to include the Lawsuit; (2) the Court did not have the authority to enter the Stay Extension Order; (3) the Plaintiffs have demonstrated cause for relief from the Automatic Stay. None of these arguments have any merit.

#### **I. The Stay Extension Order Applies to the Lawsuit**

The Plaintiffs misunderstand or misconstrue the relief granted in the Stay Extension Order. The Lawsuit is precisely the type of case that the Stay Extension Order was intended to cover and, contrary to the Plaintiffs' assertions, it does not provide the Defendants "complete immunity from all litigation." Stay Relief Brief at 9.

The Plaintiffs devote much of the Stay Relief Motion in a misguided attempt to argue that only a limited set of actions within the definition of "Prepetition

Lawsuits” are covered by the Stay Extension Order. The Plaintiffs reason that, because the Lawsuit is not covered by the definition of “Prepetition Lawsuits,” that case is not subject to the Stay Extension Order. Stay Relief Brief at 8.

The Plaintiffs quote only paragraph 3 of the Stay Extension Order which states: “For the avoidance of doubt, each of the Prepetition Lawsuits hereby is stayed, pursuant to section 105(a) of the Bankruptcy Code, pending further order of this Court.” This statement clarifies that a small group of three “Prepetition Lawsuits” are included in the relief granted and therefore are stayed. But nowhere does this statement limit the scope of the relief sought or obtained so that it would apply only to these three Prepetition Lawsuits.

The primary relief is granted in the prior paragraphs of the Stay Extension Order. Paragraph 1 states, without reservation or limitation of any kind, that the Stay Extension Motion is “granted.” Paragraph 2 of the Stay Extension Order then states broadly that:

Pursuant to section 105(a) of the Bankruptcy Code, the Chapter 9 stay hereby is extended in all respects (to the extent not otherwise applicable) to the State Entities (defined as the Governor, the State Treasurer and the members of the Loan Board, collectively with the State Treasurer and the Governor, and together with each entity’s staff, agents and representatives), the Non-Office Employees and the City Agents and Representatives.

As such, the Stay Extension Order makes clear that the Automatic Stay was extended to the Governor and Treasurer to stay any and all cases that “have the



direct or practical effect of denying the City the protections of the” Automatic Stay so as to aid the City in the administration of its bankruptcy case and ensure the City is afforded the breathing spell it needs to focus on developing and negotiating a plan for adjusting its debts. See Stay Extension Motion at ¶ 15. This District Court judge in the Lawsuit agreed, finding, after review of an objection by the Plaintiffs, that “the plain language of the stay order would apply to this lawsuit.”<sup>2</sup> Stay Relief Motion, Exhibit A.

If the Lawsuit were to continue, and if the District Court were to grant judgment in favor of the Plaintiffs, it is almost certain that the Plaintiffs (and others) would argue before this Court that the decisions and actions of the Emergency Manager – including the filing and prosecution of this chapter 9 case – are void and of no effect. Reading the prayer for relief in the Amended Complaint is all that is necessary to reach that conclusion. Reduced to its basics, the Lawsuit is yet another vehicle to challenge the City’s eligibility for chapter 9 relief or otherwise attempt to interfere with the City’s restructuring efforts. Such a result

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<sup>2</sup> The Plaintiffs may not re-litigate this issue in this Court. See e.g., Georgia-Pacific Consumer Products LP v. Four-U-Packaging, Inc., 701 F.3d 1093, 1098 (6th Cir. 2012) (holding that issue preclusion precludes relitigation where (1) the precise issue was raised and litigated in the prior proceeding; (2) the determination of the issue was necessary to the outcome of the prior proceedings; (3) the prior proceedings resulted in a final judgment on the merits; and (4) the party against whom estoppel is sought had a full and fair opportunity to litigate the issue in the prior proceeding).

would have the direct and practical effect of denying the City the protections of the Automatic Stay and “interfere with the City’s activities in this chapter 9 case” (Stay Extension Motion at ¶ 20) – the precise result that the Stay Extension Order was seeking to avoid. Furthermore, this Court has assiduously and correctly endeavored to consolidate all possible objections to the eligibility of the City to seek chapter 9 relief before it and to avoid the exact result that would be occasioned if stay relief were to be granted to the Plaintiffs to permit an attack on PA 436 and all that implicates. Thus, the Plaintiffs’ arguments that either the Stay Extension Order does not apply to the Lawsuit or that it is too broad to be enforced, fail. Stay Relief Brief at 9. Accordingly, as the District Court has already found, the Stay Extension Order applies to the Lawsuit.

## **II. The Court Had Authority to Enter the Stay Extension Order**

The Plaintiffs also argue that the Court did not have the authority to enter the Stay Extension Order. This is nothing more than a collateral attack upon the Stay Extension Order. Similar arguments were timely raised by other parties and rejected by this Court.<sup>3</sup> As the Plaintiffs recognize, a bankruptcy court may

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<sup>3</sup> Other parties have raised similar objections to the Stay Extension Motion. See Dkt. No. 84 (the “AFSCME Objection”), ¶ 45-46 (arguing no identity of interests between the City and State Entities); Dkt. No. 141 (the “Retirement Systems Objection”), pp. 16-17 (same, and adding the argument that “[a] judgment obtained in any one of [certain pre-petition lawsuits against the Governor, the Emergency Manager, and others] will not be a judgment against the City. . . .”); see also Dkt. No. 146 (the “Flowers Objection”), ¶ 4 (arguing that “[a]t no point have the

*Continued on next page.*

extend the automatic stay where “there is such identity between the debtor and the third-party defendant that the debtor may be said to be the real party defendant and that a judgment against the third-party defendant will in effect be a judgment or finding against the debtor.” In re Eagle-Picher Indus., Inc., 963 F.2d 855, 861 (6th Cir. 1992) (quoting A.H. Robins Co., Inc. v. Piccinin, 788 F.2d 994, 999 (4th Cir. 1986)). The Lawsuit seeks a judgment against the Defendants declaring not only the Emergency Manager’s appointment to be invalid, but all actions he has taken, including the filing of this chapter 9 case, to be unenforceable. Thus, any judgment against the Defendants would in effect be a judgment or finding against the City. As a result, under well-established Sixth Circuit precedent, this Court had the authority to enter the Stay Extension Motion. The Plaintiff’s arguments to the contrary must be rejected.

### **III. No Cause Exists to Grant Plaintiffs Relief from the Automatic Stay**

Section 362(a) of the Bankruptcy Code provides in relevant part that:

a petition filed under . . . this title . . . operates as a stay, applicable to all entities, of . . . the commencement or continuation . . . of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the

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*Continued from previous page.*

*Flowers* plaintiffs sued . . . or sought any relief against” the City, its officials, or employees). The Debtor addressed these arguments in its reply (Dkt. No. 128, ¶¶ 6-8). The Plaintiffs add nothing to this issue by raising these same arguments again.

debtor that arose before the commencement of the case . .

..

11 U.S.C. § 362(a). The Automatic Stay “is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors. It stops all collection efforts, all harassment, and all foreclosure actions.” Javens v. City of Hazel Park (In re Javens), 107 F.3d 359, 363 (6th Cir. 1997) (quoting H.R. REP. NO. 95-595, at 340 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 6296).

Section 362(d) of the Bankruptcy Code authorizes a bankruptcy court to grant relief from the Automatic Stay in limited circumstances. See 11 U.S.C. § 362(d). In particular, section 362(d)(1) of the Bankruptcy Code provides that a party in interest may obtain relief from the Automatic Stay “for cause, including the lack of adequate protection of an interest in property of such party in interest.” 11 U.S.C. §362(d)(1).

“The Bankruptcy Code does not define ‘cause’ as used in [section] 362(d)(1). Therefore, under [section] 362(d), ‘courts must determine whether discretionary relief is appropriate on a case by case basis.’” Chrysler LLC v. Plastech Engineered Prods., Inc. (In re Plastech Engineered Prods., Inc.), 382 B.R. 90, 106 (Bankr. E.D. Mich. 2008) (quoting Laguna Assocs. L.P. v. Aetna Casualty & Surety Co. (In re Laguna Assocs. L.P.), 30 F.3d 734, 737 (6th Cir. 1994)). The determination of whether to grant relief from the Automatic Stay “resides within

the sound discretion of the Bankruptcy Court.” Sandweiss Law Center, P.C. v. Kozlowski (In re Bunting), No. 12-10472, 2013 WL 153309, at \*17 (E.D. Mich. Jan. 15, 2013) (quoting In re Garzoni, 35 F. App'x 179, 181 (6th Cir. 2002)).

To guide the bankruptcy court's exercise of its discretion . . . the Sixth Circuit identifies five factors for the court to consider: (1) judicial economy; (2) trial readiness; (3) the resolution of the preliminary bankruptcy issues; (4) the creditor's chance of success on the merits; and (5) the cost of defense or other potential burden to the bankruptcy estate and the impact of the litigation on other creditors.

Bunting, 2013 WL 153309, at \*17 (quoting Garzoni, 35 F. App'x at 181) (internal quotation marks omitted). In determining whether cause exists, however, “the bankruptcy court should base its decision on the hardships imposed on the parties with an eye towards the overall goals of the Bankruptcy Code.” Plastech, 382 B.R. at 106 (quoting In re C & S Grain Co., 47 F.3d 233, 238 (7th Cir. 1995)).

Here, consideration of the these factors confirms that no cause (much less sufficient cause) exists to justify relief from the Automatic Stay to allow the Lawsuit to proceed. With respect to the first factor, the interests of judicial economy weigh heavily in favor of denying the Stay Relief Motion. Numerous parties have raised similar eligibility issues in this chapter 9 case<sup>4</sup> (the Plaintiffs not being one of them) that the Plaintiffs seek to litigate in the Lawsuit in front of

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<sup>4</sup> See e.g., The City’s Consolidated Reply to Objection to the Entry of an Order for Relief at 38-44, 89, 95-96, 98. [Dkt. No. 765].

the District Court. As this Court emphasized, litigating eligibility issues in two different courts, simultaneously “does not promote judicial or party efficiency; it is the antithesis. The most efficient way to litigate eligibility in this case is in one court – the bankruptcy court – and then on appeal in the next.” Opinion and Order Denying Motion to Stay Proceedings Pending Determination of Motion to Withdraw the Reference at 19. [Dkt. No. 1039]. Accordingly, judicial economy dictates staying the Lawsuit so as to permit this Court to address the PA 436 Eligibility Objections in the single, unified context of the eligibility trial.

With respect to the second factor, the Lawsuit is in its preliminary stages. The Defendants’ motion to dismiss remains pending. No discovery has been taken. Thus, the Lawsuit has not even advanced beyond the pleading stage and is not trial ready. The third factor also weighs in favor of denying the Stay Relief Motion as the Court has not even resolved the City’s eligibility for relief in this chapter 9 case. Nothing could be more basic or preliminary to the ultimate outcome.

Further, concerning the fourth factor, as set forth in the Defendants’ motion to dismiss and in the Defendants’ Opposition to the Stay Relief Motion, the Plaintiffs have not demonstrated a likelihood of success on the merits.

Finally, the fifth factor weighs in favor of denying the Stay Relief Motion. Although the City is not currently a party in the Lawsuit, the impact that the

Lawsuit may have on the City and its restructuring efforts may require the City to intervene or otherwise become further involved and take other actions if the Stay Relief Motion is granted. Requiring the City to defend the Lawsuit in the District Court would distract the City from its efforts to restructure, diverting its limited resources at a time when it is both working to negotiate and deliver a plan of adjustment quickly and engaged in a substantial amount of discovery and litigation (all on its own expedited timeframe) arising in the bankruptcy case itself. The City does not need further impediments to its restructuring efforts. This Court has consistently endeavored to bring all matters which may affect the eligibility of the City before it and have the issues resolved in one forum. Allowing the Lawsuit to proceed in the District Court would cast uncertainty<sup>5</sup> over the eligibility and restructuring process and may chill negotiations among the parties or adversely affect the confirmation of the plan of adjustment.

In short, allowing the Lawsuit to proceed would undermine the protections of the Automatic Stay and interfere with the City's efforts to restructure. The City sought relief under chapter 9 in part to obtain the “breathing spell” afforded by the

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<sup>5</sup> This Court acknowledged that the uncertainty occasioned just by the eligibility objections already before it will likely slow, if not stall entirely, the “City’s progress in recovering its financial, civic, commercial, and cultural life and in revitalizing itself.” Opinion and Order Denying Motion to Stay Proceedings Pending Determination of Motion to Withdraw the Reference at 23. [Dkt. No. 1039]. Having the City’s eligibility adjudicated simultaneously in two courts obviously compounds that uncertainty.

Automatic Stay and the consequent protection from its creditors while it restructures its affairs and prepares a plan of adjustment. The City's finances would be further depleted and its personnel distracted from their mission to operate the City for the benefit of its citizens and restructure its affairs if it were denied this basic protection of chapter 9 and forced to defend itself against the Plaintiffs so early in the case. Accordingly, the overall goals of chapter 9 weigh largely in favor of denying stay relief to the Plaintiffs.

### CONCLUSION

WHEREFORE, for the foregoing reasons, the City respectfully requests that this Court (a) deny the Stay Relief Motion; and (b) grant such other relief to the City as the Court may deem proper.

Dated: September 26, 2013

Respectfully submitted,

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ATTORNEYS FOR THE CITY OF DETROIT

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
6.	11/6/2013	1536-1	Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004)

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

In re:  
  
City of Detroit, Michigan,

Chapter 9  
Case No. 13-53846  
Hon. Steven W. Rhodes

Debtor.

\_\_\_\_\_ /

**Opinion and Order  
Denying NAACP’s Motion for  
Relief from Stay (Dkt. #740)  
and  
Granting Phillips’ Motion for  
Relief from Stay (Dkt. #1004)**

This opinion addresses two motions for relief from the stay. The first motion (Dkt. #740) relates to *Detroit Branch NAACP v. Snyder*, No. 13-12098 (E.D. Mich. filed May 13, 2013). The other motion (Dkt. #1004) relates to *Phillips v. Snyder*, No. 13-11370 (E.D. Mich. filed March 27, 2013). Both suits challenge the constitutionality of the Local Financial Stability and Choice Act, Michigan Public Act No. 436 (2012), MCL §§ 141.1541–141.1575 (“P.A. 436”).

For the reasons stated in this opinion, the Court concludes that the motion for relief from the stay as to the *NAACP* suit should be denied while the motion for relief from the stay as to the *Phillips* suit should be granted.

**I. The Procedural History**

On March 27, 2013, Catherine Phillips and several other plaintiffs filed a lawsuit in the United States District Court for the Eastern District of Michigan against Governor Richard Snyder and State Treasurer Andrew Dillon, asserting that P.A. 436 is unconstitutional and



seeking declaratory and injunctive relief. Specifically, they assert that P.A. 436 violates their rights under the United States Constitution, art. IV, § 4; amend. I; amend. XIII; amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973–1973(q). Most of the individual plaintiffs are residents or elected officials of several municipalities in which emergency managers have been appointed under P.A. 436 – the City of Detroit, the City of Flint, the City of Benton Harbor, and the City of Pontiac. Three of the plaintiffs are also members of the Detroit Public Schools Board; an emergency manager has also been appointed for the Detroit Public Schools. The suit seeks damages, declaratory relief, and injunctive relief, including relief “restraining the Defendants and any present and future EMs from implementing or exercising authority and powers purportedly conveyed by Public Act 436.” Complaint at 49–50, *Phillips*, No. 13-11370.

The second suit was filed on May 13, 2013, by the Detroit Branch NAACP, the Michigan State Conference NAACP, Donnell White, individually and on behalf of Detroit Branch NAACP and Michigan State Conference NAACP, Thomas Stallworth III, individually, Rashida Tlaib, individually, and Maureen Taylor, individually. It was filed in the United States District Court for the Eastern District of Michigan against Governor Richard Snyder, State Treasurer Andrew Dillon, and Secretary of State Ruth Johnson, in their official capacities. The suit alleges that P.A. 436 violates constitutional voting rights under the Equal Protection Clause and the Due Process Clause of the 14th Amendment. In their first amended complaint, filed June 27, 2013, the plaintiffs sought: (1) to enjoin the defendants and others from implementing or enforcing P.A. 436; (2) an order prohibiting any emergency manager appointed under P.A. 436 from exercising any authority; (3) an order that actions exercised by any emergency manager are unenforceable; and (4) preclearance of the cities and school districts currently with emergency



3) For the avoidance of doubt, each of the Prepetition Lawsuits hereby is stayed, pursuant to section 105(a) of the Bankruptcy Code, pending further order of this Court.

The plaintiffs in each suit argue that the order does not apply to their lawsuit because they are not creditors of the City and their lawsuit does not assert any claim against the City.

The City and the State of Michigan assert that the order does apply to the plaintiffs' lawsuits because the lawsuits will directly interfere with the City's chapter 9 case and may deny the City the protections of chapter 9.

The Court will first address the circumstances of the *NAACP* case and explain why the order does apply to that suit. The Court will then address why the July 25, 2013 order does not apply to the *Phillips* case.

**A. Whether the July 25, 2013 Order  
Applies to the *NAACP* Case**

The Court concludes that this order does apply to the *NAACP* case. This suit explicitly seeks to remove all power and authority from the Detroit emergency manager. Also, if the plaintiffs had included the City as a defendant in the lawsuit, it would have been stayed as to the City under 11 U.S.C. § 362(a) because the lawsuit had the potential to directly impact the City's bankruptcy case. The July 25, 2013 order extended that stay to any suits against the governor and the treasurer that might have the same impact on the City's bankruptcy case.

The Court recognizes that the *NAACP* lawsuit purports to seek relief not only as to the emergency manager for the City of Detroit, but also as to the emergency managers in several other municipalities who are not before the Court – the City of Allen Park, the City of Benton Harbor, the Detroit Public School System, the City of Ecorse, the City of Flint, the Highland Park School System, the Muskegon Heights School System, and the City of Pontiac. Obviously,

whatever interests the plaintiffs in the *NAACP* case may have in vindicating their rights, if any, in those municipalities can only be addressed elsewhere.

Without addressing the substantive merits of the NAACP plaintiffs' claims in their suit, there is nonetheless one aspect of the suit that substantially undermines their interest in pursuing their claims as to these other municipalities. Although the suit purports to challenge all of the emergency manager appointments under P.A. 436, there is a serious question as to whether this suit is really about any emergency manager other than the Detroit emergency manager. This concern arises because it does not appear that any of the plaintiffs in the *NAACP* suit have standing to challenge any of the emergency manager appointments other than the Detroit emergency manager appointment. Accordingly, unlike the *Phillips* case, discussed below, the *NAACP* case appears to be directed much more to the Detroit emergency manager than any other emergency manager.

Before developing this point any further, however, the Court must pause to recognize that the precise issue of whether these plaintiffs have standing to pursue their claims in their district court lawsuit is not before this Court in this bankruptcy case and it would be inappropriate for this Court to address the standing issue directly.

The basis of this concern about the NAACP plaintiffs' standing lies in their first amended complaint. It alleges that each individual plaintiff is a resident and voter in the City of Detroit. First Amended Complaint at ¶¶ 24–27, *Detroit Branch NAACP*, No. 13-12098. Accordingly, their standing to challenge the emergency manager appointments in any other municipality would be highly suspect.

The Supreme Court has established this test to determine a plaintiff's standing:

The Art. III judicial power exists only to redress or otherwise protect against injury to the complaining party, even though the

court’s judgment may benefit other’s collaterally. A federal court’s jurisdiction therefore can be invoked only when the plaintiff himself has suffered “some threatened or actual injury resulting from the putatively illegal action[.]”

*Warth v. Seldin*, 422 U.S. 490, 499, 95 S. Ct. 2197, 2205 (1975) (quoting *Linda R.S. v. Richard D.*, 410 U.S. 614, 617, 93 S. Ct. 1146, 1148 (1973)); see also *Hollingsworth v. Perry*, 133 S. Ct. 2652, 2663 (2013) (“It is, however, a ‘fundamental restriction on our authority’ that ‘[i]n the ordinary course, a litigant must assert his or her own legal rights and interests, and cannot rest a claim to relief on the legal rights or interests of third parties.’”) (quoting *Powers v. Ohio*, 499 U.S. 400, 410, 111 S. Ct. 1364, 1371 (1991)); *Kowalski v. Tesmer*, 543 U.S. 125, 125 S. Ct. 564 (2004); *Conn v. Gabbert*, 526 U.S. 286, 119 S. Ct. 1292 (1999).

In this suit, the two other plaintiffs are the Detroit Branch NAACP and the Michigan State Conference NAACP. Describing these organizations, the first amended complaint states:

22. Plaintiff Detroit Branch NAACP, chartered in 1912, is the NAACP’s largest Branch in America. Plaintiff Detroit Branch NAACP has, throughout its 99 year history, fought, through the democratic process, for the cause of civil rights and equal treatment for all. Plaintiff Detroit Branch NAACP has fought in the courts to preserve and protect voting rights in the State of Michigan. . . .

23. Plaintiff Michigan State Conference NAACP is the umbrella organization for all NAACP units or branches within the State of Michigan. It is the central authority, responsible for coordinating all local NAACP branches around the State.

First Amended Complaint at ¶¶ 22–23, *Detroit Branch NAACP*, No. 13-12098.

The Sixth Circuit has addressed the standing of a membership organization like the Detroit Branch NAACP:

A voluntary membership organization has standing to sue on behalf of its members “when (a) its members otherwise have standing to sue in their own right; (b) the interests it seeks to protect are germane to the organization’s purpose; and (c) neither the claim asserted nor the relief requested requires participation of



individual members in the lawsuit.” *Hunt v. Washington State Apple Adver. Comm.*, 432 U.S. 333, 343, 97 S. Ct. 2434, 53 L. Ed. 2d 383 (1977)[.]

*Am. Civil Liberties Union of Ohio Found., Inc. v. Ashbrook*, 375 F.3d 484, 495–96 (6th Cir. 2004).

It does appear likely that under *Ashbrook*, the Detroit Branch NAACP has standing to challenge the Detroit emergency manager appointment. However, the first amended complaint alleges no facts that would establish its standing to challenge any of the other emergency manager appointments.

Similarly, the first amended complaint alleges no facts establishing that the Michigan State Conference NAACP would have any standing under *Ashbrook*. Indeed, as quoted above, paragraph 23 only states that it is an “umbrella organization” for the NAACP branches within Michigan, and that it is the “central authority, responsible for coordinating all local NAACP branches around the State.”

These standing considerations strongly suggest that despite the much more broadly stated goals of the lawsuit, its primary, if not sole, objective is the removal of the Detroit emergency manager. In any event, it appears likely that this relief is the only relief that the plaintiffs could be granted, if any.

The impact in this bankruptcy case of the potential removal of the Detroit emergency manager by the plaintiffs’ lawsuit cannot be overstated. Section 18(1) of P.A. 436 provides, “This section . . . empowers the emergency manager to act exclusively on the local government’s behalf in any such case under chapter 9.” M.C.L. § 141.1558(1). The NAACP plaintiffs’ lawsuit seeks an order prohibiting any emergency manager appointed under P.A. 436 from exercising any authority under the act. This lawsuit, therefore, directly threatens the City’s

ability to continue in this bankruptcy case. If P.A. 436 were found to be unconstitutional, as the plaintiffs' lawsuit claims, then the City's emergency manager would be removed from office. Under applicable state law, no one else would be authorized to prosecute this chapter 9 case on behalf of the City.

Accordingly, due to its potential impact on this bankruptcy case, the Court concludes that the July 25, 2013 order does apply to the *NAACP* case.

**B. Whether the July 25, 2013 Order  
Applies to the *Phillips* Case**

In contrast to the *NAACP* case, the *Phillips* case includes residents and officials of not only the City of Detroit but also some of the other municipalities in which emergency managers have been appointed. Significantly, in the motion for relief from the stay that the plaintiffs in the *Phillips* case filed, they have attempted to overcome the concerns that compelled the conclusion that the *NAACP* case is subject to the July 25, 2013 order. The Phillips motion states:

15. Petitioners also seek to amend their Complaint, (Exh. 6.1, the *Phillips* case Dkt. #1), to withdraw the plaintiffs Phillips, Valenti and AFSCME Council 25 as plaintiffs from the underlying action and to voluntarily dismiss, without prejudice, Count I of the Complaint, which was asserted by the withdrawing plaintiffs.

(Dkt. #1004) Count I of the complaint, which the plaintiffs propose to withdraw, asserted the plaintiffs' claims in relation to the effect of P.A. 436 in Detroit.

Moreover, the conclusion of the motion reiterates that the plaintiffs intend to "amend their Complaint to provide for the voluntary withdrawal of individual plaintiffs Phillips, Valenti, and AFSCME Council 25 and the voluntary dismissal of Count I of their Complaint, without bearing on the Debtor's rights in this bankruptcy proceeding." (Dkt. #1004, at 15)

By these representations, which the Court accepts, it appears that the plaintiffs in the *Phillips* case intend to withdraw from their suit any request for relief as to the Detroit emergency

manager. The Court concludes that this proposed amendment would eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager. Therefore, the potential amendment also removes the *Phillips* case from the effect of the July 25, 2013 order. Accordingly, subject to that condition, the Court concludes that the *Phillips* case is not subject to the July 25, 2013 order.

### **III. Whether to Grant the NAACP Plaintiffs’ Motion for Relief from the Stay for Cause**

Because the July 25, 2013 order does stay the *NAACP* case, those plaintiffs seek relief from the extended stay in order to proceed with their lawsuit.

The July 25, 2013 order states, “This order is entered without prejudice to the right of any creditor to file a motion for relief from the stay imposed by this order using the procedures of and under the standards of 11 U.S.C. § 362(d)–(g).”

11 U.S.C. § 362(d)(1) states, “On request of a party in interest and after notice and a hearing, the court shall grant relief from the stay provided under subsection (a) of this section, such as by terminating, annulling, modifying, or conditioning such stay . . . for cause[.]”

Under 11 U.S.C. § 362(g), the debtor bears the burden of proving that there is not cause for relief from the stay.

“Cause” is not a defined term, “so courts must determine whether discretionary relief is appropriate on a case-by-case basis.” *Trident Assoc. Ltd. P’ship v. Metro. Life Ins. Co. (In re Trident Assoc. Ltd. P’ship)*, 52 F.3d 127, 131 (6th Cir. 1995) (quotation marks omitted) (quoting *In re Laguna Assoc. Ltd. P’ship*, 30 F.3d 734, 737 (6th Cir. 1994)). Whether to grant such relief “resides within the sound discretion of the bankruptcy court.” *Garzoni v. K-Mart Corp. (In re Garzoni)*, 35 F. App’x 179, 181 (6th Cir. 2002).

“Determining cause is not a litmus test or a checklist of factors. It requires consideration of many factors and a balancing of competing interests.” *Chrysler LLC v. Plastech Engineered Prods., Inc. (In re Plastech Engineered Prods., Inc.)*, 382 B.R. 90, 109 (Bankr. E.D. Mich. 2008); *see also In re Cardinal Indus., Inc.*, 116 B.R. 964, 983 (Bankr. S.D. Ohio 1990) (“In determining whether or not cause exists, the bankruptcy court must balance the inherent hardships on all parties and base its decision on the degree of hardship and the overall goals of the Bankruptcy Code.”).

Accordingly, in balancing the competing interests to determine whether there is cause for relief from the stay, the Court will consider both the harm to the City if the motion is granted and the harm to the NAACP plaintiffs if the motion is denied. In addition, the Court concludes that it is appropriate to consider the public interest in this context, just as it was appropriate to consider the public interest when determining whether to extend the stay when the City requested it. *See, e.g., In re Trans-Serv. Logistics, Inc.*, 304 B.R. 805, 807 (Bankr. S.D. Ohio 2004).

The NAACP plaintiffs contend that there is cause for relief from the stay due to the extraordinary importance of the voting rights that their lawsuit seeks to vindicate and because their lawsuit will have little or no impact on the City’s bankruptcy, to which they do not object. At the hearing on this motion, the plaintiffs’ counsel clarified that in their lawsuit, the plaintiffs seek only prospective relief and do not seek to invalidate any actions taken by the emergency manager in Detroit or in any other city. They do acknowledge, however, that success in their lawsuit may lead to the removal of the emergency manager in Detroit. They contend nevertheless that the mayor of Detroit can then decide whether to proceed in chapter 9. They assert that their lawsuit is not a collateral attack on this bankruptcy, but a much broader challenge to the emergency manager law.

The City and the State of Michigan contend that the plaintiffs have failed to demonstrate cause for relief from the stay. They argue that numerous parties in this case have challenged the constitutionality of P.A. 436 in the context of eligibility objections and that it does not promote judicial economy to have that issue litigated in other courts.

**A. The Harm to the City  
If Relief from the Stay Is Granted**

The harm to the City that might result if relief from the stay is granted is largely the same harm that §§ 362(a) and 922(a)(1), as well as the Court's July 25, 2013 order, seek to prevent. Those bankruptcy code provisions and the Court's order are designed to consolidate into the bankruptcy case all proceedings that relate to and impact the case, so that the debtor, and, for that matter, all of the other parties, are not required to endure the expense and complexity of litigating multiple issues in multiple courts. Such duplicative litigation also creates the risk of inconsistent results.

If relief from the stay were granted, the City would be required to request leave from the district court to intervene in the plaintiffs' lawsuit in order to protect its interest in adjusting its debts through this bankruptcy. That would require the City to incur the expense of litigating the constitutionality of P.A. 436 in two courts. Indeed if other similar motions for relief from the stay are granted, the issue would then have to be litigated in that many more courts.

The plaintiffs have attempted to minimize the impact of their lawsuit on the City by arguing that if the mayor of Detroit so chooses, this bankruptcy case can continue even without an emergency manager. However, as developed above, that is not so. M.C.L. § 141.1558(1) states that only the emergency manager may represent the City in this chapter 9 case. There is no provision in law for the mayor or any other city official to act on the City's behalf in this case.

**B. The Harm to the NAACP Plaintiffs  
If Relief from the Stay Is Denied**

The harm that results to the NAACP plaintiffs if relief from the stay is denied is substantial. They will be required to defer litigating the important voting rights claims in their lawsuit until this bankruptcy case is resolved. However, this harm is as much a consequence of their own choices as it is of either the bankruptcy stay or this Court's July 25, 2013 order. The plaintiffs had the same full opportunity to file a timely eligibility objection challenging P.A. 436 as every other creditor, voter and resident of the City of Detroit had.

On that point, it should be noted that the plaintiffs do not assert that they were not aware of the filing of this bankruptcy case by the City of Detroit in time to file a timely eligibility objection. Moreover, the plaintiffs have submitted no evidence that they were not aware of the Court's August 19, 2013 deadline to file eligibility objections. Moreover, at the hearing on this motion, the Court offered the plaintiffs an opportunity to file an objection to eligibility, but plaintiffs' attorney declined that opportunity.

The record reflects that the NAACP plaintiffs made the conscious choice not to file an objection to eligibility in this case and instead chose to take the risk that their lawsuit would be allowed to proceed despite this bankruptcy case. Indeed, the NAACP plaintiffs rather vehemently assert that they do not object to the City's eligibility to be in a chapter 9 bankruptcy case. But the terminating impact that the success of their lawsuit would have on this bankruptcy makes that assertion ring hollow. Much of their lawsuit is precisely an eligibility objection, simply not labeled and filed as such. Although they were certainly not required to file an eligibility objection, their choice has the legal consequence that their suit is stayed by this case.

### C. The Public Interest

Certainly, the public has a substantial interest in the speedy and efficient resolution of litigation like the *NAACP* suit that seeks to vindicate a right as central to our democracy as the right to vote.

At the same time, however, the public has a substantial interest in the speedy and efficient resolution of a municipal bankruptcy case that affects as many people and institutions, and as much of the local, regional and national economy, as this case does.

The public also has an interest in the opportunity that this bankruptcy case may provide for the City of Detroit not only to adjust its debt and to restore the basic services that its residents need for their health and safety but also to regenerate its economic livelihood.

The NAACP plaintiffs' motion for relief from the stay does not require this Court to choose which of these important interests should prevail. It only requires the Court to determine whether it is necessary and appropriate to continue to defer the resolution of the plaintiffs' lawsuit pending the outcome of this bankruptcy.

### D. Conclusion

In its discretion, the Court concludes that although the considerations on each side are substantial, on balance, the factors suggesting that the motion for relief from the stay should be denied outweigh the considerations suggesting otherwise. The NAACP plaintiffs' claims in their lawsuit are important claims. However, those claims primarily and directly challenge the appointment of the Detroit emergency manager and the claims could have been presented in this case in a timely eligibility objection.

The NAACP plaintiffs' decision to forego that opportunity creates the potential, if the motion is granted, for the City to incur unnecessary litigation expense and delay in this





UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
7.	11/15/2013	1745	State of Michigan's Motion for Reconsideration of Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**MOTION FOR RECONSIDERATION OF  
OPINION AND ORDER DENYING NAACP'S MOTION FOR  
RELIEF FROM STAY (DKT. #740) AND GRANTING PHILLIPS'  
MOTION FOR RELIEF FROM STAY (DKT. #1004)**

Movants Governor Rick Snyder and former Treasurer Andy Dillon, Respondents in Petitioners Catherine Phillips, et al's Motion for Relief from Stay (Dkt. #740), by and through their attorneys Matthew Schneider and Nicole Grimm, Assistant Attorneys General, hereby submit this motion for reconsideration of this Court's opinion and order (Dkt. #1536-1) denying NAACP's motion for relief from stay (Dkt. #740) and granting Phillips' motion for relief from stay (Dkt. #1004) and in support rely on the facts and legal analysis set forth in their attached brief filed in support of the same.

Respectfully submitted,

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Dated: November 15, 2013

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**BRIEF IN SUPPORT OF MOTION FOR RECONSIDERATION  
OF OPINION AND ORDER DENYING NAACP'S MOTION FOR  
RELIEF FROM STAY (DKT. #740) AND GRANTING PHILLIPS'  
MOTION FOR RELIEF FROM STAY (DKT. #1004)**

**INTRODUCTION**

On November 6, 2013, after both lawsuits had been stayed in district court and plaintiffs in both cases moved for relief before this Court, this Court issued an Opinion and Order Denying NAACP's Motion for Relief from Stay and Granting Phillips' Motion for Relief from Stay. (Opinion and Order Denying NAACP's Motion for Relief from Stay and Granting Phillips' Motion for Relief from Stay, Dkt. #1536-1.) For the reasons that follow, Governor Rick Snyder and former Treasurer Andy Dillon, Defendants in the *Phillips* lawsuit (hereinafter, Respondents), respectfully submit that granting the

*Phillips* motion was clear error, and request that this Court grant their motion for reconsideration.

## ARGUMENT

### I. Standard of Review

A motion for reconsideration should be granted if the movant demonstrates that the Court and the parties have been misled by a palpable defect and that a different disposition of the case must result from a correction of such palpable defect. Local Rule 9024-1(a). To establish a “palpable defect,” the movant generally must identify a: “(1) clear error of law; (2) newly discovered evidence; (3) an intervening change in controlling law; or (4) a need to prevent manifest injustice.” *Henderson v. Walled Lake Consolidated Schools*, 469 F.3d 479, 496 (6th Cir. 2006) (quoting *Intera Corp. v. Henderson*, 428 F.3d 605, 620 (6th Cir. 2005)).

Respondents respectfully submit that this Court’s conclusion that Petitioners’ proposed amendment to withdraw Count I and Plaintiffs Phillips, Valenti, and AFSCME Council 25 from their lawsuit would “eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager” constituted clear error

sufficient to satisfy this standard. Accordingly, for the reasons that follow, Respondents request that this Court reconsider its decision and hold that its July 25, 2013 stay extension order applies to this lawsuit.

## II. Legal Analysis

### A. **According to this Court’s order, its July 25, 2013 stay order applies unless Petitioners withdraw all requested relief that would diminish the authority of the Detroit Emergency Manager under PA 436.**

At the outset of its opinion, this Court correctly recognized the sweeping scope of the *Phillips* lawsuit, recognizing that it “assert[s] that P.A. 436 violates [Petitioners’] rights under the United States Constitution, art. IV, § 4; amend. I; amend. XIII; amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973-1973(q).” (Dkt. #1536-1, at 1-2.) Similarly, it recognized the broad relief Petitioners request, noting that they “seek[] damages, declaratory relief, and injunctive relief, including relief ‘restraining the Defendants and any present and future EMs from implementing or exercising authority and powers purportedly conveyed by Public Act 436.’” (Dkt. #1536-1, at 1-2.)

On page 8 of its opinion, this Court distinguished the *NAACP* and *Phillips* lawsuits on the basis that *Phillips* “includes residents and

officials of not only the City of Detroit but also some of the other municipalities in which emergency managers have been appointed.” (Dkt. #1536-1, at 8.) Based on the fact that the *Phillips* lawsuit challenged the application of PA 436 in several places, not just in Detroit, this Court held that its July 25, 2013 stay order did not apply to the *Phillips* lawsuit so long as it was amended to “withdraw . . . any request for relief as to the Detroit emergency manager.” (Dkt. #1536-1, at 8-9.) It further held that Petitioners’ proposal to withdraw Count I of their complaint and Plaintiffs Phillips, Valenti, and AFSCME Council 25 served this purpose, since it “would eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager.” (Dkt. #1536-1, at 8-9.)

By the plain language of its order, this Court has made clear that lawsuits challenging PA 436 must be stayed during Detroit’s bankruptcy proceedings to the extent they threaten to diminish the power of the Detroit Emergency Manager. While Respondents agree with this conclusion, they respectfully submit it was clear error to conclude that Petitioners’ proposed withdrawal of Count I and various plaintiffs from the *Phillips* lawsuit would insulate the Detroit

Emergency Manager from attack. To the contrary, Respondents submit that the *Phillips* case, like the *NAACP* case to which this Court held that the stay applies, is a broad challenge to PA 436 which, if successful, would pose a serious question as to the validity of Detroit's bankruptcy filing.

### **III. Every count in Petitioners' complaint alleges that PA 436 is facially unconstitutional.**

To validate the conclusion that Petitioners must only withdraw Count I of their complaint to proceed, it must be the case that Petitioners' remaining allegations, if proven, would not "result in the removal of the Detroit emergency manager." (Dkt. #1536-1, at 8-9.) Yet the argument that PA 436 is facially unconstitutional is found throughout Petitioners' complaint:

- Count II argues that PA 436 violates *substantive due process*. Paragraph 127 alleges that "[o]n its face, as applied, and in practice, Public Act 436 . . . disenfranchises citizens from their right to a democratically elected form of local government and their right to elect local officials who possess general legislative power, . . . ." Complaint, *Phillips, et al. v. Snyder, et al.*, No. 213-cv-11370, Dkt. No. 1 (E.D. Mich. Mar. 27, 2013) (*Phillips* Compl.) at Pg ID 24-27. (emphasis added).
- Count III argues that PA 436 violates *the guarantee to a republican form of government*. Paragraph 138 alleges that "[o]n its face, as applied, and in practice, Public Act 436 violates



the US Const., Art. 4, §4 through provisions of the statute that permit EMs [*inter alia*] to . . . [b]e selected and appointed solely at the discretion of the Governor . . . .” *Id.* at Pg ID 27-28. (emphasis added).

- Counts IV, V, and VI argue that PA 436 violates *equal protection*. Paragraphs 151, 167, and 182 alleges that “[*o*]n its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that:
  - unduly revoke and/or impermissibly dilute the community’s right to vote for local officials . . .
  - discriminate in the appointment of an EM and revocation of the community’s right to vote for local officials based on the racial composition of that community . . .
  - condition the revocation of the community’s right to vote for local officials based on the wealth of that community and the individuals who reside there.” *Id.* at Pg ID 28-38. (emphasis added).
- Count VII argues that PA 436 violates *the Voting Rights Act*. Paragraph 194 alleges that “[*o*]n its face, as applied, and in practice, Public Act 436 violates the Voting Rights Act through provisions that provide for the appointment of EMs and entering of consent agreements that abridge and dilute the voting rights of citizens within these localities . . . .” *Id.* at Pg ID 38-40. (emphasis added).
- Count VIII argues that PA 436 violates *freedom of speech and the right to petition government*. Paragraph 208 alleges that “[*o*]n its face, as applied, and in practice, Public Act 436 violates the U.S. Const., Amend. I through provisions that provide for the appointment of EMs with powers that strip all authority of local elected officials, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4.” *Id.* at Pg ID 40-43. (emphasis added).

- Count X argues that PA 436 *perpetuates the vestiges of slavery*. Paragraph 229 alleges that “[o]n its face, as applied, and in practice, Public Act 436 violates the U.S. Const., Amend. XIII, § 1 through provisions of the statute that . . . discriminatorily and intentionally revoke[e] the community’s right to vote for local officials based on the racial composition of that community.” *Id.* at Pg ID 45-47. (emphasis added).

Petitioners’ complaint challenges PA 436 in all municipalities, including Detroit. Indeed, while Counts II through VIII and Count X apply to all municipalities equally, Count IX is a direct attack on the application of PA 436 in Detroit, specifically. *See Phillips Compl.*, at Pg ID 43-45. Paragraph 220 alleges that “[o]n its face, as applied, and in practice, Public Act 436 and appointment of the City of Detroit’s EFM and . . . EM violates the US Const., Amend I through provisions that . . . [p]ermit Kevyn Orr to act for and in the place and stead of the local governing body of cities . . . [and] [v]est the full powers of the local government of the City of Detroit . . . [in a] single entity represented by Kevyn Orr and the Jones Day law firm . . . .” *Id.* Likewise, Count XI is titled “Removal of Emergency Managers” and argues that all emergency managers, including Detroit’s Emergency Manager, must be removed because “[o]n its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const. Amend. XIV, § 1

through provisions of the statute [that] discriminate between cities and school boards that presently have had EMs for longer than 18 months and those that will receive EMs after March 28, 2013.” *Id.* at 47-49.

Even if Count I is removed from Petitioners’ complaint, the allegations above still remain. And without exception, every count of the *Phillips* lawsuit, like the *NAACP* lawsuit, contains a facial attack on the constitutionality of PA 436.<sup>1</sup> Because any finding that the statute is unconstitutional would pose serious questions regarding the validity of Detroit’s bankruptcy filing and its ability to move forward in the restructuring of its debts, Petitioners’ lawsuit would unquestionably impact, directly or indirectly, bankruptcy proceedings before this Court.

#### **IV. The relief Petitioners request would diminish the Detroit Emergency Manager’s authority under PA 436.**

This Court has already recognized that adjudication of Petitioners’ lawsuit depends upon the removal of any requested relief that would “diminish[] the Detroit emergency manager’s authority under P.A. 436.” (Dkt. #1536-1, at 14.) It bears noting that this would include, at a

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<sup>1</sup> For this reason, the question of what impact a challenge to PA 436 as applied in a different municipality might have on the Act’s application in Detroit is inapposite.

minimum, removal of the relief sought in subparts (a), (b), and (e) of Petitioners' prayer for relief. Respectively, these subparts seek: declaratory relief holding that PA 436 is unconstitutional; injunctive relief restraining present and future EMs from "implementing or exercising authority and powers purportedly conveyed by Public Act 436"; and "injunctive relief invalidating and restraining the terms of present and future consent agreements entered into under Public Act 436." *Phillips Compl.*, at Pg ID 49-50. To the extent Petitioners pray for relief that does not bear directly on the application of PA 436 in Detroit, these prayers alone, bereft of any supporting counts, are insufficient to allow Petitioners' lawsuit to proceed. Rather, as this Court's own criteria for application of its July 25, 2013 stay order would require withdrawal of every count of Petitioners' lawsuit, Respondents respectfully request that this Court grant their motion for reconsideration and issue a new order denying Petitioners' motion for relief from stay.

## CONCLUSION AND RELIEF REQUESTED

For the reasons stated, Respondents respectfully request that this Court reconsider its order granting Petitioners' motion for relief from stay and issue a new order denying the same.

Respectfully submitted,

/s/Matthew Schneider

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Dated: November 15, 2013

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
8.	11/20/2013	1777	Debtor's Concurrence With and Joinder in The State of Michigan's Motion for Reconsideration

**IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

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	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
-----	X	

**DEBTOR’S CONCURRENCE WITH AND JOINDER IN  
THE STATE’S MOTION FOR RECONSIDERATION**

The City of Detroit (the “City”) concurs with the State in moving this Court for reconsideration of its Opinion and Order Denying NAACP’s Motion for Relief from Stay (Dkt. #740) and Granting Phillips’ Motion for Relief from Stay (Dkt. # 1004) (“Opinion”), and thus concurs in the Motion of the State of Michigan for Reconsideration (Dkt. # 1745).

1. Reconsideration should be granted if the movant “demonstrate[s] a palpable defect by which the court and the parties have been misled [and] also show[s] that a different disposition of the case must result from a correction thereof.” E.D. Mich. Local Bankr. R. 9024-1(a)(3). “To establish a ‘palpable defect,’ the moving party generally must point to ‘(1) a clear error of law; (2) newly discovered evidence; (3) an intervening change in controlling law; or (4) a need to prevent manifest injustice.’” *In re Collins & Aikman Corp.*, 417 B.R. 449,



454 (E.D. Mich. 2009) (quoting *Henderson v. Walled Lake Consolidated Schools*, 469 F.3d 479, 496 (6th Cir. 2006)).

2. In holding that the July 25, 2013, order applied to the NAACP suit, this Court stated that “if the plaintiffs had included the City as a defendant in the lawsuit, it would have been stayed as to the City under 11 U.S.C. § 362(a) because the lawsuit had the potential to directly impact the City’s bankruptcy case. The July 25, 2013 order extended that stay to any suits against the governor and the treasurer that might have the same impact on the City’s bankruptcy case.” Opinion at 4 (emphasis added). Thus, as this Court acknowledged, under the July 25, 2013 order, any lawsuit against the governor or treasurer that has the potential to directly impact the City’s bankruptcy case is stayed.

3. In its Opinion, however, this Court declined to apply the July 25, 2013, order to the Phillips lawsuit due to a proposed amendment to the complaint because “it appears that the plaintiffs in the *Phillips* case intend to withdraw from their suit any request for relief as to the Detroit emergency manager. The Court concludes that this proposed amendment would eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager. Therefore, the potential amendment also removes the *Phillips* case from the effect of the July 25, 2013 order. Accordingly, subject to that condition, the Court concludes that the *Phillips* case is not subject to the July 25, 2013 order.” Opinion



at 8-9. For the reasons discussed below it is clear, however, that the intention to not seek relief as to the Detroit emergency manager has not been satisfied.

4. In the State’s Motion for Reconsideration, the State explained that it respectfully believed that the Court committed a clear error of law when it stated that the proposed amendment would “eliminate the potential” of the “removal of the Detroit emergency manager.” The State reasoned that Count IX directly attacks the application of P.A. 436 in Detroit. Specifically, Count XI, titled in part “Removal of Emergency Managers,” argues that all emergency managers, including Detroit’s Emergency Managers, must be removed. Further, every single count in the Phillips complaint alleges that P.A. 436 was facially unconstitutional.

5. When analyzing the same issue with respect to the NAACP lawsuit, this Court reasoned, “If P.A. 436 were found to be unconstitutional, as the plaintiffs’ lawsuit claims, then the City’s emergency manager would be removed from office. Under applicable state law, no one else would be authorized to prosecute this chapter 9 case on behalf of the City. Accordingly, due to its potential impact on this bankruptcy case, the Court concludes that the July 25, 2013 order does apply to the NAACP case.” Opinion at 8.

6. The City concurs with the State and respectfully submits that by this very same reasoning, the proposed amendment to the Phillips complaint does not remove the lawsuit from the July 25, 2013, order, if, as the Court apparently

concludes, the order stays any action that has the potential to remove the emergency manager and impact the City's bankruptcy case. *See* Opinion at 4. As the State explained, the Phillips complaint challenges the facial constitutionality of P.A. 436 in all municipalities. Even if the words Kevyn Orr, Detroit Emergency Manager, or City of Detroit<sup>1</sup> do not appear in the amended complaint, a ruling that P.A. 436 is facially unconstitutional could remove the City's emergency manager leaving no other authorized person to prosecute this chapter 9 case on behalf of the City. *See* Opinion at 8. There is no question that such a ruling would, at the very least, directly affect the City's chapter 9 case. Further, even though this Court is not bound by a district court decision, an adverse ruling by the District Court would invariably affect the efforts initiated by the Court to reach a negotiated plan of adjustment. As such, this Court should reconsider its opinion and hold that the Phillips lawsuit is subject to the July 25, 2013, order.

7. It appears that by merely offering to remove Count I and a few of the plaintiffs from the complaint, the plaintiffs have misled the Court. The City believes that the only way to conform the complaint to comply with this Court's order is to remove all facial challenges to the constitutionality of P.A. 436 and leave in only "as applied" challenges that are fact-specific to municipalities other

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<sup>1</sup> Even if Plaintiffs Phillips, Valenti and AFSCME Council 25 are removed from the complaint, there are still six Plaintiffs who are citizens of Detroit. *See* Phillips complaint ¶¶ 10, 23, 24, 25, 27, 28.

than the City. Only in this fashion would the Complaint not “impact the City’s bankruptcy case” or potentially lead to the removal of the Detroit emergency manner. To avoid unnecessary further proceedings, the Phillips plaintiffs’ proposed amended complaint should be revised in this manner and submitted for Court approval to confirm that it will have “no bearing on the Debtor’s rights in this bankruptcy proceeding.” In the alternative, to resolve any doubt as to the potential interference with this bankruptcy case, the Phillips action should be stayed until confirmation of the plan of adjustment. If the Plaintiffs desire to bring their facial challenges to P.A. 436 outside of this Court’s eligibility proceedings, a delay of a few months is not too much to ask to avoid the potential for interferences with the City’s bankruptcy case—a position averred by all parties to this action.

### **Conclusion**

WHEREFORE, the City respectfully requests that this Court reconsider its opinion and issue and issue an order stating that the July 25, 2013, order stays the Phillips lawsuit.

Dated: November 20, 2013

Respectfully submitted,

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**IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

----- X  
:  
In re : Chapter 9  
:  
CITY OF DETROIT, MICHIGAN, : Case No. 13-53846  
:  
Debtor. : Hon. Steven W. Rhodes  
:  
X

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on November 20, 2013, he caused a true and correct copy of ***DEBTOR'S CONCURRENCE WITH AND JOINDER IN THE STATE'S MOTION FOR RECONSIDERATION*** to be served upon counsel as listed below via First Class United States Mail:

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In addition, the above-described document was filed with the court the ECF System, which will send notification of such filing to all attorneys and parties of record registered electronically.

DATED: November 20, 2013

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re  CITY OF DETROIT, MICHIGAN,  Debtor.	No. 13-53846  Chapter 9  HON. STEVEN W. RHODES
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**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN’S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

Item	Date Filed	Docket #	Description
9.	12/2/2013	1888	Petitioner’s Response to Respondents Snyder and Dillon’s Motion for Reconsideration (Dkt. #1745) of Opinion and Order (Dkt. #1536-1) Denying NAACP’s Motion for Relief from Stay and Granting Phillips’ Motion for Relief from Stay (Attachments: Exhibit 1; Exhibit 2; Exhibit 3; Exhibit 4; Exhibit 5; Exhibit 6)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

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**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1) DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

NOW COME Petitioners, as Plaintiffs in the United States District Court Eastern District of Michigan Case No. 13-CV-11370, by and through their attorneys, and in response to Respondents Snyder and Dillon's Motion for Reconsideration, respectfully pray that this Honorable Court DENY Respondents' motion for the reasons set forth in the brief attached hereto as Exh. 3.

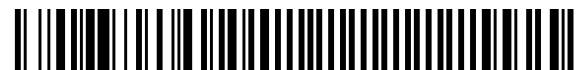
Dated: December 2, 2013

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**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN**

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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**EXHIBIT LIST**

Ex. 1 None

Ex. 2 None

Ex. 3 Brief in Support of Petitioners' Response to Respondent's Snyder and Dillon's Motion for Reconsideration of Opinion and Order Denying NAACP's Motion for Relief From Stay and Granting Phillips Motion for Relief From Stay.

Ex. 4 Certificate of Service

Ex. 5 None

Ex. 6.1 Proposed First Amended Complaint

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

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EXHIBIT 1 - NONE

TO:

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

\_\_\_\_\_ /

EXHIBIT 2 - NONE

TO:

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

\_\_\_\_\_ /

EXHIBIT 3 - BRIEF IN SUPPORT OF:

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9  
City of Detroit, Michigan, Case No. 13-53846  
Debtor. Hon. Steven W. Rhodes

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**BRIEF IN OPPOSITION TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

**INTRODUCTION**

Petitioners (Plaintiffs in *Catherine Phillips, et al. v. Snyder and Dillon*, Case No. 13-CV-11370, filed on March 27, 2013 in the United States District Court for the Eastern District of Michigan (hereinafter, "the *Phillips* case")) filed a Motion for Relief from Stay (Dkt. # 1004), seeking clarification or modification of this Court's Extended Stay Order (Dkt. # 166), offering to voluntarily withdraw several plaintiffs and amend the remaining plaintiffs' complaint by removing Count I. On November 6, 2013, this Court issued an Opinion and Order (Dkt. #1536) ruling that, in light of Petitioners' offer to withdraw those plaintiffs and amend the complaint, the Extended Stay Order did not apply to Petitioners' suit against Governor Snyder and former Treasurer Dillon.

Specifically, this Court stated:

In contrast to the NAACP case, the *Phillips* case includes residents and officials of not only the City of Detroit but also some of the other municipalities in which

emergency managers have been appointed. Significantly, in the motion for relief from the stay that the plaintiffs in the *Phillips* case filed, they have attempted to overcome the concerns that compelled the conclusion that the NAACP case is subject to the July 25, 2013 order. The *Phillips* motion states:

15. Petitioners also seek to amend their Complaint, (Exh. 6.1, the *Phillips* case Dkt. #1), to withdraw the plaintiffs Phillips, Valenti and AFSCME Council 25 as plaintiffs from the underlying action and to voluntarily dismiss, without prejudice, Count I of the Complaint, which was asserted by the withdrawing plaintiffs.

(Dkt. #1004) Count I of the complaint, which the plaintiffs propose to withdraw, asserted the plaintiffs' claims in relation to the effect of P.A. 436 in Detroit.

Moreover, the conclusion of the motion reiterates that the plaintiffs intend to "amend their Complaint to provide for the voluntary withdrawal of individual plaintiffs Phillips, Valenti, and AFSCME Council 25 and the voluntary dismissal of Count I of their Complaint, without bearing on the Debtor's rights in this bankruptcy proceeding." (Dkt. #1004, at 15)

By these representations, which the Court accepts, it appears that the plaintiffs in the *Phillips* case intend to withdraw from their suit any request for relief as to the Detroit emergency manager. The Court concludes that this proposed amendment would eliminate the potential that the *Phillips* case might result in the removal of the Detroit emergency manager. Therefore, the potential amendment also removes the *Phillips* case from the effect of the July 25, 2013 order. Accordingly, subject to that condition, the Court concludes that the *Phillips* case is not subject to the July 25, 2103 order.

(Dkt. # 1536 at 8-9)

This Court's determination that the *Phillips* case is not subject to the Extended Stay Order was "conditioned on the Phillips plaintiffs' amendment of their complaint to eliminate their request for the removal of the Detroit emergency manager and for any other relief that diminishes the Detroit emergency manager's authority under P.A. 436." *Id.* at 14.

Based upon the above quoted language of the Court's order, and prior to the Respondents Snyder and Dillon filing their *Motion for Reconsideration* (Dkt. #1745), Petitioners concluded that in addition to the voluntary withdrawal of plaintiffs Phillips, Valenti, and AFSCME Council 25, and the voluntary dismissal of Count I of the Complaint, (Exh.6, *Proposed Amended*

*Complaint*, attached hereto) they would also voluntarily dismiss Count IX. After re-drafting their proposed Amended Complaint, but prior to the filing of their motion to re-open the case before Hon. Judge Steeh, Respondents Snyder and Dillon filed the instant *Motion for Reconsideration*, (Dkt. #1745). They seek to have this Court reconsider its *Opinion and Order*, (Dkt. #1536), based not upon the actual language of the *Order*, but rather upon Respondents' apparent belief that Petitioners would not make any other revisions to their Complaint in order to comply with this Court's Order. Indeed, rather than communicate with Petitioners' counsel to seek a cooperative approach to fulfilling this Court's *Order* while allowing Federal Judge Steeh to proceed, Respondents filed this *Motion* in an attempt to prevent the fundamental Constitutional issue from being adjudicated at all.

Respondents assert that *any* adjudication of PA 436's constitutionality by a Federal District Court would, by definition, "pose serious questions regarding the validity of Detroit's bankruptcy filing." (Dkt. #1745, Page 10). The Respondents suggest, incredibly, that so long as the City of Detroit is in the midst of this bankruptcy proceeding, the citizens of the State of Michigan have no right to seek judicial relief to ensure that the Michigan legislation – enacted by our State legislature – complies with the United States Constitution. Notably, Debtor City of Detroit does not seek reconsideration of this Court's Order. Regardless, because the Court's Order adequately protects the Debtor while also acknowledging the important constitutional rights that Petitioners must be allowed to vindicate, Respondents' Motion for Reconsideration should be DENIED in its entirety.

### STANDARD OF REVIEW

As Respondents correctly conceded, a motion for reconsideration should only be granted in the rare case where the movant can meet its burden of demonstrating: (1) a palpable defect; (2)



that the palpable defect has misled the court and the parties; and (3) that the palpable defect was outcome-determinative. LR 9024-1(a)(3), *Papas v. Buchwald Capital Advisors, LLC (In re Greektown Holdings, LLC)*, 728 F.3d 567, 574 (6th Cir. Mich. 2013). “A ‘palpable defect’ is ‘a defect that is obvious, clear, unmistakable, manifest, or plain.’” *United States v. Lockett*, 328 F. Supp. 2d 682, 684 (E.D. Mich. 2004) (quoting *United States v. Cican*, 156 F. Supp. 2d 661, 668 (E.D. Mich. 2001)). Because Respondents cannot demonstrate an outcome-determinative palpable error that misled the Court and the parties, their motion for reconsideration should be denied.

## ARGUMENT

### I. THE PLAIN LANGUAGE OF THIS COURT’S NOVEMBER 6, 2013 OPINION AND ORDER ADDRESSES THE ARGUMENTS RAISED BY RESPONDENTS.

The thrust of the Respondents’ argument for reconsideration is that this Court erred by permitting Petitioners’ suit to go forward in the District Court since the suit could potentially result in the removal of Kevin Orr because the Court’s only required Petitioners to withdraw Plaintiffs Phillips, Valenti, and AFSCME Council 25 and dismiss Count I.

This Court’s *Order and Opinion* however directly addressed Respondents’ arguments while preserving the Constitutional rights of the Petitioners. This Court’s *Order* does not state that Petitioners’ suit is not subject to the Extended Stay Order if Plaintiffs Phillips, Valenti, and AFSCME Council 25 withdraw and the remaining Plaintiffs simply dismiss Count I. Rather, the *Order* states that Petitioners must amend their complaint “to eliminate their request for the removal of the Detroit Emergency Manager and for any other relief that diminishes the Detroit Emergency Manager’s authority under P.A. 436.” *Id.* at 14. In light of that language, Respondents are attacking a straw man. And as set forth in Section II, *infra*, Petitioners

understood the conditions set forth by this Court to encompass more than the simple dismissal of Count I and have revised their Proposed Amended Complaint (Exh. 6) to comply with this Court's directive. Because this Court's Order—as written—suffers from no palpable error, Respondents' *Motion* should be denied.

**II. PETITIONERS' REVISED PROPOSED AMENDED COMPLAINT COMPLIES WITH THIS COURT'S ORDER THAT PETITIONERS NOT SEEK TO REMOVE DEBTOR'S EMERGENCY MANAGER OR DIMINISH HIS AUTHORITY.**

In order to satisfy the conditions set forth by this Court in its Order provisionally finding that the Extended Stay Order does not apply to the *Phillips* case, Petitioners had already decided to make further amendments to their complaint. Specifically, and with respect to this Court's directive that Petitioners' amended complaint must not “request . . . the removal of the Detroit emergency manager,” Petitioners' revised Proposed Amended Complaint thus also voluntarily dismisses Count IX. (Exh. 6). Petitioners' revised Amended Complaint also eliminates any claims for injunctive relief, which satisfies this Court's condition that Petitioners not seek relief that would “diminish the Detroit emergency manager's authority.” (Dkt. #1536).

With regard to Respondents' claim that “Count XI . . . argues that all emergency managers, including Detroit's Emergency Manager, must be removed,” (Dkt. #1745, Page 9), Respondents grossly misrepresent the relief sought by Petitioners in that count. Count XI (renumbered as Count IX in Petitioners' revised Proposed Amended Complaint (Exh. 6)) is, like the other remaining counts, a claim challenging the constitutionality of a provision of PA 436 (in this count challenging, on equal-protection grounds, PA 436's own provisions for the removal of an emergency manager). Like the other remaining counts in Petitioners' revised Proposed

Amended Complaint, (Exh. 6), Petitioners seek neither the removal of Debtor's emergency manager nor the diminution of his authority.

What Petitioners' revised Proposed Amended Complaint (Exh. 6) does seek is declaratory relief; specifically, Petitioners seek a declaration, from an Article III court, regarding the constitutionality of PA 436. Respondents argue that "any finding that the statute is unconstitutional would pose serious questions regarding the validity of Detroit's bankruptcy filing and its ability to move forward in the restructuring of its debts," and therefore, "Petitioners' lawsuit would unquestionably impact, directly or indirectly, bankruptcy proceedings before this Court." (Dkt. #1745 at 8). Setting aside for a moment the troubling question of whether the State has any legitimate interest in perpetuating an unconstitutional law for Debtor's benefit, Respondents' *in terrorem* argument is necessarily based on forecasting what relief might be granted by the District Court.

If Petitioners are successful, the impact of the declaratory relief on the bankruptcy is unknown because the scope of the relief granted cannot be known until such time as the District Court actually issues its findings. PA 436 could be held unconstitutional in its entirety, in part, or not at all. But until or unless an Article III court rules on the declaratory relief Petitioners seek, any argument regarding the impact on Debtor's bankruptcy is pure speculation, particularly because nothing in Petitioners' revised proposed amended complaint seeks to remove Debtor's emergency manager or put a stop to Debtor's bankruptcy proceedings.

Assuming that Petitioners succeed in obtaining a declaration that PA 436 is facially unconstitutional in its entirety, a new, separate action would be required to seek the removal of Debtor's emergency manager and/or challenge the validity of actions undertaken by him. To the extent that such an action sought to challenge the validity of Debtor's bankruptcy proceedings, it

would necessarily be heard by this Court. At that time, this Court would be able to order the necessary in-depth briefing to properly determine the impact of any declaratory judgment on the bankruptcy proceedings, based upon the actual text of the ruling. But until and unless that happens, the State is essentially arguing that the question of the constitutionality of a law with statewide effect should not be heard by any court because it might call into question the lawfulness of a chain of events that found their genesis in an unconstitutional law.

There is no question that the State recognizes this possibility—it argues that “any finding that the statute is unconstitutional would pose serious questions regarding the validity of Detroit’s bankruptcy filing and its ability to move forward in the restructuring of its debts,” (Dkt. #1745, Page 10), as if the importance of fidelity to our State and Federal Constitutions is somehow subordinate to Respondents’ desire, now laid bare, to ensure that Debtor enjoys an untrammelled fast-track ride through bankruptcy proceedings. This kind of result-driven, ends-justify-the-means argument is repugnant to our tripartite system; indeed, it is repugnant to the integrity of our Constitutional democracy. It is true that a finding that PA 436 is unconstitutional might raise some “serious questions” regarding the validity of actions taken by emergency managers appointed pursuant to PA 436 throughout the State of Michigan. But the far more serious question is why Respondents argue that a law (and executive actions taken pursuant to that law) should be immune from judicial review for the very reason that such actions might be found to be in violation of the United States Constitution.

Put another way, it seems that Respondents would prefer that “progress” not be impeded by the inconvenience of upholding the Constitution. And to be sure, a great many things could be accomplished much faster if laws could simply be suspended or ignored whenever it was deemed “necessary.” But thankfully, we are part of a system that prizes the rule of law over

speed. And if or when the time comes that PA 436 is declared unconstitutional, it will be up to this Court to deliberate and decide what impact such a finding has on Debtor's bankruptcy proceedings. In the meantime, however, the discrete question of the constitutionality of a statute that affects citizens statewide cannot be held hostage to the bankruptcy proceedings of a single municipality.

### CONCLUSION AND RELIEF REQUEST

Because this Court's November 6, 2013 *Order* (Dkt. #1536) was correctly decided and for all of the reasons stated above (as well as in Petitioner's *Motion for Relief From Stay and Brief in Support* (Dkt. #1004 and #1004-4). Petitioners respectfully request that this Honorable Court DENY *Respondents' Motion for Reconsideration*, (Dkt.#1745), thereby allowing Petitioners to file their revised Proposed Amended Complaint and a determination can be made on the merits regarding the question of PA 436's constitutionality.

Dated: December 2, 2013

Respectfully submitted,

/s/Hugh M. Davis

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

\_\_\_\_\_ /

EXHIBIT 4 - CERTIFICATE OF SERVICE

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on December 2, 2013, he filed the following documents with the court, using the court's CM/ECF system, which will send notice of the filings to all registered participants in this matter.

**Petitioners' Response to Respondent's Snyder and Dillon's Motion for Reconsideration of Opinion and Order Denying NAACP's Motion for Relief from Stay and Granting Phillips Motion for Relief from Stay.**

And

**Petitioners' Brief in Support of Response to Respondent's Snyder and Dillon's Motion for Reconsideration of Opinion and Order Denying NAACP's Motion for Relief from Stay and Granting Phillips Motion for Relief from Stay.**

Respectfully submitted,

/s/Hugh M. Davis

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

\_\_\_\_\_ /

EXHIBIT 5 - NONE

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:

Chapter 9

City of Detroit, Michigan,

Case No. 13-53846

Debtor.

Hon. Steven W. Rhodes

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EXHIBIT 6 - PROPOSED FIRST AMENDED COMPLAINT

TO:

**PETITIONERS' RESPONSE TO RESPONDENTS SNYDER AND DILLON'S MOTION  
FOR RECONSIDERATION (DKT. #1745) OF OPINION AND ORDER (DKT. # 1536-1)  
DENYING NAACP'S MOTION FOR RELIEF FROM STAY AND  
GRANTING PHILLIPS MOTION FOR RELIEF FROM STAY**

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

Russ Bellant, President of the Detroit Library Commission;  
Tawanna Simpson, Lamar Lemmons, Elena Herrada,  
Detroit Public Schools Board Members; Donald Watkins,  
and Kermit Williams, Pontiac City Council Members;  
Duane Seats, Dennis Knowles, Juanita Henry, and  
Mary Alice Adams, Benton Harbor Commissioners;  
William "Scott" Kincaid, Flint City Council President;  
Bishop Bernadel Jefferson; Paul Jordan; Rev. Jim Holley,  
National Board Member, Rainbow Push Coalition;  
Rev. Charles E. Williams II, Michigan Chairman,  
National Action Network; Rev. Dr. Michael A. Owens,  
Rev. Lawrence Glass, Rev. Dr. Deedee Coleman,  
Bishop Allyson Abrams, Executive Board, Council  
of Baptist Pastors of Detroit and Vicinity;

Case No.  
Judge:

Plaintiffs,

vs.

RICHARD D. SNYDER, as Governor of the  
State of Michigan, and ANDREW DILLON,  
as the Treasurer of the State of Michigan, acting in  
their individual and/or official capacities,

*First Amended Complaint for  
Declaratory Relief*

Defendants.

---

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/

**FIRST AMENDED COMPLAINT**  
**FOR DECLARATORY RELIEF**

NOW COME Plaintiffs, and by and through their attorneys and for their First Amended Complaint, do hereby allege as follows.

**I. NATURE OF PLAINTIFFS' CLAIMS**

1. This is a federal civil rights and voting rights cause of action brought pursuant to 42 USC §1983 for violations of the Plaintiffs' federal and constitutional rights under the United States Constitution, Art. 4, §4; Amend. I; Amend. XIII; Amend. XIV; and pursuant to the *Voting Rights Act of 1965*, 42 U.S.C. §§ 1973 *et. seq.*

2. The *Local Financial Stability and Choice Act*, Act No. 436, Public Acts of 2012, MCL §§ 141.1541 *et. seq.* (Public Act 436) effectively establishes a new form of government within the State of Michigan. The new form of government allows Michigan cities and other forms of municipal corporations to be ruled by one unelected official, who is vested with broad legislative power and whose orders, appointments, expenditures, and other decisions are not reviewable by local voters.

3. Plaintiffs' rights under the United States Constitution, include:
- a. A due process right to engage in collective bargaining.
  - b. A due process right to an elected, republican form of government;
  - c. A right to freedom of speech.
  - d. A right to petition local government.

- e. A right to equal protection of laws granting Michigan citizens the right to vote in local elections and to remove emergency managers.

Each of these rights is violated by provisions of Public Act 436.

4. The Voting Rights Act of 1965 protects Plaintiffs from discriminatory laws that disenfranchise voters. Plaintiffs' voting rights are also violated by provisions of Public Act 436.

## **II. JURISDICTION AND VENUE**

5. Federal question jurisdiction is conferred by 28 USC §§ 1331, 1343(a)(3), 1343(a)(4), 1344, 2201 and 2202 over Plaintiffs' Constitutional and Voting Rights Act claims.

6. Venue is proper pursuant to 28 USC §1391, since all Defendants reside or are located in the Eastern District of Michigan and the events giving rise to this action occurred, in part, within this District.

## **III. PARTIES**

7. Plaintiff Russ Bellant is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Bellant is also President of the Detroit Library Commission.

8. Plaintiff Tawanna Simpson is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Simpson is also a Detroit Public Schools Board Member.

9. Plaintiff Lamar Lemmons is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Lemmons is also a Detroit Public Schools Board Member.



10. Plaintiff Elena Herrada is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Herrada is also a Detroit Public Schools Board Member.

11. Plaintiff Donald Watkins is a citizen of the United States, a resident of the City of Pontiac, County of Oakland, and the State of Michigan. Plaintiff Watkins is also a member of the Pontiac City Council.

12. Plaintiff Kermit Williams is a citizen of the United States, a resident of the City of Pontiac, County of Oakland, and the State of Michigan. Plaintiff Williams is also a member of the Pontiac City Council.

13. Plaintiff Duane Seats is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Seats is also a Benton Harbor Commissioner.

14. Plaintiff Dennis Knowles is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Knowles is also a Benton Harbor Commissioner.

15. Plaintiff Juanita Henry is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Henry is also a Benton Harbor Commissioner.

16. Plaintiff Mary Alice Adams is a citizen of the United States, a resident of the City of Benton Harbor Michigan, County of Berrien, and the State of Michigan. Plaintiff Adams is also a Benton Harbor City Commissioner.

17. Plaintiff William "Scott" Kincaid is a citizen of the United States, a resident of the City of Flint Michigan, County of Genesee, and the State of Michigan. Plaintiff Kincaid is also President of the Flint City Council.

18. Bishop Bernadel Jefferson is a citizen of the United States, a resident of the City of Flint Michigan, County of Genesee, and the State of Michigan.

19. Plaintiff Paul Jordan is a citizen of the United States and a resident of the City of Flint, County of Genesee, and State of Michigan.

20. Plaintiff Rev. Jim Holley is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Holley is also a National Board Member of the Rainbow Push Coalition.

21. Rev. Charles E. Williams II is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Williams is also the Michigan Chairman of the National Action Network.

22. Plaintiff Rev. Dr. Michael A. Owens is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Dr. Michael A. Owens is also President of the Council of Baptist Pastors of Detroit and Vicinity.

23. Plaintiff Rev. Lawrence Glass is a citizen of the United States, a resident of the City of Redford, County of Wayne, and the State of Michigan. Plaintiff Rev. Lawrence Glass is also First Vice-President of the Council of Baptist Pastors of Detroit and Vicinity.

24. Plaintiff Rev. Dr. Deedee Coleman is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Rev. Dr. Deedee Coleman is also Second Vice-President of the Council of Baptist Pastors of Detroit and Vicinity.

25. Plaintiff Bishop Allyson Abrams is a citizen of the United States, a resident of the City of Detroit, County of Wayne, and the State of Michigan. Plaintiff Bishop Allyson Abrams is also Secretary of the Council of Baptist Pastors of Detroit and Vicinity.

26. Defendant Richard D. Snyder is the Governor of the State of Michigan. Governor Snyder maintains his principal residence in the City of Ann Arbor in Washtenaw County, Michigan, and at all times relevant hereto was acting individually and in his official capacity as State Governor and top policymaker for the State of Michigan.

27. Defendant Andrew Dillon is the Treasurer of the State of Michigan. Treasurer Dillon maintains his principal residence in Redford Township in Wayne County, Michigan, and at all times relevant hereto was acting individually and in his official capacity as State Treasurer and as a policymaker.

#### **IV. COMMON FACTS**

28. Through its provisions, Public Act 436 establishes a new form of local government, previously unknown within the United States or the State of Michigan, where the people within local municipalities may be governed by an unelected official who establishes local law by decree.

#### ***Legislative Background Of Municipal Financial Distress In Michigan***

29. During the Great Depression in the 1930s, 4,770 cities defaulted on their debt. Among all states, Michigan had the fourth highest number of defaulting municipalities throughout the depression years. At that time, creditors of defaulting cities were commonly required to file a mandamus action in state courts seeking to compel the municipality to raise taxes to pay debt obligations. Courts then appointed receivers to oversee the finances of municipal debtors.

30. To improve procedures for creditors and municipal debtors, the federal government adopted Chapter 9 of the federal bankruptcy code in 1937. Chapter 9 permits the use of federal bankruptcy procedures for debt-ridden municipalities. Under Chapter 9, elected officials remain in office and retain significant autonomy while bankruptcy procedures oversee the development of a plan to adjust debts and pay creditors. Before a Chapter 9 petition may be filed however, the state must authorize the municipality to file for bankruptcy.

31. Prior to 1988, unless proceeding through Chapter 9, municipalities were placed into receivership by the courts, not the state legislature or executive branch. Compensation for court-appointed receivers was derived from property that the courts placed within the care of the receiver.

32. Since 1937, two Michigan cities have defaulted on bond payments or been placed under a court imposed receivership due to insolvency. Muskegon Township defaulted on revenue bond payments in the early 1960s and the City of Ecorse was placed in receivership by a Wayne County Circuit Court in 1986.

33. Neither municipality sought the protections of Chapter 9 bankruptcy. Muskegon Township entered into a settlement agreement with its creditors that resolved their defaults. Ecorse remained under court receivership through 1990 and was subject to further state oversight until the late 1990s.

34. In response to the troubled insolvency of the City of Ecorse, the state enacted Public Act 101 of 1988 (PA 101). Public Act 101 allowed the state to intervene when local municipalities were found to be in financial distress. The statute allowed the state to appoint emergency financial managers over cities experiencing a financial emergency.

35. In 1990, the legislature replaced PA 101 with the *Local Government Fiscal Responsibility Act*, Act No. 72, Public Acts of 1990 (PA 72). Public Act 72 authorizes state officials to intervene when local governments face a financial emergency. Pursuant to PA 72, Michigan's local financial emergency review board can appoint an emergency financial manager (EFM) only after the Governor declares a financial emergency within the local government.

36. Under PA 72, local elected officials are not removed from office and the EFM's powers only extended to matters of municipal finances. Their powers did not extend to purely administrative or policy matters. Furthermore, EFMs had the power to renegotiate, but not unilaterally break contracts.

37. In the late 1990s, legislation was passed to revise municipal revenue sharing laws, severely reducing the amount of funds shared by the state with local government. Local governments saw further revenue reductions when income and property tax revenues sharply declined during the recession of 2000-2003. As a result, municipalities experienced significant financial stress during the late 1990s and early 2000s.

38. During this time period, the state local financial emergency review board appointed PA 72 EFMs in the cities of Hamtramck, Highland Park, and Flint.

39. These original Public Act 72 EFMs remained in place as follows:

- a. Hamtramck from 2000 until 2007 (7 years)<sup>1</sup>;
- b. Highland Park from 2001 until 2010 (9 years);<sup>2</sup> and
- c. Flint from 2002 until 2004 (2 years)<sup>3</sup>.

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<sup>1</sup> In 2010, the City of Hamtramck requested permission from the state to file for Chapter 9 bankruptcy. The state refused.

<sup>2</sup> One year later, DTE Energy repossessed the City of Highland Park's street lights due to the city's inability to pay its bills

<sup>3</sup> The City of Flint was again declared in a financial emergency in 2011.

40. With the onset of the historic global recession that began in 2007 and resulted in record foreclosures and steep unemployment, cities and municipal corporations in Michigan saw further sharp reductions to income and property tax revenue. State revenue sharing laws were further amended in recent years to reduce revenue sharing with local governments and thereby balance state budgets. As a result, Michigan municipalities again faced widespread financial stress.

41. Again, the state local financial emergency review board appointed PA 72 EFMs in various cities, including Pontiac, Ecorse, and Benton Harbor. Public Act 72 EFMs were also appointed over the Village of Three Oaks (2008) and the Detroit Public Schools and the review board entered into a PA 72 consent agreement with the city of River Rouge.

42. The second wave of Public Act 72 EFMs were appointed as follows:

- a. Pontiac from 2009 until the present (4+ years)
- b. Ecorse from 2009 until the present (4+ years)
- c. Benton Harbor from 2010 through the present (3+ years);
- d. Village of Three Oaks from 2008 until 2009 (1 year); and
- e. Detroit Public Schools from 2009 until the present (4+ years).

The state's consent agreement with the city of River Rouge has also remained in place from 2009 to the present. Notably, since the onset of the global recession in 2007, the Village of Three Oaks is the only municipality that has emerged from a financial emergency following the appointment of an emergency financial manager, appointment of an emergency manager, or the entering of a consent agreement.

43. Following elections in November of 2010 and the turnover of state offices in January 2011, the Michigan legislature introduced House Bill 4214 (2011) on February 9, 2011.

The bill was widely seen as a response to a court ruling finding that the Detroit Public Schools' School Board, and not the EFM, possessed the power under state law to determine what curriculum would be taught and which texts would be used in the city's public schools. The decision provoked elements of the state legislature who then sought greater control over the content of the curriculum taught in Detroit's schools.

44. House Bill 4214 was rushed through the legislature and quickly presented to the Governor for signature. Defendant Governor Richard D. Snyder signed the *Local Government and School District Fiscal Accountability Act*, Act No. 4, Public Acts of 2011 (PA 4) into law on March 16, 2011. Public Act 4 repealed Public Act 72 and was given immediate effect. Public Act 4 automatically converted all EFMs to Public Act 4 Emergency Managers (EM) and greatly expanded the scope of their powers. The Act also brought all existing consent agreements under the new law.

#### ***Public Act 4's Radical Revision of State Law***

45. Public Act 4 radically revised state law governing the appointment of EMs over cities and school districts during times of financial stress.

46. Public Act 4 provided that once the Governor had declared a financial emergency, the Governor could then appoint an individual to be the municipality's emergency manager. The Governor was granted broad discretion to declare a financial emergency and, in fact, a municipality was not actually required to be in a fiscal crisis before an EM could be appointed.

47. Tellingly, the Act changed the title of municipal "emergency financial managers" to "emergency managers" and expanded the scope of their powers to cover all the conduct of local government.

48. The PA 4 EM's powers extended not only to financial practices and fiscal policy, but rather permitted such managers to fully act "for and in the place of" the municipality's elected governing body. The grant of powers also included a general grant of legislative power (the power to unilaterally adopt local laws and resolutions) to PA 4 EMs.

49. Public Act 4's grant of legislative power to EMs extended to the full scope of legislative power possessed by local elected officials. In the state of Michigan, local legislative power is of the same scope and nature as the police power possessed by the state - limited only by the jurisdictional limits of the municipality and where preempted by the general laws of the state. Public Act 4's grant of general legislative power to EMs thus extended to a grant of the full of scope of the local government's police power, previously reserved to local government's elected legislative body and elected mayor.

50. Emergency managers were further granted powers to act in disregard of the local government's local laws – including city charters, ordinances, administrative regulations, school district bylaws, etc.

51. The Act further granted a state financial review team the power to enter into a consent agreement with local government, again without a finding that a financial emergency existed.

52. At the time PA 4 became law, reports from the State indicated that, based on their financial conditions, over eighty (80) municipalities and/or school systems were eligible to have emergency managers.

53. After passage of PA 4, existing EFMs in the cities of Benton Harbor, Ecorse and Pontiac and over the Detroit Public Schools were converted to EMs and vested with PA 4



powers. The state's consent agreement with the city of River Rouge was also converted to a PA 4 agreement.

54. With the continuing global economic recession and steep declines in state revenue sharing and municipal property tax and income tax revenue collection, PA 4 EMs were newly appointed as follows:

- a. Flint from 2011 until the present (2+ years);
- b. Highland Park Public Schools from 2012 until the present (1+ year); and
- c. Muskegon Heights Public Schools until the present (1+ year).

Additionally, the state entered PA 4 consent agreements with the cities of Detroit<sup>4</sup> and Inkster.

55. After becoming vested with Public Act 4 powers, EMs in Benton Harbor, Ecorse, Flint, and Pontiac have all exercised general legislative power to enact, repeal and suspend local laws and resolutions and have voided various contracts.

***Michigan Citizen's Rejection of Public Act 4  
And the State's Resurrection of Public Act 72***

56. In opposition to Public Act 4, citizens began circulating petitions in May 2011. The petitions were to place a referendum on the ballot that would reject the law. Over 200,000 signatures were gathered and the petitions were submitted to the Secretary of State in February 2012. However to prevent Michigan citizens from having the opportunity to vote on the matter, the petitions were challenged by a lobbying group.

57. The petitions were challenged on the basis that the title of the petitions were not printed in 14 point font but rather were printed in slightly smaller font of approximately 13.75 or larger.<sup>5</sup>

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<sup>4</sup> The state has struggled to identify the state law(s) providing legal authority for the transfer of powers and oversight that was created by the agreement with the city of Detroit. Over time, the state seems to have settled into a belief that PA 4 provided such authority.

58. Along party-line votes, the members of the state Board of Canvassers deadlocked and as a result, the petitions were not certified for the ballot.

59. The matter was then appealed to the Michigan Court of Appeals. A panel of the Court of Appeals recognized and found that existing law required the referendum to be placed on the ballot. However, the panel sought to overturn existing law, and thereby keep the referendum off the ballot. The panel requested that the full Court of Appeals be polled to convene a special panel to reconsider existing law. The full Court of Appeals however declined to convene the special panel.

60. An appeal was taken to the state Supreme Court. The Michigan Attorney General in his individual capacity and Governor in his individual and/or official capacity joined the challengers as amici at the state Supreme Court.

61. On August 3, 2012, the Michigan Supreme Court issued an opinion ordering the state Board of Canvassers certify the petitions and place the referendum on the ballot.

62. However on August 6, 2012, the state Attorney General issued a formal opinion stating that once the petitions were certified<sup>6</sup>, PA 72 would spring back into effect and would remain in effect if voters rejected PA 4 at the November 2012 election.

63. The state Board of Canvassers certified the petitions on August 8, 2012 and by operation of Michigan law, PA 4 was then suspended until the November.

64. In response, state officials reappointed all existing PA 4EMs as PA 72 EFM's and proclaimed that all existing consent agreements would continue in place as PA 72 consent agreements.

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<sup>5</sup> No evidence was submitted and it was not argued that signatories of the petitions had been confused or misunderstood what they had signed. In fact, the difference in point size as argued by the challenger was invisible to the naked eye of many.

<sup>6</sup> Pursuant to Michigan law, once the petitions were certified PA 4 was then suspended until the voters could decide the matter at the next general election.

65. After certification of the referendum, existing PA 4 EMs were converted to EFMs in the cities of:

- a. Benton Harbor;
- b. Ecorse;
- c. Flint; and
- d. Pontiac.

66. Additionally EMs over the following school districts were converted to Public Act 72 EFMs:

- a. Detroit Public Schools;
- b. Highland Park Public Schools; and
- c. Muskegon Heights Public Schools.

67. Finally, the state's consent agreements with the cities of Detroit, Inkster and River Rouge were proclaimed converted to PA 72 agreements.

68. At the general election on November 6, 2012, Michigan voters overwhelmingly elected to reject PA 4.

***Michigan Legislature's Attempt to Overturn Citizen's Vote to  
Reject Public Act 4 by Enacting Public Act 436***

69. In response to the decision of Michigan voters to reject PA 4, incensed state officials and segments within the state legislature quickly moved to reenact a new law with emergency manager provisions that are substantially identical to the rejected law.

70. During the lame-duck session, the state legislature moved quickly to reenact the emergency manager provisions of Public Act 4. The new bill passed the state House and Senate on December 13, 2012 and was signed into law as the *Local Financial Stability and Choice Act*, Act No. 436, Public Acts of 2012, on December 26, 2012.

71. Public Act 436 again changes the title of existing PA 72 “emergency financial managers” to “emergency managers” and again expands the scope of their powers to cover all the conduct of local government.

72. The PA 436 EM’s powers are substantially identical to the powers that had been granted under PA 4. Public Act 436 EMs are empowered to fully act “for and in the place of” the municipality’s governing body. The grant of powers again includes a general grant of legislative power to emergency managers.

73. Along with the general grant of legislative power to emergency managers, Public Act 436 exempts the EM from following existing city charters and local ordinances.

74. The new law does not provide any process that EMs must follow in the adoption or repeal of local laws, but rather permits the EM to do so by private orders, not subject to open meetings requirements.

75. Public Act 436 states that EMs appointed under PA 4 and EFMs appointed under PA 72 shall be considered EMs under PA 436 when the new law takes effect.

76. Additionally, PA 436 permits the Governor to appoint persons appointed as EMs under PA 4 and as EFMs under PA 72 to serve as PA 436 EMs under the new law.

77. Under PA 436, all EMs serve at the pleasure of the Governor and continue to serve until removed by the Governor or until the Governor finds that the financial emergency has been rectified.

78. Public Act 436 permits the Governor to delegate his powers and duties to the state treasurer and the state treasurer oversees the activities of emergency managers.

79. When PA 436 took effect on March 28, 2013, EMs were in place over the cities of Allen Park, Benton Harbor, Ecorse, Flint, Pontiac and Detroit and over the Detroit Public

Schools, Highland Park Public Schools, and Muskegon Heights Public Schools. Finally, the state's consent agreements with Inkster and River Rouge were again converted – now to PA 436 agreements.

80. Since March 28, 2013, the City of Hamtramck has had an emergency manager placed in control of the city's governance and the emergency managers in the Cities of Ecorse and Pontiac have had their emergency managers replaced by "transition advisory boards", which, under PA 436 have final say over governance matters in these communities.

81. Under PA 436, elected officials in each of these communities are displaced and/or be divested of governing and law-making authority and citizens have effectively lost their right to vote and/or saw an abridgment or dilution of their right to vote for their local legislative bodies, chief executive officers, and school boards.

82. Local elected officials are thereby effectively removed from office under PA 436 and this removal occurs without any showing of malfeasance or misfeasance causing or contributing to the financial circumstances faced by their municipality or school district. In so doing, the Act implicitly assumes that these local officials were guilty of corruption or gross incompetence that caused or contributed to the financial circumstances of their municipality or school district. Public Act 436 makes this assumption of guilt and removes elected officials without any finding of fault on the part of local elected officials and without any form of due process.

83. In each of these communities, citizens will have effectively lost their right to vote for local elected officials or had that right diluted so as to render it an exercise in form without substance.

84. There is no question that Michigan's emergency manager laws have disproportionately impacted the state's population of citizens from African-American descent.

85. The Black/African-American population of each of the cities where an emergency manager or consent decree will be in place when PA 436 takes effect, is as follows:

- a. Benton Harbor: 8,952 persons comprising 89.2% of the city's population;
- b. Ecorse: 4,315 persons comprising 46.4% of the city's population;
- c. Pontiac: 30,988 persons comprising 52.1% of the city's population;
- d. Flint: 57,939 persons comprising 56.6% of the city's population;
- e. Inkster: 18,569 persons comprising 73.2% of the city's population;
- f. River Rouge: 3,994 persons comprising 50.5% of the city's population;
- g. Detroit: 590,226 persons comprising 82.7% of the city's population,
- h. Highland Park: 10,906 persons comprising 93.5% of the city's population;
- i. Muskegon Heights: 8,501 persons comprising 78.3% of the city's population;
- j. Allen Park: 587 persons comprising 2.1% of the city's population; and
- k. Hamtramck: 4,266 comprising 19.3% of the city's population.

The Black/African-American population of these cities totals 734,947 persons.

86. As a result of the Defendants' actions under Public Act 436, fifty two (52%) of the state's Black/African-American population are under the governance of an emergency manager, consent agreement and/or a transition advisory board. In each of these communities, citizens will have either lost or experienced severe restrictions imposed on their right to vote and to participate in public affairs.

87. There is also no question that each of the aforementioned cities are economically poor communities where significant household wealth has been lost since the onset of the current recession. In these communities, the percentage of persons living below the poverty level is:

- a. Benton Harbor – 48.7%;
- b. Ecorse – 32.7%;
- c. Pontiac- 32%;
- d. Flint – 36.6%;
- e. Inkster – 33.2%;
- f. River Rouge – 40.1%;
- g. Detroit – 34.5%;
- h. Highland Park – 43.7%;
- i. Muskegon Heights – 45.6%; and
- j. Hamtramck – 46.3%.

The Michigan average is 15.7%. The City of Allen Park is thus the only city with an EM where the poverty level is not at least double the state average.

88. Like PA 4, Public Act 436 reestablishes a new form of local government that is repugnant to the constitutional liberties of all Americans.

89. Despite a long national history of municipal financial crises following national and global economic depressions and recessions, no other state in the nation has engaged in similar experiments in undemocratic governance as a solution to economic downturns.

90. Under Public Act 436, the people become subject to government that is composed of one unelected official who wields absolute power over all aspects of local government and whose decisions are without review by either local elected officials or local voters.

## V. CAUSES OF ACTION

### COUNT I – 42 U.S.C. §1983 -- Constitutional Violation US Const, Amend. XIV – Substantive Due Process – Right to a To Elect Officials Who Possess General Legislative Power

91. Plaintiffs incorporate by reference paragraphs 1 through 90 above as though fully stated herein.

92. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

93. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, Defendants have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV of the U.S. Constitution.

94. Amendment XIV of the U. S. Constitution holds, in pertinent part: "nor shall any state deprive any person of life, liberty, or property without due process of Law."

95. Under the Due Process Clause, each person has a liberty interest in their right to a democratically elected from of local government.

96. Under the Due Process Clause, each person has a liberty interest in their right to elect officials of any level of government that exercise general legislative powers.

97. Under state law, Michigan cities possess local legislative power to enact make charters, adopt and repeal local laws, and pass resolutions.

98. Under state law, Michigan cities' legislative power over matters within their jurisdiction is of the same scope and nature as the police power of the state.

99. When a state establishes a local government with legislative power, it must be democratic in form and substance.

100. The right to a democratic form of government is a fundamental right afforded to all citizens in the state of Michigan through the United States Constitution.

101. The right to a vote for the officials of local government who exercise general legislative powers is a fundamental right afforded to all citizens in the state of Michigan through



the United States Constitution. When a state grants general legislative power to a governmental official, the official must be democratically elected.

102. On its face, as applied, and in practice, Public Act 436 violates the Due Process Clause of US Const., Amend. XIV and disenfranchises citizens from their right to a democratically elected form of local government and their right to elect local officials who possess general legislative power, through provisions that delegate to EMs the power to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

103. On its face, as applied, and in practice, Public Act 436 violates the Due Process Clause of US Const., Amend. XIV and disenfranchises citizens from their right to a democratically elected form of local government and their right to elect local officials who possess general legislative power, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

104. The provisions of PA 436 and the powers granted thereby, are not necessary,

narrowly tailored, rationally, or otherwise lawfully related to achieving the purported government interests of achieving local government financial stability.

105. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT II – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Art 4, §4 – Republican Form of Government**

106. Plaintiff incorporates by reference paragraphs 1 through 105 above as though fully stated herein.

107. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

108. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective official capacities, Defendants have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Art. 4, §4 of the U.S. Constitution.

109. Article 4, section 4 of the U.S. Constitution states that the "United States shall guarantee to every state in this union a republican form of government."

110. Since our nation's founding, federal, state, and local governments throughout the country have been republican forms of government – governments of representatives chosen by the people governed.

111. In the United States and in Michigan, local governments are traditionally democratically elected and republican in form.

112. Public Act 436 unconstitutionally strips local voters of their right to a republican form of government by transferring governance, including but not limited to legislative powers, from local elected officials to one unelected emergency manager.

113. On its face, as applied, and in practice, Public Act 436 violates the US Const., Art. 4, §4 through provisions of the statute that permit EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

114. On its face, as applied, and in practice, Public Act 436 violates the US Const., Art. 4, §4 through provisions of the statute that ratify the legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

115. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the governing authority and legislative powers of duly elected public officials in affected municipalities throughout the state of Michigan.

116. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT III – 42 U.S.C. §1983 -- Constitutional Violation**

**US Const, Amend. XIV, § 1 –Equal Protection a Fundamental Right – Voting Rights**

117. Plaintiffs incorporate by reference paragraphs 1 through 116 above as though fully stated herein.

118. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

119. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violated Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

120. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

121. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

122. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

123. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

124. Public Act 436 impermissibly denies, abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the

some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

125. Public Act 436 impermissibly abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly abridged and/or diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

126. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly deny, abridge and/or impermissibly dilute the community's right to vote for local officials. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;

- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

127. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly revoke the community's right to vote for local officials, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

128. Under Public Act 436, Defendants have authority to deprive Plaintiffs of their rights to equal protection by divesting communities of their right to vote for local officials and by removing the authority of duly elected public officials in favor of an unelected EM in such communities.

129. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities with disproportionately high poverty rates.

130. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

131. As a direct and proximate result of the enactment of Public Act 436 and

Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT IV – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, § 1 –Equal Protection based on Race – Voting Rights**

132. Plaintiffs incorporate by reference paragraphs 1 through 131 above as though fully stated herein.

133. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

134. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

135. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

136. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

137. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

138. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

139. Public Act 436 impermissibly denies, abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school

districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

140. Public Act 436 impermissibly abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly abridged and/or diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

141. Under Public Act 436, all stated criteria for appointing an EM are based on a community's wealth and by extension, the wealth of the persons who reside within a community.

142. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for



local officials based on the racial composition of that community. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

143. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for local officials based on the racial composition of that community and that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

144. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities comprising more than 53% of the state's population of citizens who are of African American descent.

145. The provisions of PA 436 and the powers granted thereby, are not necessary,

narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

146. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally protected rights.

**COUNT V – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, § 1 –Equal Protection based on Wealth – Voting Rights**

147. Plaintiffs incorporate by reference paragraphs 1 through 146 above as though fully stated herein.

148. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

149. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution

150. Amendment XIV, § 1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

151. The Equal Protection Clause protects laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

152. The right to vote in local elections is a fundamental right afforded to all citizens in the state of Michigan by the United States Constitution, the Michigan Constitution, and the Michigan Home Rule Cities Act.

153. Public Act 436's EM provisions effectively revoke the right to vote by stripping governing authority from local elected officials and transferring such authority to one unelected EM with no accountability to local citizens.

154. Public Act 436 impermissibly denies, abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

155. Public Act 436 impermissibly abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly abridged and/or diluted by the statewide participation of the electorate, while the votes of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

156. Under Public Act 436, all stated criteria for appointing an EM are based on a community's wealth and by extension, the wealth of the persons who reside within a community.

157. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that condition the revocation of the community's right to vote for local officials based on the wealth of that community and the individuals who reside there. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

158. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute that unduly revoke citizen's right to vote for local officials based on the wealth of their community and themselves, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

159. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by terminating and/or removing the authority of duly elected public officials in various municipalities with disproportionately high poverty rates.

160. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

161. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT VI- Voting Rights Act of 1965,**  
**42 U.S.C. § 1973 et. seq.**

162. Plaintiffs incorporate by reference paragraphs 1 through 161 above as though fully stated herein.

163. Section 2 of the Voting Rights Act of 1965, as amended, reads:

(a) No voting qualification or prerequisite to voting or standard, practice, or procedure shall be imposed or applied by any State or political subdivision in a manner which results in a denial or abridgement of the right of any citizen of the United States to vote on account of race or color, or in contravention of the guarantees set forth in section 4(f)(2), as provided in subsection (b).

(b) A violation of subsection (a) is established if, based on the totality of circumstances, it is shown that the political processes leading to nomination or election in the State or political subdivision are not equally open to participation by members of a class of citizens protected by subsection (a) in that its members have less opportunity than other members of the electorate to participate in the political process and to elect representatives of their choice.

164. Section 2 of the Voting Rights Act, 42 U.S.C. § 1973 prohibits the denial, abridgement or dilution of Black/African-American citizens' right to vote in state and local

elections.

165. Michigan's population is estimated at 9,876,187 persons. The Black/African-American's comprise approximately 14.2% of the state's population (1,400,362 persons).

166. As a result of the passage of PA 436, once the law comes into effect more than fifty percent of the state's Black/African-American population will have had their voting rights in local elections effectively revoked.

167. Public Act 436 impermissibly denies, abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials and the EM is vested with all governing authority over the municipality and school district. While the some EMs may nominally retain elected officials in office as advisory personnel, elected officials' governing authority is substantially removed, circumscribed, and conditional – to be exercised at the sole discretion of the EM.

168. Public Act 436 impermissibly abridges and/or dilutes citizen's right to vote in local elections where EMs have been appointed. In these municipalities and school districts, the local government – in the person of the EM - is appointed by state officials who are elected by citizens across the entire state of Michigan. Through the statewide vote of state officials and their derivative appointments, the state has publicly argued that democratic election of local government is preserved in the affected municipalities and school districts. Thus, the entire state electorate participates in the selection of the local government in the affected municipalities and school districts, while in all other localities across the state, local residents alone directly vote for their local elected officials. The vote of citizens for their local government in affected localities is grossly abridged and/or diluted by the statewide participation of the electorate, while the votes

of citizens in localities without an EM are preserved for local residents alone and thereby attains greater weight.

169. On its face, as applied, and in practice, Public Act 436 violates the Voting Rights Act through provisions that provide for the appointment of Ems, entering of consent agreements and appointment of transition advisory boards that deny, abridge and dilute the voting rights of citizens within these localities. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and
- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

170. On its face, as applied, and in practice, Public Act 436 violates the Voting Rights Act through provisions of the statute that discriminate in the appointment of an EM and revocation of the community's right to vote for local officials based on the racial composition of that community and that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

171. Under the totality of the circumstances, the application of Public Act 436 and enforcement has resulted in Black/African American citizens having dramatically less

opportunity for self-governance than other members of Michigan's electorate.

172. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

173. In addition to declaratory and other relief as permitted pursuant to Section 2 of the Voting Rights Act, Plaintiffs request that this court retain jurisdiction and impose Section 3(c) preclearance since Defendants have impermissibly denied, abridged and/or diluted voting rights in violation of Section 2 of the Voting Rights Act and the Fourteenth Amendment of the U.S. Constitution.

**COUNT VII – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. I –Freedom of Speech & Right to Petition Government**

174. Plaintiffs incorporate by reference paragraphs 1 through 173 above as though fully stated herein.

175. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

176. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. I of the U.S. Constitution.

177. Amendment I of the US Constitution states in pertinent part, "Congress shall make no law ... abridging the freedom of speech ... and to petition the Government for a redress of grievances."

178. Plaintiffs, as citizens of the State of Michigan, have engaged in constitutionally-protected speech on matters of public concern by voting and electing local government officials to serve as their elected representatives.



179. Plaintiffs, as citizens of the State of Michigan, have engaged in a Constitutionally protected right to petition their local governments on matters of public concern by interacting with duly elected local officials, expressing their concerns, and having them serve as their elected representatives.

180. The elected officials chosen by the Plaintiffs to serve as their representatives have been inclusive of, but not limited to, mayors, city councils, and local school board members of various municipalities.

181. Plaintiffs, as citizens of the State of Michigan, have engaged in their Constitutionally protected right to free speech and to petition their government, by repealing Public Act 4.

182. On its face, as applied, and in practice, Public Act 436 is the mirror image of Public Act 4 and its enactment contrary to the expressed will of the people through the referendum process violates the US Const., Amend. I.

183. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. I through provisions that empower EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and

- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

184. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. I through provisions that provide for the appointment of EMs with powers that strip all authority of local elected officials, through provisions of the statute that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

185. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

186. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT VIII – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIII, § 1 – Vestiges of Slavery – Voting Rights**

187. Plaintiffs incorporate by reference paragraphs 1 through 185 above as though fully stated herein.

188. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

189. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities, have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIII of the U.S. Constitution

190. Amendment XIII, § 1 bans and form of “slavery or involuntary servitude” within the jurisdiction of the United States of America. The Thirteenth Amendment further bans acts which perpetuate the badges and incidents of servitude.

191. Systematic denial of voting rights in local elections to Michigan’s Black/African-American citizens is a perpetuation of the vestiges of slavery and involuntary servitude.

192. Public Act 436 effectively revokes the right to vote by intentionally stripping governing authority from local elected officials and transferring such authority to one unelected EM who serves as the overseer of municipalities or school districts, which are overwhelming Black/African American majority communities, with no accountability to local citizens.

193. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. XIII, § 1 through provisions of the statute that perpetuate the vestiges of slavery by discriminatorily and intentionally revoking the community’s right to vote for local officials based on the racial composition of that community. Such provisions include those that provide for EMs to:

- a. Be selected and appointed solely at the discretion of the Governor; See provisions including but not limited to MCL §141.1549;
- b. Become vested with Public Act 436 EM powers for persons previously appointed or acting as EFMs under prior laws; See provisions including but not limited to MCL §141.1549;
- c. Act for and in the place and stead of the local governing body of cities and villages and to assume all the powers and authority of the local governing body and local elected officials. See provisions including but not limited to MCL §141.1549, §141.1550, and §141.1552;
- d. Rule by decree over cities and villages through powers that permit the EM to contravene and thereby implicitly repeal local laws such as city and village charters and ordinances; See provisions including but not limited to MCL §141.1552; and

- e. Explicitly repeal, amend, and enact local laws such as city and village ordinances. See provisions including but not limited to MCL §141.1549 and §141.1552.

194. On its face, as applied, and in practice, Public Act 436 violates the US Const., Amend. XIII, § 1 through provisions of the statute that perpetuate the vestiges of slavery by discriminatorily revoking the community's right to vote for local officials based on the racial composition of the community that ratify appointments made and legislative acts taken by EMs acting under Public Act 4. See provisions including but not limited to MCL §141.1570.

195. Defendants have caused injury to the Plaintiffs by exercising the authority granted under Public Act 436 by intentionally terminating and/or removing the authority of duly elected public officials in various municipalities comprising more than fifty-two percent (52%) of the state's population of citizens who are of African American descent.

196. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

197. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**COUNT IX – 42 U.S.C. §1983 -- Constitutional Violation**  
**US Const, Amend. XIV, §1 –Equal Protection – Removal of Emergency Managers**

198. Plaintiffs incorporate by reference paragraphs 1 through 196 above as though fully stated herein.

199. Plaintiffs bring this claim pursuant to 42 U.S.C. §1983.

200. Acting under color of law and pursuant to the customs, policies and practices of the State of Michigan, Defendants, acting in their respective individual and/or official capacities,

have engaged in conduct and adopted laws and policies that violate Plaintiffs' rights under Amend. XIV, §1 of the U.S. Constitution.

201. Amendment XIV, §1 states in pertinent part, "No state shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws."

202. The Equal Protection Clause protects against laws and the application of laws that invidiously discriminate between similarly situated individuals or between groups of persons in the exercise of fundamental rights.

203. The Equal Protection Clause also protects against laws and the application of laws that discriminate among similarly situated individuals or between groups of persons when no rational basis exists for such discrimination.

204. Public Act 436 permits cities and school boards to pass a resolution by a 2/3 vote and with the approval of strong mayors thereby remove their EMs after 18 months in office.

205. At the same time, Public Act 436 converts all existing EFMs to EMs. Many of the existing managers have been in place for months and even years longer than the 18 month time period after which elected officials to pass a resolution by a 2/3 vote and the approval of strong mayors for the removal such managers.

206. Thus, the law discriminates against cities and school districts where EFMs and EM have been and are currently in place. The law discriminates against these municipalities requiring them to suffer an additional 18 months with an EM despite their having had such officials in place much longer than this time period. At the same time, municipalities that newly receive such managers will be permitted to after which elected officials to pass a resolution by a 2/3 vote and the approval of strong mayors for the removal of such officials after they have been in office for 18 months.

207. On its face, as applied, and in practice, Public Act 436 violates the Equal Protection Clause of US Const., Amend. XIV, § 1 through provisions of the statute discriminate between cities and school boards that presently have had EMs for significantly longer than 18 months and those that will receive EMs after March 28, 2013. Such provisions include but are not limited to MCL §141.1549(11).

208. The provisions of PA 436 and the powers granted thereby, are not necessary, narrowly tailored, rationally, or otherwise lawfully related to achieving the asserted government interests of achieving local government financial stability.

209. As a direct and proximate result of the enactment of Public Act 436 and Defendants' actions, Plaintiffs have suffered and will continue to suffer a loss of their constitutionally-protected rights.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray this Honorable court enter Judgment against Defendants providing:

- a. For declaratory relief holding that Public Act 436 violates the United States Constitution, Art. 4, §4; Amend I; Amend XIII; and Amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973 *et. seq.*;
- b. For liquidated, compensatory, and punitive damages in an amount fair and just under the circumstances;
- c. For preclearance remedies as permitted by 42 USC § 1973a(c);
- d. For attorneys' fees and costs; and
- e. For such further relief as is just and equitable.

December 2, 2013

Respectfully Submitted,

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Bankruptcy\Pldgs\response to m-recon Ex. 6  
Complaint-Federal-1st Amended (2).doc



UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
10.	12/20/2013	2256	Order Denying Motion for Reconsideration (Dkt. #1745)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:  
City of Detroit, Michigan,  
Debtor.

Chapter 9  
Case No. 13-53846  
Hon. Steven W. Rhodes

**Order Denying Motion for Reconsideration (Dkt. #1745)**

Governor Rick Snyder and former Treasurer Andy Dillon filed a motion for reconsideration of this Court's Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004). (Dkt. #1536) The City of Detroit filed a concurrence and joinder. (Dkt. #1777) The Court entered an order requiring the Phillips parties to file a response and setting the matter for hearing on December 16, 2013. Following the hearing, the Court took the matter under advisement.

This motion is to be decided pursuant to Local Bankruptcy Rule 9024-1(a)(3), which provides:

Generally, and without restricting the discretion of the court, a motion for reconsideration that merely presents the same issues ruled upon by the court, either expressly or by reasonable implication, shall not be granted. The movant shall not only demonstrate a palpable defect by which the court and the parties have been misled but also show that a different disposition of the case must result from a correction thereof.

LBR 9024-1(a)(3).

The State essentially argues that even though the plaintiffs in this suit have removed any request for the removal of Kevyn Orr as Detroit's emergency manager, a successful challenge to P.A. 436 will inevitably lead to that result. However, the Court must conclude that such is not the case. A finding by another court that P.A. 436 is unconstitutional will not automatically



result in the removal of Kevyn Orr. Further action would need to be taken, and any such further action is subject to the automatic stay. Accordingly, the motion for reconsideration is denied.

It is so ordered.

**Signed on December 20, 2013**

/s/ Steven Rhodes  
**Steven Rhodes**  
**United States Bankruptcy Judge**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S DESIGNATION OF  
ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
11.	1/23/2014	2546	Transcript of December 16, 2013 Hearing Regarding Docket #1745 (transcript order pending)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
**TRANSCRIPT ORDER FORM**

111 First Street  
Bay City, MI 48708

211 W. Fort Street  
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Detroit, MI 48226

226 W. Second Street  
Flint, MI 48502

**Order Party: Name, Address and Telephone Number**

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**Case/Debtor Name: In Re: City of Detroit**

Case Number: **13-53846**

**Chapter:**

Hearing Judge Hon. Steven Rhodes

Bankruptcy     Adversary

Appeal    Appeal No: \_\_\_\_\_

**Hearing Information** (A separate form must be completed for **each** hearing date requested.)

Date of Hearing: 12/16/2013    Time of Hearing: 10 am    Title of Hearing: Detroit Bankruptcy

Please specify portion of hearing requested:     Original/Unredacted     Redacted     Copy (2<sup>nd</sup> Party)

Entire Hearing     Ruling/Opinion of Judge     Testimony of Witness     Other

Special Instructions: Hearing on motion for reconsideration of docket 1745

**Type of Request:**

- Ordinary Transcript - \$3.65 per page (30 calendar days)
- 14-Day Transcript - \$4.25 per page (14 calendar days)
- Expedited Transcript - \$4.85 per page (7 working days)
- CD - \$30; FTR Gold format - You must download the free FTR Record Player™ onto your computer from [www.ftrgold.com](http://www.ftrgold.com)

**FOR COURT USE ONLY**

Transcript To Be Prepared By \_\_\_\_\_

\_\_\_\_\_  
Date                      By

Order Received: \_\_\_\_\_

Transcript Ordered \_\_\_\_\_

Transcript Received \_\_\_\_\_

**Signature of Ordering Party:**

/s/ Matthew Schneider                      Date: 1/23/2014

By signing, I certify that I will pay all charges upon completion of the transcript request.

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**APPELLANT STATE OF MICHIGAN'S  
AMENDED DESIGNATION  
OF THE CONTENTS OF THE RECORD**

Pursuant to Rule 8006 of the Federal Rules of Bankruptcy Procedure, appellant State of Michigan submits this amended designation of the contents of the record in addition to the Designation and Statement of Issues on Appeal filed January 23, 2014, [Dkt. #2547]

**I. AMENDED DESIGNATION OF THE CONTENTS OF THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
11.	1/23/2014	2546	Transcript of December 16, 2013 Hearing Regarding Docket #1745 (transcript)

Respectfully submitted,

/s/Matthew Schneider

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Chief Legal Counsel

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Attorney for State of Michigan

Dated: January 27, 2014

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ATTACHMENT**

**APPELLANT STATE OF MICHIGAN'S AMENDED  
DESIGNATION OF ITEMS  
TO BE INCLUDED IN THE RECORD ON APPEAL**

<b>Item</b>	<b>Date Filed</b>	<b>Docket #</b>	<b>Description</b>
11.	1/23/2014	2546	Transcript of December 16, 2013 Hearing Regarding Docket #1745 (transcript)



UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

IN RE: CITY OF DETROIT, . Docket No. 13-53846  
MICHIGAN, .  
. . Detroit, Michigan  
. . December 16, 2013  
Debtor. . 2:30 p.m.  
. . . . .

HEARING RE. MOTION TO MODIFY AUTOMATIC STAY; MOTION FOR RECONSIDERATION/REHEARING; MOTION FOR RELIEF FROM STAY AND WAIVING THE FRBP 4001 (a) (3) RE. ALLOW CIVIL LITIGATION TO PROCEED FOR DISCOVERY PURPOSES AND/OR TO RECOVER ANY INSURANCE COVERAGE UNDER DEFENDANTS' HOMEOWNER'S INSURANCE POLICIES; MOTION FOR RELIEF FROM STAY FILED BY CREDITOR ST. MARTINS COOPERATIVE; MOTION FOR RELIEF FROM STAY FILED BY INTERESTED PARTIES ST. JAMES COOPERATIVE, JOLIET TOWN HOUSES COOPERATIVE ASSOCIATION, LAFAYETTE TOWN HOUSES, INC., NICOLET TOWN HOUSES COOPERATIVE ASSOCIATION, LASALLE TOWN HOUSES COOPERATIVE ASSOCIATION BEFORE THE HONORABLE STEVEN W. RHODES UNITED STATES BANKRUPTCY COURT JUDGE

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1 THE CLERK: All rise. Court is in session. Please  
2 be seated. Case Number 13-53846, City of Detroit, Michigan.

3 THE COURT: One moment, please. I'd like to deal  
4 first with the motion for relief from stay filed on behalf of  
5 Mobley and other parties.

6 MR. KOROBKIN: Thank you, your Honor. Good  
7 afternoon, your Honor. Daniel Korobkin on behalf of --

8 THE COURT: You need to stand at the lectern and  
9 speak into the microphone to get your appearance on the  
10 record.

11 MR. KOROBKIN: My apologies, your Honor. Daniel  
12 Korobkin on behalf of Ian Mobley, et al., who are the movants  
13 on this matter, and with me are Ron Rose from Dykema and  
14 Michael Steinberg also from the ACLU.

15 THE COURT: Okay. You may proceed.

16 MR. KOROBKIN: Thank you, your Honor. Well, most of  
17 the issues are briefed, but I wanted to point to several  
18 aspects of the case that we believe make this motion  
19 particularly compelling. Number one, the Sixth Circuit case  
20 at issue here and its outcome is completely unrelated to the  
21 bankruptcy, and so it'll have no adverse impact on the  
22 bankruptcy or the estate if the stay is lifted.

23 Secondly and relatedly, the Sixth Circuit case at  
24 issue here has been completely briefed, so allowing the  
25 appeal to proceed is not going to be expensive, time-

1 consuming for the city in any appreciable way.

2           Number three, furthermore, the plaintiffs are not  
3 seeking permission to enforce a judgment or collect money  
4 damages outside of the bankruptcy forum. They're asking for  
5 a limited stay -- limited relief from the stay of allowing  
6 the Sixth Circuit to rule on the legal issues after which the  
7 plaintiffs have agreed that the stay can be reinstated, and  
8 their claim will likely proceed through the claims resolution  
9 process. And finally -- and I think this is the heart of the  
10 motion and the most important point -- is this is an appeal  
11 where the public interest, your Honor, in allowing the Sixth  
12 Circuit to rule weighs heavily in favor of lifting the stay.  
13 Mobley is an important civil rights, civil liberties case  
14 that was brought to challenge a widespread practice by the  
15 Detroit Police Department of arresting innocent people and  
16 seizing their cars based merely on their presence at a  
17 location where some other illegal activities is taking place  
18 and without probable cause that those individuals are  
19 actually involved in the illegal activity.

20           Now, this case was litigated for years based on the  
21 plaintiff's goal, the plaintiff's goal not principally of  
22 recovering a large damages award but, rather, to put an end  
23 to this constitutional practice and deter the same thing from  
24 happening to others. So, in other words, this case  
25 exemplifies the tradition of private parties acting in the

1 public interest by filing a Section 1983 case, investing  
2 years of time and effort building an appropriate record and  
3 then seeking a clear published decision by the federal  
4 appellate court that will establish binding precedent for the  
5 future. And, in fact, as indicated on our brief with a very  
6 lengthy quote from a U.S. Supreme Court case, the Supreme  
7 Court has explicitly recognized that it's Congress' intent  
8 for Section 1983 cases such as this one to vindicate  
9 important public interests in civil rights and civil  
10 liberties that -- and those interests themselves transcend  
11 the monetary value of whatever damages award may result. And  
12 so the Supreme Court recognized that the relief a plaintiff  
13 obtains in a case like this secures important social benefits  
14 that are not reflected in small damages awards. Well,  
15 building on that, those social benefits are even greater.  
16 They're even more obvious here when a federal appeals court,  
17 which is the case here, is in a position to issue a  
18 precedential decision on important matters of constitutional  
19 law. And if the stays in this case are lifted, this benefit  
20 can be realized by virtue of wherever this case is at  
21 procedurally at virtually no cost to the city or the estate.

22           So to summarize, the plaintiff's motion requires the  
23 Court to balance the harms and equities, and we submit that  
24 when one compares the tremendous interests supporting the  
25 plaintiff's motion with the truly minimal expense that the

1 city might incur if the stay is lifted on an already briefed  
2 appeal, it's clear that the equities favor the modest and  
3 limited relief we are seeking here.

4 THE COURT: Remind me when were the events that gave  
5 rise to the claim?

6 MR. KOROBKIN: The events occurred in 2008, your  
7 Honor, so we've been working on this for five years.

8 THE COURT: Is it your position that the city's  
9 practices that you describe in your complaint or that form  
10 the basis of your complaint are still going on?

11 MR. KOROBKIN: Well, it was certainly the finding of  
12 the District Court that they were widespread; that they were  
13 a custom and policy and a standard operating procedure of the  
14 Detroit Police Department, and although it's not a matter of,  
15 I suppose, the official record, we tried to get this case  
16 resolved through an agreement by the city to stop doing --  
17 stop engaging in this particular act, and that attempt was  
18 unsuccessful, and so it's our position -- and not only that,  
19 but when we won summary judgment at the District Court level  
20 where the District Court ruled that this practice was  
21 widespread and unconstitutional, the defendants appealed, so  
22 it seems that they have the position that they should be able  
23 to continue doing this. It's obviously our position that  
24 it's unconstitutional, and this is the kind of -- this is  
25 exactly the kind of case that Congress had in mind, that the

1 Supreme Court had in mind that will resolve this once and for  
2 all.

3 THE COURT: Do you have any evidence that it's still  
4 going on?

5 MR. KOROBKIN: It wasn't our -- you know, it wasn't  
6 our goal to collect that evidence in terms of --

7 THE COURT: The answer is no?

8 MR. KOROBKIN: The answer -- well, I guess I can't  
9 present it to the Court.

10 THE COURT: Thank you.

11 MR. FUSCO: Good afternoon, your Honor. Timothy  
12 Fusco, Miller, Canfield, Paddock & Stone, for the city.

13 THE COURT: Is this still going on?

14 MR. FUSCO: Pardon me?

15 THE COURT: Is this still going on?

16 MR. FUSCO: No, your Honor, no. The appeal -- and  
17 that's one thing I do want to correct. We did not take the  
18 appeal so we could continue the practice. The appeal was  
19 taken on the narrow issue of qualified immunity of the  
20 officers. That is one area where you can take an  
21 interlocutory appeal, and, quite frankly, that was done in an  
22 effort to posture the city better for negotiating a  
23 resolution of the damage claim that if we were --

24 THE COURT: But your representation to the Court is  
25 that the city has stopped this practice?



1 MR. FUSCO: I've asked the city attorney, and it is  
2 not a policy of the city.

3 THE COURT: As of when?

4 MR. FUSCO: After Judge Roberts said we did it  
5 wrong. We're not disputing. That's not the issue that's in  
6 front of the Court of Appeals. The issue in front of the  
7 Court of Appeals is the narrow issue of whether these  
8 officers reasonably believed what they were doing was  
9 authorized and whether they should have personal liability  
10 for the actions that they took. They've been indemnified by  
11 the city for any damage award, so the very -- we're in front  
12 of the Sixth Circuit because the city appealed. The NAACP  
13 had no -- or the plaintiffs had no right to appeal this  
14 action, and, in fact, if the Court were to lift stay, we  
15 would likely move to withdraw our appeal. This is an action  
16 for damages.

17 Now, 1983, one of the prophylactic effects of 1983,  
18 it allows you to obtain damages, which can act as a  
19 deterrent, and we, I assume, will negotiate a damage award  
20 with the plaintiffs as part of the alternative dispute  
21 procedures, which the plaintiffs agree they must adhere to in  
22 order to determine the amount of the claim. And, again, they  
23 seem to believe that the appeal in front of the Sixth Circuit  
24 is the broader issue raised in the lawsuit of whether this  
25 course of conduct is constitutional or not. We have a ruling

1 on that. It's public. It was not. What the city did was  
2 improper and to my knowledge and what I've been told is not  
3 continuing now. In the context of the Chapter 9 case, the  
4 city does not need to be put to this appeal, one that it  
5 initiated and it will move to withdraw. What we should be  
6 doing is getting into the ADR process where we're faced  
7 with -- we have a judgment against us. We lost. That's not  
8 going to change on whatever the Sixth Circuit does, and  
9 that's the context in which we're going to resolve the  
10 monetary dispute. This case was brought for monetary  
11 damages, not for injunctive relief, and we will have to deal  
12 with that, so we see no purpose in lifting stay at this  
13 point.

14 THE COURT: Thank you. If the city --

15 MR. KOROBKIN: Your Honor, very --

16 THE COURT: -- has stopped the practice, where's the  
17 public interest in proceeding?

18 MR. KOROBKIN: Your Honor --

19 THE COURT: Haven't you won?

20 MR. KOROBKIN: What's that?

21 THE COURT: Haven't you won?

22 MR. KOROBKIN: Well, we did -- won in the District  
23 Court, your Honor, but it was the city's position --

24 THE COURT: Did you learn in law school that when  
25 you win, you sit down?

1 MR. KOROBKIN: If we had -- if we had won a  
2 precedential decision in the Sixth Circuit that this practice  
3 is unconstitutional and that were the binding precedent of  
4 the Sixth Circuit, we would sit down.

5 THE COURT: Why do you need that?

6 MR. KOROBKIN: Because, your Honor, the city --  
7 notwithstanding what Mr. Fusco said, the city has taken the  
8 position not only in the District Court but even in the Sixth  
9 Circuit in their brief that what they did and what, for all  
10 we know, they continue to do or intend to resume in the  
11 future is okay.

12 THE COURT: It's the "for all we know" part that  
13 makes it hard for the Court to justify granting relief from  
14 the stay. I asked you if you had any evidence that they were  
15 still doing it, and you said no, and Mr. Fusco says we've  
16 stopped. That's the record.

17 MR. KOROBKIN: Well, I think the -- I guess the  
18 record is neither that they're doing it nor that they're not  
19 doing it, but I think in the Supreme --

20 THE COURT: Well, but you don't have any reason to  
21 suspect Mr. Fusco's representation to the Court.

22 MR. KOROBKIN: Well, I do, and not -- nothing to do  
23 with Mr. Fusco, but the city's position in this case is --  
24 Mr. Fusco said that it is not the city's policy. The city's  
25 position in this case has always been that this is not their

1 policy. The District Court found otherwise. The city  
2 appealed, and that's one of the issues on appeal. Now, in  
3 the --

4 THE COURT: Let me ask you this --

5 MR. KOROBKIN: Yeah.

6 THE COURT: -- very direct question. If in the  
7 last five years or three years or two years or last year or  
8 six months there had been another incident like this one,  
9 wouldn't the ACLU have heard about it?

10 MR. KOROBKIN: Yes. We have heard --

11 THE COURT: And you haven't?

12 MR. KOROBKIN: No. I wanted to be very clear with  
13 your Honor that we have no evidence that we can put before  
14 the Court right now that says the city is continuing a  
15 practice of this. We have certainly heard evidence of that.

16 THE COURT: Well, then I have to ask again why do  
17 you need another court to tell you this is unconstitutional  
18 if the city has stopped doing it?

19 MR. KOROBKIN: Well, for one thing because they  
20 either haven't stopped doing it or they could resume doing it  
21 at any time. They've taken the legal position that they wish  
22 to have it known under the law that they can do this. And,  
23 quite frankly, your Honor --

24 THE COURT: Would it solve your problem if you hear  
25 of another incident to refile a motion for relief from the

1 stay?

2 MR. KOROBKIN: No. Unfortunately, your Honor, I  
3 don't think it would, and that's because these cases take  
4 years and years to build, and the goal in building this  
5 case -- because of why it's -- because of how difficult it is  
6 to get injunctive relief against police misconduct, the goal  
7 in building this case was to build a very clear record of  
8 what happened in the past and get it on the books that this  
9 is unconstitutional. We know that when we build that record  
10 and when we get a precedential ruling that that's  
11 unconstitutional, that that will have a deterrent effect on  
12 future conduct, but we don't know that that's the case when  
13 we get a district judge -- a District Court's ruling and then  
14 the city appeals. There are law enforcement agencies all  
15 over the state and possibly in other states that are waiting  
16 to hear whether or not this is going to be --

17 THE COURT: How will it help you to get a binding  
18 precedent on the issue of whether the city's practice was  
19 unconstitutional when that isn't even the issue before the  
20 Court?

21 MR. KOROBKIN: Yes. Your Honor, I disagree  
22 respectfully with Mr. Fusco that that's not the issue before  
23 the Court. In our reply brief we cite -- and it's in a  
24 footnote, but we cite the Sixth Circuit case that talks about  
25 the overlap between qualified immunity appeals and city

1 policy appeals. And in a qualified immunity appeal, there  
2 are two questions. One is whether the plaintiff's rights  
3 were violated, and the second is whether it was clearly  
4 established that those were their rights. Now, the first  
5 question overlaps with the question of what -- whether the  
6 city's policy or practice is unconstitutional, and that's  
7 what we would be achieving with the Sixth Circuit ruling.  
8 And the city's brief in the Sixth Circuit didn't -- they  
9 didn't -- unlike Mr. Fusco today, they didn't say, well, we  
10 know this is unconstitutional. This is just a narrow  
11 question of the officers' qualified immunity. They said what  
12 we did was perfectly fine, and we want the Court to  
13 acknowledge that. And then, of course, as their back-up  
14 argument, even if it was unconstitutional, these individual  
15 officers are entitled to immunity. Well, you know, frankly,  
16 your Honor, you know, if since what we've asked for from the  
17 Sixth Circuit is -- or if what we asked for from this Court  
18 is not an ability to enforce a judgment or collect money  
19 damages outside of the bankruptcy forum, even if the Sixth  
20 Circuit says it wasn't clearly established, it will be a  
21 victory for civil rights in and of itself if the Sixth  
22 Circuit rules in a precedential decision that this -- these  
23 kinds of arrests, this kind of practice is unconstitutional.  
24 It'll have an effect here in Detroit. It'll have an effect  
25 in Wayne County where the Wayne County Sheriff's Office does

1 a lot of raids of this kind, and it'll have an effect all  
2 over the state and in other states in the Sixth Circuit as  
3 well. I think this is an important case. It's an important  
4 decision, and if you compare the minimal burden to the city  
5 right now of simply having to argue --

6 THE COURT: Where are you -- where are you if the  
7 motion is granted and the city withdraws the appeal?

8 MR. KOROBKIN: I suppose that's up to the city if  
9 they want to -- if they want to withdraw the appeal, but, you  
10 know, they were the ones who took the appeal, so they  
11 obviously wanted it to be --

12 THE COURT: So you're nowhere.

13 MR. KOROBKIN: I'm sorry.

14 THE COURT: So you're nowhere.

15 MR. KOROBKIN: Well, we're where we were at the  
16 beginning of the -- before the motion was -- before the  
17 motion was brought, but, of course, I think the burden should  
18 be on the city to decide whether they want to continue this  
19 appeal or not when the equities really favor --

20 THE COURT: What they want to do is move this to ADR  
21 and pay you some money.

22 MR. KOROBKIN: Yes, your Honor, and we were -- we've  
23 been involved in negotiations throughout this case, and, of  
24 course, the sticking point was whether they were going to  
25 stop this practice. And throughout the -- throughout the

1 negotiations they said we refuse to agree or stipulate that  
2 we will stop this practice, and so when your Honor asked the  
3 question --

4 THE COURT: What they refused to do was to stipulate  
5 to an injunction that you didn't ask for to stop the  
6 practice.

7 MR. KOROBKIN: In fact, we asked for an injunction  
8 in our complaint. We decided not to pursue that because we  
9 thought that the grounds for summary judgment on damages were  
10 so great, and we were not asking for an injunction from the  
11 Court. We were asking for their stipulation to change their  
12 policy, to make it an official policy of the city that they  
13 were not going to do this, and they refused. That was a  
14 sticking point of the negotiations. It didn't happen. And  
15 now I think the alterative is to get a precedential ruling  
16 that what they were doing and what they apparently --

17 THE COURT: Mr. Fusco say they've -- that the city  
18 has changed its policy.

19 MR. KOROBKIN: I mean, your Honor, there's no  
20 evidence of that. There's absolutely no evidence of that.

21 THE COURT: Well, it seems to me that the  
22 representation by an attorney on behalf of a party in a court  
23 of law is really good evidence of that.

24 MR. KOROBKIN: Your Honor --

25 THE COURT: If not true, somebody has got some



1 'splainin' to do.

2 MR. KOROBKIN: Well, your Honor, I'm not accusing  
3 Mr. Fusco of lying, but he said it wasn't the city's policy.  
4 That has always been -- that has always been the city's  
5 position, that it's not their policy, but the District Court  
6 found that it was their practice and they're liable for it,  
7 and I believe that what they're trying to do here is make  
8 sure that they don't get a precedential ruling from the Sixth  
9 Circuit that says they can't continue to do this. I suppose  
10 it's their obligation as counsel for the city to try to make  
11 sure that doesn't happen, but I don't think that the solution  
12 is to take them at their word after five years of litigating  
13 this very, very important issue. I think that the right  
14 thing to do would be to weigh the equities, to balance the  
15 harms --

16 THE COURT: Suggested that other police departments  
17 around are still doing this?

18 MR. KOROBKIN: Yes, in various forms.

19 THE COURT: Can you recount any specific incidents?

20 MR. KOROBKIN: I know there was recently a case  
21 involving the Westland police and some sort of, you know,  
22 interdepartmental task force. There have been other -- I  
23 mean there have been other incidents for sure, and we -- and  
24 I'll tell you, your Honor, whenever we get a -- you know, at  
25 the ACLU, when we get a phone call about something like this,

1 we say we're already working on this issue. We've got a  
2 case. We're already working on this. We're trying to get a  
3 ruling on it. And so it's very important when a case like  
4 this is brought and it's built up over -- the record is built  
5 up and lots of energy and time is spent on it year after  
6 years -- after years and years --

7 THE COURT: It's only important if it's still an  
8 issue.

9 MR. KOROBKIN: Oh, I think it's certainly still an  
10 issue, your Honor.

11 THE COURT: Well, you say that, but when I press you  
12 about evidence, there isn't any.

13 MR. KOROBKIN: Well, I suppose that I -- you know,  
14 I'm not here with witnesses. I'm not here with affidavits.  
15 I'm here trying to argue a balanced --

16 THE COURT: You're not. You're not --

17 MR. KOROBKIN: Yeah.

18 THE COURT: -- you know, and if you want me to find  
19 cause to grant relief from the stay because this is such an  
20 important issue, I would have expected that, frankly.

21 MR. KOROBKIN: Well, your Honor, I think if we were  
22 here on a -- you know, if we wanted to bring a motion for  
23 injunctive relief against the city, that would be a -- that  
24 would be a separate situation, but --

25 THE COURT: Oh, no. You wouldn't want to do that

1 because that would violate the stay, wouldn't it?

2 MR. KOROBKIN: I'm sorry.

3 THE COURT: That would violate the stay, wouldn't  
4 it?

5 MR. KOROBKIN: Well, I don't know, but it would be a  
6 separate -- it would be a -- it would be a case that's  
7 different from this one.

8 THE COURT: Well, let's not argue about whether that  
9 would be the right thing to do or not. Still the burden is  
10 on you to present facts in support of your claim, huh?

11 MR. KOROBKIN: Yeah. I mean the facts are really  
12 what the record -- what the record shows right now, which is  
13 that, you know, what the city would have to do if the stay  
14 were lifted is probably argue an appeal --

15 THE COURT: They're not going to do that. We know  
16 that.

17 MR. KOROBKIN: I don't know, your Honor. I mean --

18 THE COURT: Mr. Fusco just told you. It's a little  
19 disturbing that you continue to challenge his representations  
20 here in court.

21 MR. KOROBKIN: If the city dismisses its appeal,  
22 then they dismiss their appeal, and I suppose that's it, but  
23 I don't know that them saying --

24 THE COURT: All right. Anything further, Mr. Fusco?

25 MR. FUSCO: No, your Honor.

1 THE COURT: All right. I'll take this under  
2 advisement and issue a written opinion.

3 MR. KOROBKIN: Thank you, your Honor.

4 THE COURT: Okay. One second. Let's move to the  
5 motion for reconsideration on the Phillips matter, please.

6 MS. GRIMM: Good afternoon, your Honor. Assistant  
7 Attorney General Nicole Grimm appearing on behalf of the  
8 state defendants in this case. Your Honor, we have moved --

9 THE COURT: Let's get other counsel's appearances.

10 MS. GRIMM: Oh, I'm sorry.

11 MR. PHILO: John Philo on behalf of the Phillips  
12 plaintiffs and petitioners.

13 MR. SANDERS: Herb Sanders on behalf of Phillips.

14 MR. MACKELA: Scott Mackela also on behalf of the  
15 petitioners.

16 MR. GOLDMAN: Shawn Goldman on behalf of the  
17 petitioners.

18 MR. FUSCO: Timothy Fusco, Miller, Canfield, Paddock  
19 & Stone, on behalf of the city.

20 THE COURT: Okay.

21 MS. GRIMM: I apologize, your Honor.

22 THE COURT: Okay.

23 MS. GRIMM: Again, Assistant Attorney General Nicole  
24 Grimm. We have moved for reconsideration of this Court's  
25 order in the Phillips case, and I hope that we've laid out

1 the reasons for that in our brief, but I'll just highlight a  
2 few of them. Your Honor recognized in its order denying the  
3 NAACP's motion for relief from stay and granting Phillips'  
4 motion for the same that its stay extension order applied to  
5 any lawsuits against the treasurer or the governor that might  
6 impact Detroit's Chapter 9 bankruptcy proceedings. In this  
7 case, in the Phillips -- in the petitioners' response to our  
8 motion for reconsideration, they concede that even their  
9 proposed amended complaint would pose serious questions as to  
10 the validity of actions taken by the emergency manager of  
11 Detroit, and, in fact, it would pose the very same serious  
12 questions that this Court recognized the NAACP lawsuit posed  
13 when it denied their motion for relief from stay, namely the  
14 lawsuit still challenges both facially and as applied in  
15 several municipalities, Detroit included, the  
16 constitutionality of PA 436. And as this Court recognized in  
17 its order as it pertained to the NAACP case, if PA 436 is  
18 found unconstitutional, that could or this Court said would  
19 result in the removal of the Detroit emergency manager, and  
20 that was an effect that this Court said cannot be overstated  
21 with regard to its impact on the Detroit bankruptcy  
22 proceedings. The very same thing --

23 THE COURT: Well, hang on. I said that in the  
24 context of a challenge to PA 436 when the defendant was the  
25 City of Detroit.

1 MS. GRIMM: I don't know that in the NAACP case --  
2 and I apologize. I don't believe the City of Detroit was an  
3 actual defendant in that case.

4 THE COURT: No, but it was clearly aimed at Mr. Orr.

5 MS. GRIMM: Okay. Sure. That's true. And this  
6 Court did --

7 THE COURT: But the Phillips case is not aimed at  
8 Mr. Orr, so the question is assume that the Phillips case  
9 gets all the way to the Michigan Supreme Court. Worst case  
10 scenario for you, the Michigan Supreme Court holds PA 436  
11 unconstitutional. What legal impact would that have, if any,  
12 in this bankruptcy?

13 MS. GRIMM: If PA 436 was found to be  
14 unconstitutional, it could result in the statute being  
15 considered void from its outset, which could invalidate the  
16 appointment of Kevyn Orr.

17 THE COURT: Considered by whom and in what  
18 circumstance?

19 MS. GRIMM: In this case, it would be by Judge Steeh  
20 in the first instance, and then going up on to the Michigan  
21 Supreme Court, if it's held unconstitutional, then the Court  
22 in its same decision could hold that the statute is void from  
23 the outset. That would be a very common thing for a court to  
24 hold.

25 THE COURT: Assume that worst case scenario. My

1 question to you remains what impact legally would that have  
2 in this bankruptcy?

3 MS. GRIMM: Well, if you remove -- as this Court  
4 said, if a finding that PA 436 is unconstitutional results in  
5 the probable removal of Kevyn Orr, that would affect --

6 THE COURT: That happen in the Phillips case?

7 MS. GRIMM: In the Phillips case, there are, for  
8 instance, facial constitutional challenges to PA 436. If PA  
9 436 is found unconstitutional, we cited just one illustrative  
10 case in our motion for reconsideration, the City of  
11 Maineville case, and that's a Sixth Circuit case holding that  
12 anytime a statute is considered unconstitutional -- or is  
13 found to be unconstitutional --

14 THE COURT: Yeah.

15 MS. GRIMM: -- it could be void from the outset.

16 THE COURT: Absolutely.

17 MS. GRIMM: So if that's the case and the statute is  
18 considered void from its beginning --

19 THE COURT: But the plaintiffs have assured me that  
20 they're not going to ask for the removal of Mr. Orr.

21 MS. GRIMM: And, respectfully, I don't think that  
22 matters, your Honor, because even if the Phillips plaintiffs  
23 are representing that they will somehow carve that out,  
24 that's the same representation that the NAACP plaintiffs made  
25 that this Court found was not sufficient because if PA 436 is

1 found unconstitutional, it could result in the removal  
2 regardless. If a statute is unconstitutional --

3 THE COURT: Well, but none of the plaintiffs that  
4 would be left in the Phillips case even have standing to ask  
5 for Mr. Orr's removal.

6 MS. GRIMM: That would be a question that could be  
7 addressed in an Article III court if and when we got there.  
8 It's worth noting, I think, that there would still be -- even  
9 with their proposed amended complaint, I believe, six  
10 residents of the City of Detroit would remain as plaintiffs,  
11 so --

12 THE COURT: Who?

13 MS. GRIMM: They are -- I would have to look at  
14 that.

15 THE COURT: Please.

16 MS. GRIMM: Okay. They're the Detroit Public School  
17 members and -- well, they're actually just listed as Detroit  
18 Public School Board members and the president of the Detroit  
19 Library Commission. I don't see the specific names of the  
20 school member board, your Honor. I apologize.

21 THE COURT: Right, but they're suing in their  
22 capacities as such to protect those official bodies, not --

23 MS. GRIMM: Sure.

24 THE COURT: -- as residents of Detroit to seek  
25 Mr. Orr's ouster; right?



1 MS. GRIMM: That could be true, and that could be  
2 the representation when we go and brief that in the District  
3 Court, but I think it's also worth noting that your Honor  
4 addressed the standing argument in the NAACP case and said  
5 that while they may or may not have standing, that was an  
6 issue that would be dealt with in the District Court  
7 specifically, and irrespective of this Court's determination  
8 on the standing issue, the fact remained that because PA 436  
9 was challenged constitutionality and could result in the  
10 removal of Kevyn Orr and, therefore, could leave no one to  
11 prosecute the bankruptcy under Section 18, then the stay  
12 needed to apply.

13 THE COURT: Okay. But I'm still confused about, you  
14 know, suppose this goes all the way to the Sixth Circuit or  
15 the Michigan Court of Appeals or the Supreme Court and you  
16 get a ruling that PA 436 is unconstitutional. I've already  
17 held it is, so what happens then? They certainly couldn't  
18 move in this Court for reconsideration. The time for that  
19 has passed, and it's law of the case.

20 MS. GRIMM: That is true as to this Court's  
21 eligibility determination, but it would remain that at least  
22 serious questions would be posed as to the ability of Detroit  
23 to continue.

24 THE COURT: Right. And you said that before, and I  
25 asked where would those questions be raised and in what

1 context? You know, you speak in passive voice here. Who  
2 would raise them? In what context? How would it impact this  
3 bankruptcy?

4 MS. GRIMM: I'm trying my best to answer your  
5 question, your Honor, and I might be just missing what the  
6 question is because what I was --

7 THE COURT: You are absolutely right that if a  
8 higher court or any court rules PA 436 unconstitutional, it  
9 would raise serious questions about whether Mr. Orr is  
10 constitutionally serving.

11 MS. GRIMM: Correct.

12 THE COURT: Grant you that. But how does that  
13 impact this bankruptcy?

14 MS. GRIMM: Because someone needs to prosecute the  
15 bankruptcy even if Detroit is eligible for bankruptcy, and  
16 if --

17 THE COURT: Why would he not be prosecuting this  
18 bankruptcy?

19 MS. GRIMM: Because a statute that has been held  
20 unconstitutional could be considered void from its outset,  
21 which would nullify Kevyn Orr's appointment. And if Kevyn  
22 Orr is not in office, then, as this Court has recognized, no  
23 one would --

24 THE COURT: Who would do that nullification?

25 MS. GRIMM: The court, I presume.

1 THE COURT: What court?

2 MS. GRIMM: Well, it could start with Judge Steeh,  
3 Judge Steeh, who has this case in the Eastern District of  
4 Michigan.

5 THE COURT: And you think he would do that even if  
6 the plaintiffs are not asking for it and don't have standing  
7 to request it?

8 MS. GRIMM: Well, the standing issue notwithstanding  
9 because we would address the standing issue, but the point is  
10 although standing may be an issue in this case as it is in  
11 NAACP, Judge Steeh would have the constitutional authority to  
12 hold that if he considers PA 436 unconstitutional, to hold  
13 that the appointment of Kevyn Orr is invalidated because the  
14 statute that allowed for his appointment is void from its  
15 outset, and that's really --

16 THE COURT: Do you agree with that?

17 MS. GRIMM: That would be an issue we would have to  
18 deal with in that court, but the touchstone is that, again,  
19 this Court has held that anything that -- any lawsuit that  
20 fits the other parameters that might impact the bankruptcy --  
21 the same with the NAACP case. We don't know that PA 436 will  
22 be held unconstitutional. We would argue it is  
23 constitutional, but there is a chance it would be held that,  
24 a chance it would be considered void.

25 THE COURT: All right. Thank you.

1 MS. GRIMM: Thank you.

2 THE COURT: City want to be heard?

3 MR. FUSCO: Yes, briefly, your Honor. First of all,  
4 your Honor, with respect to parties who may have standing  
5 named in the complaint -- and your Honor has referred to  
6 three Detroit residents who have official positions -- it's  
7 not at all clear to me that they're suing in their official  
8 capacity, but there are at least three or four others,  
9 Reverend Jim Holley, Reverend Charles Williams, Reverend  
10 Doctor Michael Owens, who hold no official positions, and  
11 they're just suing in their individual rights, and they are  
12 citizens of United States and residents of the City of  
13 Detroit, so I think they would clearly have standing to  
14 raise --

15 THE COURT: Okay. Thank you.

16 MR. FUSCO: -- that issue. And your question about,  
17 you know, who would bring -- if the plaintiffs don't bring an  
18 attack against Mr. Orr or the emergency manager, who else  
19 would do it, I think we've seen in this case in numerous  
20 instances it's fairly easy to find a surrogate to bring the  
21 action. If you have a determination by another court that,  
22 in fact, PA 436 is unconstitutional and void ab initio, to  
23 believe that you're not going to find among the people  
24 affected --

25 THE COURT: Well, but any such lawsuit would be

1 stayed; right?

2 MR. FUSCO: Perhaps, your Honor.

3 THE COURT: Why wouldn't it be?

4 MR. FUSCO: Here's my --

5 THE COURT: What would be the argument that it isn't  
6 stayed? Of course it's stayed.

7 MR. FUSCO: There's an issue that we're --

8 THE COURT: That's what the NAACP opinion held.

9 MR. FUSCO: There's an issue that we're forgetting.  
10 We can speculate all day on what would be the practical and  
11 legal effect of a ruling by a District Court or an appellate  
12 court that PA 436, the worst case, void ab initio and,  
13 therefore, no emergency manager in Michigan should ever have  
14 been -- have ever been appointed. Now, to believe that's not  
15 going to cast a pall over this case and the entire  
16 negotiations and everything else and the plan -- and it can't  
17 be raised -- I don't know why it couldn't be raised in the  
18 plan objection, on appeal from eligibility, on appeal from  
19 plan confirmation, but these people had an opportunity. At  
20 the hearing on the NAACP motion, you invited the NAACP to  
21 file an objection to eligibility and to raise the  
22 constitutional issues, and the NAACP declined.

23 THE COURT: I did, indeed, and that was part of the  
24 reason for denying the NAACP's motion, but if these  
25 plaintiffs do not challenge Mr. Orr's appointment but

1 challenge someone else's appointment, they wouldn't be  
2 objecting to the eligibility of the City of Detroit.

3 MR. FUSCO: Again, I think that's too narrow a  
4 reading on what's happening here and what the effect of this  
5 would be when this all could have been solved by filing the  
6 objection and raising these and having your Honor determine  
7 these constitutional issues.

8 THE COURT: Well, but think --

9 MR. FUSCO: And earlier this --

10 THE COURT: Let's think about -- let's think about  
11 that.

12 MR. FUSCO: All right.

13 THE COURT: A party who's in -- I don't know --  
14 City X where there's an emergency manager files an objection  
15 to eligibility and says, "I am a resident City X. I have no  
16 standing to challenge the eligibility of the City of Detroit  
17 to be in bankruptcy nor to the appointment of Mr. Orr to  
18 serve as emergency manager, but I want to object because I  
19 want to preserve my right to challenge PA 436 and the  
20 appointment of the emergency manager in City X." How far --

21 MR. FUSCO: With all due respect, that's --

22 THE COURT: How far would that eligibility objection  
23 have gotten?

24 MR. FUSCO: With all due respect, that's not what  
25 happened here. What happened here is you had --

1 THE COURT: Maybe, maybe not, but that's what --  
2 that's the question you are asking.

3 MR. FUSCO: No, that's not the question. We started  
4 this case with a direct challenge to Mr. Orr. What the  
5 parties did --

6 THE COURT: When you say "this case" --

7 MR. FUSCO: -- was say, "Okay. We will modify" --

8 THE COURT: When you say "this case," do you mean  
9 the Phillips case or --

10 MR. FUSCO: The Phillips case, Phillips case. We  
11 started. We had an attack on Mr. Orr as well as all the  
12 others, but --

13 THE COURT: Yeah.

14 MR. FUSCO: -- Mr. Orr as well, and most of the  
15 people here are Detroit residents, and that really was, I  
16 believe, the precipitating factor in the timing for this  
17 suit. And those people could have clearly had standing to  
18 bring an eligibility objection here, which would have avoided  
19 all of these issues. This morning you agreed to certify a  
20 direct appeal to the Sixth Circuit. Could have dealt with  
21 these issues, and we could have had an appeal, and there  
22 would have been no doubt about this bankruptcy case. Now, if  
23 a year from now someone filed in Flint, I suppose, we could  
24 deal with that issue at that time, but I don't know why they  
25 want to go to another court. We could have had that issue

1 resolved here, and now the effect of a ruling -- and, first  
2 of all, I think that what they're doing now still violates  
3 the extended stay order. Now, I think what you're doing if  
4 you allow them to continue is you're effectively modifying  
5 your earlier order, and that's, of course, your province to  
6 do that.

7 THE COURT: I granted relief from the stay or held  
8 that the stay didn't apply.

9 MR. FUSCO: Yeah, to do that, but I think that, you  
10 know, we're reading this too narrowly. The effects could be  
11 catastrophic, and we could have solved this by having them  
12 here. The equities just don't lie with permitting this to go  
13 forward at this time in the case.

14 THE COURT: All right. Thank you.

15 MR. PHILO: Good afternoon, your Honor. To address  
16 one of the -- at the outset, to suggest that our case was  
17 about Kevyn Orr is just patently not true. We were very  
18 disciplined in that complaint, and that complaint is about  
19 the State of Michigan. We have -- a majority of people are  
20 government officials from outside of Detroit. The ones who  
21 are within Detroit are not City Council --

22 THE COURT: When you say "we have," you mean the  
23 plaintiffs?

24 MR. PHILO: Yes, the plaintiffs. The ones within  
25 are school board members, correct, and a Library Commission



1 member. There are significant issues going on with the  
2 Library Commission in relation to the DPS emergency manager.

3 THE COURT: Right.

4 MR. PHILO: That is separate and distinct from any  
5 issues with the emergency manager over the City of Detroit,  
6 and, yes, we do have three people, one who is a reverend  
7 of -- who represents the Rainbow Push Coalition, which has  
8 members in Highland Park, has members in Pontiac, has members  
9 in Flint in addition to Detroit, so they are in that  
10 representative capacity. Conceivably they could have  
11 standing to challenge under the City of Detroit. Same with  
12 the minister who represents the National Action Network and  
13 same with the other minister who is a representative of the  
14 Baptist Council of Ministers of Detroit and Vicinity, but we  
15 have represented to this Court -- we have represented in our  
16 pleadings -- or our motion papers, I'm representing now we  
17 are not going to seek the removal of Kevyn Orr. I don't know  
18 what I have to do to make that clear. If there came a time  
19 where there was a ruling of unconstitutionality and we were  
20 going to claim some standing in that case and amend the  
21 pleadings, we would be back before this Court. We would not  
22 be allowed to proceed in that court until you had ruled  
23 whether we could do that, and we have an intention. Right  
24 now this case is about getting a declaration from an Article  
25 III court that has had the case for five months and had

1 briefed dispositive issues before that court to make the  
2 ruling on constitutionality. It is not asking for injunctive  
3 relief. It is not an enforcement action. If an enforcement  
4 action comes after that and it involves the City of Detroit  
5 to remove the emergency manager, that would be back before  
6 this Court. Steeh -- it is inconceivable that --

7 THE COURT: Judge Steeh?

8 MR. PHILO: -- Judge Steeh is going to run wild.

9 THE COURT: Judge Steeh?

10 MR. PHILO: Judge Steeh. I'm sorry. It is  
11 inconceivable that Judge Steeh is going to run wild and make  
12 rulings conflicting with your order in this case, conflicting  
13 with our representations over -- contravening what we're  
14 asking for on his own. It is not going to happen. And if it  
15 does happen, they're going to have an objection. They're  
16 going to be back in this court, and then there's going to be  
17 a resolution to that matter. There is no question that if it  
18 goes to that level, it comes back here.

19 You were asking where the issues would be resolved  
20 because you've made some rulings on constitutionality in this  
21 court, and then there would be a conflict if there's  
22 something that's different in any other court with respect to  
23 the other cities. Well, then it's going to the Sixth  
24 Circuit. I don't think there's any way around that, but that  
25 does not impact this bankruptcy in any way that would be

1 violating the stay or that is onerous and untoward under a  
2 constitutional democracy. I think we're forgetting to  
3 remember what this is about. What they are effectively  
4 saying is that the constitutional rights of every citizen in  
5 the state, 300,000 who are not even in Detroit and are  
6 presently under Public Act 436 governing is -- governance is  
7 put on hold until this bankruptcy is done. That is what is  
8 being asked. There is no court that has said that bankruptcy  
9 stays or procedures trump constitutional rights, and that  
10 would be a precedent that would be set in this case. It  
11 would be set --

12 THE COURT: Well, it happens all the time.

13 MR. PHILO: That it trumps constitutional rights?

14 THE COURT: Absolutely.

15 MR. PHILO: I don't think so, and let me just --

16 THE COURT: The automatic stay. The automatic stay  
17 says your claim that your constitutional rights were violated  
18 is stayed. It just is.

19 MR. PHILO: I would disagree, although I recognize  
20 where you're going.

21 THE COURT: Go find a single case that says because  
22 a claim is a constitutional claim --

23 MR. PHILO: Right.

24 THE COURT: -- it's excepted from the stay.

25 MR. PHILO: No. You're right. I think what you're

1 saying, at least to me, is the typical Section 483 -- or 1983  
2 case, which is about money --

3 THE COURT: That's true.

4 MR. PHILO: -- money damages. They're cases where  
5 money damages will correct the harm or at least to the extent  
6 possible correct that harm. This is not that case. There is  
7 no money. Michigan is on a grand experiment, and it's the  
8 first state in the country and the only state in the country  
9 that has this emergency manager model. It is the only one,  
10 and these circumstances were brought about by the choice of  
11 the legislature to go that way. There's been dozens and  
12 hundreds of other municipalities that have gone through  
13 bankruptcy before Detroit. Not one of them has done it with  
14 this model, and that's the difference here, and that's the  
15 difference. And it cannot be a model that we just say we put  
16 on hold at some indefinite point in the future. I do want  
17 to --

18 THE COURT: Is your challenge to PA 436 with respect  
19 to other cities any different than the challenge to PA 436  
20 that this Court already ruled on?

21 MR. PHILO: This is very different. To be honest  
22 with you, your Honor, I've looked at those challenges. I've  
23 read your ruling. I looked at the -- you know, I listened to  
24 your transcript. I do believe it's different. Now, there  
25 may --

1           THE COURT: And what is the -- what is the  
2 difference, sir?

3           MR. PHILO: The difference is -- and I'm trying to  
4 think of the individual creditors who filed claims. There  
5 may have been a few that referenced us, but the  
6 constitutionality of our claim is saying that as applied,  
7 that Public Act 436 is being applied in black communities.  
8 It's over 50 percent of black communities -- or the  
9 citizen -- black citizens of this state who can't effectively  
10 vote in local elections. That is the crux of an equal  
11 protection argument, a Voting Rights Act argument on  
12 different counts.

13           We also have an argument that is admittedly -- just  
14 simply because we haven't faced this before in the nation --  
15 is a 14th Amendment due process saying that if you are going  
16 to give lawmaking powers -- and make no mistake, there's been  
17 a transfer of lawmaking powers, legislative powers, from the  
18 Michigan legislature or from City Council to the emergency  
19 manager. They have the full power to repeal ordinances,  
20 change city charters, adopt ordinances. If that is going to  
21 occur in this country in a constitutional democracy, that has  
22 to be an elected official. We put constraints on  
23 administrative agencies whenever they sort of tread into that  
24 area. There are no constraints on the emergency manager.  
25 Michigan case law has held a city, locality, has the full

1 police power of the state at its -- in its local jurisdiction  
2 except where it's been specifically pulled back where there's  
3 a conflict with state law. That's the power that's been  
4 transferred to the emergency manager. We're saying that  
5 violates the 14th Amendment, and I know everyone who talks  
6 about the guarantee cross-claim initially says good luck, but  
7 when you --

8 THE COURT: Initially says what?

9 MR. PHILO: Says good luck, but we haven't faced  
10 this before, and Judge Sandra Day O'Connor in one of her last  
11 writings before she left the bench, said, you know, this  
12 history of saying guarantee cross-claims are nonjudicial --  
13 justiciable is not right. In fact, for many years they were  
14 justiciable, and she would change it. She was in the  
15 majority in that case, and I think this case presents the set  
16 of circumstances where it very well may, but, again, these  
17 arguments have not been faced by a court in this country  
18 before, and we think it's important -- incredibly important  
19 that they're heard now.

20 I do -- you made -- you had a lot of questions about  
21 what would be the impact on the bankruptcy, what might be the  
22 impact on Kevyn Orr's position if we prevail. I do not  
23 concede that a ruling of constitutionality raises to the  
24 level of a likelihood of removal situation. The standard for  
25 104 extension of stay is not might impact in some vague and

1 nonspecific way. It has to be greater than that, and  
2 overwhelmingly the cases that are extending the stays are  
3 where the defendants are really surrogates for the city -- or  
4 for the debtor. The debtor here is the City of Detroit, is  
5 not Kevyn Orr. The debtor is who was authorized to go into  
6 bankruptcy by the governor. If Public Act 436 is held  
7 unconstitutional, we have to -- they're asking you to assume  
8 the entire statute is unconstitutional. Yes, we have, in  
9 part, asked that. We've also asked for parts of it to be  
10 struck, and we specify which parts we have issues with. Not  
11 one of them addresses the bankruptcy authorization section of  
12 Public Act 436. We do not -- we did not contest eligibility.

13 THE COURT: Well, but doesn't PA 436 say that only  
14 the emergency manager has the authority to conduct the  
15 Chapter 9 case?

16 MR. PHILO: It does, but if that law is not on the  
17 books, then there's a question of whether PA 72 springs back  
18 the way it has, and PA 72 allows an emergency manager to go  
19 to bankruptcy. It does. I'm sorry. I don't mean to be  
20 arguing.

21 THE COURT: You're suggesting to me that under  
22 Michigan law when a law -- when a public act is held  
23 unconstitutional, the act that it repealed comes back into  
24 place?

25 MR. PHILO: Oh, in fact, that's why we had Public

1 Act 72. They argued that, and the Court of Appeals agreed  
2 with them.

3 THE COURT: No, no, no, no. PA 4 was not held  
4 unconstitutional.

5 MR. PHILO: You're correct.

6 THE COURT: It was rejected by the voters. That's  
7 an entirely different question, isn't it?

8 MR. PHILO: It is. It is.

9 THE COURT: All right.

10 MR. PHILO: But I'm not at all convinced it wouldn't  
11 have the same outcome, but these are issues that are going to  
12 have to be addressed and would be addressed in this court if  
13 it related to the City of Detroit. I don't think in any  
14 sense we can say that's the outcome. We can say that's an  
15 issue that's going to be addressed, and it would have to be  
16 addressed.

17 Additionally, I don't think -- and I know this is  
18 troublesome and this is not expedient, but I don't think that  
19 Chapter 9 necessarily protects the negotiator. It protects  
20 the debtor, and that's the City of Detroit. Chapter 9  
21 inherently involves a body of elected officials. The  
22 overwhelming majority of those cases are where elected  
23 officials filed or asked to file for bankruptcy and are  
24 controlling the negotiations. The only real exceptions in  
25 the past is where as a condition for the city to get into



1 bankruptcy, the state has said we get to appoint a  
2 representative, but Chapter 9 contemplates that elected  
3 officials are in charge. That's what's happened over 300  
4 times previously. Elections are not suspended. Public  
5 referendums on those officials are not suspended. It is an  
6 impediment to expediency, but it is not an unforeseen one at  
7 the time of drafting Chapter 9, so if Kevyn Orr is removed,  
8 it does not necessarily mean that eligibility is wiped off.  
9 It would be -- have a whole session of briefing before you,  
10 but it's entirely conceivable that the person at the table  
11 just changes, but, in any event, I think we've made clear we  
12 are not seeking to remove Kevyn Orr. Our case is not about  
13 Kevyn Orr. It's about emergency managers and that idea as a  
14 whole constitutionally. I will raise it because I think it's  
15 important -- and we put it in our brief -- is the idea that  
16 people -- constitutional rights are well recognized as  
17 fundamental rights, and when they are being violated, it is  
18 irreparable harm for every moment that it is violated.  
19 That's in a nut -- that's just basic in constitutional law.  
20 We do not have an alternative. I do expect that you will say  
21 because I --

22 THE COURT: Of course, the premise of that argument  
23 is that there is a constitutional violation.

24 MR. PHILO: Certainly, certainly.

25 THE COURT: But you don't have a constitutional

1 violation just because you allege one.

2 MR. PHILO: Oh, right. I agree. But they have  
3 not -- they've been -- I've been involved in four cases, your  
4 Honor, with the estate on these issues first with Public Act  
5 4 and now with Public Act 436. None of those were dismissed  
6 as frivolous or dismissed, in fact, you know.

7 THE COURT: Well, all right.

8 MR. PHILO: They've gone both ways. Two, I do think  
9 there are two important matters in that respect. In every  
10 other case where these constitutional rights have been at  
11 issue under Public Act 4 or 436, not once has an individual  
12 emergency manager come in and appeared separate and apart  
13 from the state except where that particular emergency  
14 manager's actions were at issue. The only impact in terms of  
15 draining resources is if they choose to intervene in our  
16 case. That hasn't happened. It was pending for five months.  
17 There was no --

18 THE COURT: Well, it would be an enormous drain on  
19 the resources of this city if Mr. Orr were removed in the  
20 middle of the bankruptcy and it required the termination of  
21 the bankruptcy. What a waste.

22 MR. PHILO: Well, I'm not going to dispute you of  
23 that. Yeah.

24 THE COURT: Fair enough?

25 MR. PHILO: That's a -- you know, it does throw a

1 huge wrench --

2 THE COURT: That's precisely why I hear the state  
3 and the city objecting to your motion.

4 MR. PHILO: Well, that's because they're trying to  
5 say we're trying to remove Kevyn Orr, which is not what we're  
6 doing, but also if that's what you're saying, if that law is  
7 declared unconstitutional two years after the bankruptcy  
8 closes, what's the impact?

9 THE COURT: I don't know.

10 MR. PHILO: Yeah.

11 THE COURT: Could somebody come in and move to  
12 vacate the confirmation order?

13 MR. PHILO: I mean we're not, but it's entirely --  
14 if that logic applies, that logic applies then as well as  
15 now. That's my point, your Honor.

16 THE COURT: That's right.

17 MR. PHILO: I have so much to say, and I think I've  
18 expended myself at the moment.

19 THE COURT: Okay.

20 MR. PHILO: Thank you.

21 THE COURT: Any reply?

22 MS. GRIMM: Just very quickly, your Honor, I would  
23 point out that although the petitioners are representing that  
24 this is not a lawsuit about Kevyn Orr, it's not about their  
25 intent. It's about the impact of their challenges, and I

1 looked it up. Actually it was on page 8 of this Court's  
2 opinion in the NAACP and Phillips order where this Court said  
3 that if PA 436 is found unconstitutional, Kevyn Orr would be,  
4 according to this Court, removed from office. Irrespective  
5 of what court that happens in, if Kevyn Orr is removed,  
6 there's no one to prosecute the bankruptcy.

7 And the only other point I would very quickly raise  
8 is that this Court has already addressed again in that same  
9 order the public interest factors and has recognized that the  
10 NAACP lawsuit and the Phillips lawsuit as well poses  
11 important questions about the constitutionality of PA 436  
12 and --

13 THE COURT: Okay. So how do I deal with the  
14 argument that says the citizens of City X who are concerned  
15 about the constitutionality of the service of their emergency  
16 manager shouldn't be stayed for the years it will take to  
17 resolve this bankruptcy case?

18 MS. GRIMM: If the petitioners want to dismiss their  
19 lawsuit and refile one that is an as applied challenge on  
20 specific facts to another municipality that would not have  
21 the dramatic effect or possible effect on the Detroit  
22 bankruptcy and that's something to which the stay would not  
23 apply, the state would not file a notice of stay in that  
24 case, and that could be adjudicated.

25 THE COURT: Well, but the challenge that the

1 citizens of City X feel they have is a challenge not as  
2 applied in City X but a facial challenge to PA 436.

3 MS. GRIMM: And if that is the case, your Honor,  
4 then I would submit that that clearly falls under this  
5 Court's stay extension order.

6 THE COURT: Fair enough, but they ask in requesting  
7 relief from that stay why should we be stopped from bringing  
8 our constitutional challenge? Why do we have to wait years  
9 for the City of Detroit to resolve its issues for us to bring  
10 this claim in vindication of our democratic rights?

11 MS. GRIMM: And the answer to that, your Honor, from  
12 our position would be, as this Court said, because it happens  
13 all the time. In bankruptcy proceedings, there's an  
14 automatic stay. In this case, there's an extension of that  
15 stay. In weighing the interests, yes, there is an interest  
16 in adjudicating this lawsuit. That's certainly true, but  
17 we're not talking about having it dismissed. We're talking  
18 about having it deferred in light of the important interests  
19 that this Court has recognized in completing the bankruptcy  
20 proceedings, getting Detroit back on track economically, the  
21 health and safety mechanisms back into action in Detroit and  
22 the impact that the Detroit bankruptcy proceedings has on the  
23 local and the regional and the national economy, so this  
24 Court I would submit has already addressed that question.

25 THE COURT: Thank you.

1 MS. GRIMM: Thank you.

2 MR. FUSCO: One brief comment, and I think your  
3 Honor alluded to that. We can't lose sight of the fact that  
4 this is the largest municipal bankruptcy in the history of  
5 the United States. It is unique.

6 THE COURT: Oh, that's on my mind all the time,  
7 but --

8 MR. FUSCO: It is absolutely on your mind.

9 THE COURT: But the rule of decision in regard to  
10 this motion would require the same result whether it's  
11 Detroit or Flint or some village in some county somewhere,  
12 wouldn't it?

13 MR. FUSCO: No. I respectfully disagree in the  
14 sense that if you read the complaint and you look at many of  
15 the allegations in the complaint about the percentage of  
16 people of color that are subject to public acts and  
17 everything, it's driven by Detroit, and that has the largest  
18 minority population, and that's what is the basis of many of  
19 the challenges.

20 We have a unique situation with Detroit. As your  
21 Honor notes, it is vitally important that we complete this  
22 Chapter 9 reorganization and that we bring finality to the  
23 process. And my point is simply you could have  
24 accomplished -- we could have accomplished both goals, giving  
25 persons an opportunity to challenge PA 436 and have an

1 orderly process for the bankruptcy which will lead to a final  
2 resolution by having those claims brought here. A ruling by  
3 your Honor that PA 436 is unconstitutional facially would  
4 certainly give the result that the plaintiffs desire. On the  
5 other hand, reaching the different result, which would have,  
6 of course, been appealed, we would now have certainty and  
7 finality. I think that's what the stay process is here to  
8 do, to protect the integrity of this case.

9 THE COURT: Anything further, sir?

10 MR. PHILO: I really don't.

11 THE COURT: No? All right. The Court will take  
12 this under advisement and issue an opinion. Thank you,  
13 counsel.

14 MR. FUSCO: Thank you, your Honor.

15 THE COURT: Okay. I'd like to deal now with the  
16 motion for relief from stay on behalf of Thomas Gerald Moore.

17 MR. KALISH: Good afternoon, Judge Rhodes. Jay  
18 Kalish on behalf of the movant.

19 THE COURT: Other appearances on this motion,  
20 please?

21 MR. FUSCO: Timothy Fusco, Miller, Canfield,  
22 Paddock & Stone, for the city.

23 MS. PATEK: Barbara Patek on behalf of the Detroit  
24 Police Officers Association.

25 THE COURT: Go ahead, sir.

1           MR. KALISH: Judge, this is our motion to lift the  
2 automatic stay for the limited purpose of being able to  
3 pursue the homeowners insurance of the police officers  
4 involved. This is a somewhat different situation in that the  
5 defendants in this case are two -- or at least were two  
6 Detroit police officers. One of them is no longer a Detroit  
7 police officer. And it is not aimed at the City of Detroit.  
8 The City of Detroit is not a party and isn't a defendant in  
9 this lawsuit.

10           The only additional issues other than what we said  
11 in our papers that I'd like to point out to the Court is, as  
12 I indicated, Officer Headapohl is no longer a Detroit police  
13 officer, and there doesn't seem to be any prejudice that I  
14 can find. The movant in this case is not looking for any  
15 estate assets. As I said, there is no --

16           THE COURT: What makes you think there will be such  
17 private insurance coverage?

18           MR. KALISH: Well, because prior to the filing of  
19 the bankruptcy case, there was discovery had in the District  
20 Court case, and the movant obtained copies of the individual  
21 police officers' homeowners insurance policies, and those  
22 policies do not seem to preclude the malicious prosecution  
23 action as a personal injury. In other words, we believe that  
24 it's a covered injury, and --

25           THE COURT: Let's pause there. Remind me what the



1 underlying claim is against the officers.

2 MR. KALISH: Certainly. The officers in September  
3 of 2011 were off duty, and they went into a bar. And there  
4 was a ruckus that ensued, and they caused the bar owner to be  
5 arrested and ultimately charged. That officer -- the  
6 defendant in that criminal case was acquitted, and it's the  
7 movant's position that there was no basis at all for anything  
8 that these police officers did.

9 THE COURT: So that's Mr. Moore?

10 MR. KALISH: Yes, sir. I found it interesting that  
11 in the debtor's affidavit that they attached to their answer  
12 it appears that the police officers requested through the  
13 normal chain of command some sort of indemnification from the  
14 city, and the Detroit Police Department rejected that  
15 request.

16 THE COURT: Right. So your client's claim -- Mr.  
17 Moore's claim is abuse of process or malicious prosecution,  
18 something like that?

19 MR. KALISH: Yes, sir. That's accurate.

20 THE COURT: And your position further is that their  
21 homeowners insurance policy would cover that.

22 MR. KALISH: It appears to.

23 THE COURT: Okay.

24 MR. KALISH: And I don't have anything further to  
25 add.

1 THE COURT: Right. Okay.

2 MR. KALISH: I'm happy to answer any other  
3 questions.

4 THE COURT: Thank you, sir.

5 MR. KALISH: Thank you, Judge.

6 MR. FUSCO: Your Honor, just for the record, I  
7 forgot my colleague, Marc Swanson, is here with me. Your  
8 Honor, let me just clear up the indemnification issue. There  
9 is a several-step procedure in the collective bargaining  
10 agreement with respect to requests for indemnification. It's  
11 true that the police department issued a recommendation that  
12 indemnification not be granted. Next step is it's submitted  
13 to the City Council. If the City Council concurs, then there  
14 is a mandatory arbitration procedure before an umpire to  
15 determine if the city should indemnify. I will say that I  
16 was told by the city law department that we never win those,  
17 and it's -- that it's highly likely that indemnification will  
18 be granted. But as the Court noted in --

19 THE COURT: What's the status of that process in  
20 this case at this point in time?

21 MR. FUSCO: It's sitting there. The parties have to  
22 actually agree on the package to be submitted to the City  
23 Council for review. I think that's what's going on. If it's  
24 a denial, then within 30 days you have to have an arbitration  
25 hearing, and then the arbitrator must rule within 30 days

1 after that, but we are -- under the collective bargaining  
2 agreement, we are obligated to provide a defense until such  
3 time as a final determination is made on indemnification, and  
4 we are defending the two officers in these -- in this matter.

5 I understand Mr. Kalish saying there's no harm here  
6 because we're not proceeding against the city or any asset of  
7 the city, and, of course, the focus here is the -- is on  
8 who's the real party in interest in this litigation, which is  
9 the city, and, secondly, look at what he's trying to do. It  
10 sounds like what he's doing is trying to enforce a judgment  
11 to -- if he had a judgment against the officers, he could  
12 garnish any applicable policy of insurance and try and obtain  
13 payment, but he would need to establish liability first.  
14 That's really our principal concern. We don't -- we've asked  
15 for a copy of the policy. I've not seen it, but he -- and  
16 even he says it may or may not cover this. You're going to  
17 have to determine liability. You're going to have to  
18 determine that the officers did something that would come --  
19 that would violate the plaintiff's constitutional rights and  
20 that that type of claim -- or acted maliciously, which is a  
21 tort, and that that is covered by the homeowners insurance.  
22 Well, what you're doing then is you're litigating the entire  
23 underlying complaint claim for which the city likely has  
24 liability to indemnify the officers.

25 THE COURT: Help me out with the insurance issue.

1 If there is liability found, number one, and, number two, the  
2 insurance company accepts responsibility for that and pays  
3 Mr. Kalish's client, under insurance law is the insurance  
4 company then subrogated to its insured's right of  
5 indemnification against the city?

6 MR. FUSCO: It would be an equitable subrogation  
7 with respect to that, so it could proceed back against the  
8 city, and this isn't the case that we see all the time in  
9 Chapter --

10 THE COURT: So your argument is that even though  
11 facially the claim is on the insurance policy, ultimately it  
12 comes back to the city.

13 MR. FUSCO: That's right. And because we're  
14 defending, too, you have issues -- you have problems with  
15 issue preclusion in any determination with respect to the  
16 homeowners insurance policy. This isn't a case we see in  
17 Chapter 11 all the time where a debtor has insurance and the  
18 stay is lifted to let the party proceed against the insurance  
19 and limit its recovery to the proceeds of insurance with no  
20 liability of the debtor. That is just not what's going to --  
21 is being sought here and is what is going to happen. This is  
22 a case that we will designate to be part of the ADR  
23 proceeding.

24 Now, if it's part of that, someone wants to raise  
25 the issue of whether there's coverage from the homeowners

1 insurance, I assume it can. As your Honor knows from the ADR  
2 order, you can agree to anything you want. You can raise any  
3 issue in ADR. This is a perfect case for the ADR process to  
4 be utilized, and this isn't a 1983 action. I know this  
5 morning your Honor said he would consider whether you might  
6 want to adopt some different procedures for 1983 cases. This  
7 is a tort. Malicious prosecution is a tort. Did they have  
8 probable cause to do what they -- to do what they did? So we  
9 think that the -- what should happen here is that the stay  
10 motion should be denied and this should just proceed in the  
11 ADR process where, of course, the issue of other insurance,  
12 other coverage and other things can be raised and evaluated.

13 THE COURT: Thank you.

14 MS. PATEK: Good afternoon, your Honor. Again,  
15 Barbara Patek for the Detroit Police Officers Association.  
16 I'm going to start by saying that I hope the city is right  
17 about how these arbitrations come out on the indemnification  
18 issue because, as the Court heard this morning in dealing  
19 with these ADR procedures, these officers, whether they are  
20 current or former public safety employees, are faced with an  
21 indemnification claim against the city that has the potential  
22 for simply being treated as an unsecured claim under the  
23 plan. We don't know how that's going to come out at this  
24 point in time, and if there's a judgment against them and not  
25 some other way to satisfy it, I mean they're essentially

1 facing financial ruin.

2 THE COURT: Well, but what are the facts here on  
3 which these officers contend that they are entitled to  
4 indemnification?

5 MS. PATEK: My understanding of the underlying case  
6 is that the officers' versions of the facts are significantly  
7 different than the plaintiff's version of the facts and that  
8 they believe they were acting -- that they were in a place  
9 and they were acting as police officers. They made an  
10 arrest. There was a prosecution that resulted. The result  
11 was an acquittal, and now there's a lawsuit against them.  
12 And how that comes out is going to -- you know, however it  
13 comes out, if they're wrong, if they did something --

14 THE COURT: Well, why was the indemnification claim  
15 denied?

16 MS. PATEK: My understanding is it's not -- first of  
17 all, the city was not named as a defendant in this case. I  
18 don't want to go too much into the particulars, but I think  
19 it was based on the fact that the allegations were that this  
20 was essentially an intentional tort, a malicious prosecution  
21 case, which comes to another issue, and I don't -- I'm not --  
22 I think I've answered the Court's question, but I want to  
23 step forward on this insurance issue. What we have here is  
24 rank speculation that there's going to be some coverage by a  
25 homeowners policy. To our knowledge, there has not been a

1 demand on these defendants that they tender the defense. I  
2 think the only possible way you would have coverage -- I'm  
3 sure there's a cooperation clause, all of those things in  
4 that policy -- you're not going to come up with a judgment at  
5 the end and go to the insurance company and say, "Insurance  
6 company, pay this policy." They should be in the case from  
7 the beginning if that's the case. These officers -- I  
8 suspect why it hasn't been tendered is because they were and  
9 have taken a strong position that they were acting in the  
10 course of their employment and in the good faith performance  
11 of their duties. This is not something that would be  
12 covered, and the thought that a malicious prosecution -- and  
13 I've not seen any policy or other intentional tort -- would  
14 be covered under any insurance policy that I know of under  
15 Michigan law seems to me to be vanishingly unlikely, and we  
16 are very opposed to any modification of the stay. We think  
17 this process should play itself out. If at the end of the  
18 day we're wrong and these officers are not entitled to  
19 indemnification, then that may be the appropriate time to  
20 bring a motion before this Court, but right now I think we're  
21 entitled to the protection of the extended stay, and if we  
22 can go through the ADR procedures and somehow resolve this  
23 case that way, that would be our preference.

24 THE COURT: Thank you. Mr. Kalish, anything  
25 further?

1           MR. KALISH: Just very, very briefly, Judge. First  
2 of all, I don't believe that there's really any substantial  
3 difference between the basic concept which we face in Chapter  
4 11 cases when there's an insurance policy. You still have to  
5 get to liability, and you still have to deal with insurance  
6 companies that are in the business of not paying claims, and  
7 so without some sort of a finding that there is a basis to  
8 pay a claim, you're never going to get one.

9           As to counsel's last comment, we got the insurance  
10 policies just prior to the Chapter 9 case being filed, and so  
11 there hasn't been any time to make any demands or anything  
12 else like that, but suffice it to say that the AAA homeowners  
13 insurance policy has a definition of personal injury that  
14 includes malicious prosecution, and so are they going to pay  
15 voluntarily? I'm guessing probably not, but we still have to  
16 get to that point, and that's the basis for our motion.

17           THE COURT: Thank you. The Court will take this  
18 matter under advisement.

19           MR. KALISH: Thanks, Judge.

20           THE COURT: Let's turn our attention now to the  
21 motions for relief from stay filed by St. Martins Cooperative  
22 and St. James Cooperative and others.

23           MR. FUSCO: I believe St. Martins has been resolved,  
24 your Honor, as part of the --

25           THE COURT: Okay.



1 MR. FUSCO: -- objection process this morning that  
2 we went through. I think Lasalle is still to be heard.

3 THE COURT: Okay. Thank you.

4 MS. CLARK: Your Honor, Tracy Clark appearing on  
5 behalf of the movants, and that's in connection with the  
6 Lasalle motion, not with respect to the St. Martins. Also  
7 present today is Kerry Morgan, who's the attorney that was  
8 handling the class action previously.

9 Your Honor, the movants are housing cooperatives,  
10 and they're made up of individuals who own and reside in  
11 multiple-unit housing. They are being charged commercial  
12 rates, so the cooperatives being charged commercial rates,  
13 where the next door neighbor might be a house and it's a  
14 single-unit housing, it's being charged residential rates.  
15 So as a result of this disparate treatment, the housing  
16 cooperatives filed a class action to basically halt this  
17 process because it's a violation of the equal protection  
18 clause of both the state Constitution and the United States  
19 Constitution. The claims are for damages for having been  
20 charged -- overcharged in the past as well as for injunctive  
21 relief going forward. Motions were filed to certify the  
22 class, so the class has not been certified, but there was a  
23 motion for class certification, and then the Detroit Water  
24 Department filed a motion to dismiss the case in its  
25 entirety. There was a hearing on both of these motions, and

1 the federal District Court, Judge Drain, indicated at  
2 those -- at the end of the hearing that he would be in a  
3 position to determine or decide those motions at the end of  
4 approximately a week, but in the meantime the bankruptcy case  
5 was filed, and the stay was put in place, and the proceedings  
6 were halted.

7           So we're here today asking for relief so that we  
8 continue -- can continue those proceedings in front of Judge  
9 Drain, and the cause that we believe provides your Honor with  
10 sufficient basis for granting relief is based on balancing  
11 the interests of the parties, so, first of all, we have the  
12 cooperatives that have an interest in their equal protection  
13 claims, and, second of all, we have the city's interest in  
14 formulating a plan of reorganization, and then finally we  
15 have the judicial system's interest in efficient and  
16 effective administration of the cases. And I have to submit  
17 that all of these interests would be better furthered if  
18 relief is granted from the stay. And the reasons, as  
19 explained in the brief, is, number one, it's been over a year  
20 since the complaint was filed seeking to certify the class  
21 and for the protections under the equal -- or for the  
22 violation of the equal protection clause. Discovery has  
23 occurred. Motions were heard, as I indicated. The judge is  
24 familiar with these claims, and he indicated he was ready to  
25 rule in approximately seven days. He's also familiar with

1 the substantive issues.

2           Second of all, absent a lift of the stay, I'm not  
3 sure how the cooperatives can pursue their injunctive relief  
4 because they want to stop the process going forward, so if  
5 they're denied that, they're going to be denied their due  
6 process entirely, so if a post-petition claim is required to  
7 be brought, this whole process has to start anew in federal  
8 District Court, and the Bankruptcy Court would not have  
9 jurisdiction to determine these post-petition claims because  
10 there's no nexus between the bankruptcy estate and these  
11 equal protection claims. There's no -- we're not asking the  
12 debtor to have to pay anything to the cooperatives.

13           And there's a number of factors in addition to the  
14 fact that there's no jurisdiction. If the jurisdiction was  
15 determined on some potential related to interest, then  
16 there's a number of factors that favor withdrawal of the  
17 reference.

18           And, finally, it's definitely not a core proceeding,  
19 and so the Bankruptcy Court could not enter a final judgment,  
20 so in the end we all get back in front of Judge Drain to  
21 determine whether or not this proceeding would result in  
22 favorable or unfavorable to the cooperatives.

23           So to avoid all these issues -- there's  
24 jurisdiction, there's withdrawal of the reference, there's a  
25 core proceeding issue -- to avoid all these issues, we could

1 lift the stay, allow the matter to go forward in front of  
2 Judge Drain. He can decide the injunctive issue as well as  
3 the pre-petition claims, which would provide us with a number  
4 to file a proof of claim in the Bankruptcy Court and then the  
5 post-petition claims, so for that reason, your Honor, we're  
6 asking for relief from the automatic stay.

7 THE COURT: Thank you.

8 MR. FUSCO: Your Honor, again, Timothy Fusco and  
9 Marc Swanson for the City of Detroit. Your Honor, at the  
10 outset we will -- the city has elected to designate this  
11 case -- this claim as part of the ADR process. We don't  
12 think it's one of the three types of claims that are  
13 predesignated, but we are designating this case to be  
14 submitted. What we're dealing with --

15 THE COURT: Well, but didn't Mr. Ellman tell me this  
16 morning that ADR isn't suitable when the relief sought is  
17 injunctive?

18 MR. FUSCO: There is a provision in the arbitration  
19 language which states that if you agree to arbitrate, which  
20 is entirely voluntary, one of the conditions is -- and,  
21 again, both parties can agree to the contrary -- one of the  
22 conditions is that you cannot seek injunctive relief,  
23 attorney fees, punitive damages. I think that's what he was  
24 alluding to. It only comes into play when you reach that  
25 third stage of the ADR process. In the first stage, which is

1 the offer and counteroffer, and in the second you can ask for  
2 anything you want, but you don't need injunctive relief in  
3 this --

4 THE COURT: Where's the ADR compromise on whether  
5 the water rates charged to these plaintiffs should be the  
6 commercial rate or the residential rate?

7 MR. FUSCO: Well, that's part of the whole claim  
8 resolution process, but if I may, let me clear up two things  
9 to begin with. Ms. Clark stated several times that she can  
10 file a new District Court action, which we believe is just  
11 not correct. This is a Chapter 9 case, and this issue was  
12 raised in Jefferson County, and several parties in that case  
13 sought a determination that the automatic stay did not apply  
14 to actions they sought to file against the county because the  
15 claims arose post-petition. Judge found that even though  
16 post-petition claims were stayed by 362(a)(3) since they  
17 sought possession of the property of the estate and to  
18 exercise control of the estate. He also looked at whether 28  
19 U.S.C. 959, which authorizes suits against trustees in  
20 possession, would apply and said it doesn't because those  
21 parties are not trustees within the meaning of that section.

22 Third, as you know, in a plan of adjustment it  
23 discharges all claims up to the date of confirmation, so all  
24 of these things can be dealt with as part of the claims  
25 process.

1           In addition, you don't really have, as you know, the  
2 concept of administrative expenses in a Chapter 9 case  
3 because you don't have a bankruptcy estate as you would in a  
4 Chapter 11, in a Chapter 11 case.

5           Secondly, there are five petitioners in this case.  
6 There are five parties. And I've sought class certification,  
7 but it's not been granted, and it gets a little interesting  
8 on how you treat class claims in a bankruptcy case. There  
9 have been two significant decisions on that, one out of the  
10 Southern District of New York, In re. Ephedra Products  
11 Liability Litigation, and one in Texas, Northern District of  
12 Texas. And where these two come out is unless the class was  
13 certified pre-petition, the class representatives need to  
14 file a proof of claim and move for class certification under  
15 Rule 723, so until that occurs, we're dealing with five  
16 people here who say we've been overcharged for our water.  
17 That's something easily susceptible to resolution in ADR.

18           Now, there is an underlying issue of whether I  
19 should be charged individually or whether I should be charged  
20 as a commercial rate because this is a cooperative. And I  
21 think where the dispute arises, just by way of background, we  
22 said if you want to put in individual meters, we will allow  
23 you individual rates, but the cooperative doesn't want to do  
24 that. It wants to have one meter and then somehow divvy up  
25 the whole thing, but it's a money issue. How much money were

1 you overcharged?

2 THE COURT: Well, but it's an ongoing issue.

3 MR. FUSCO: But as part of the resolution, in order  
4 to determine that claim, you have to determine this  
5 fundamental issue. I mean I suppose you can reach an issue.  
6 We'll pay you a hundred thousand dollars, to pick a number  
7 off the top of my head, and that'll resolve it, but if you're  
8 going to actually resolve the claim or if we get to the third  
9 stage and this becomes a claim objection process in front of  
10 your Honor, you're going to have to reach that decision.  
11 You're going to have to decide should you have been charged  
12 as an individual --

13 THE COURT: Now, suppose we have a trial tomorrow  
14 here on the issue of whether this is overcharged and I say,  
15 yes, it was. Where's their ongoing relief?

16 MR. FUSCO: Well, I would assume you have the power  
17 to enforce your orders, and so if the city continues to bill  
18 and try to collect at a higher rate, you simply enforce your  
19 order. It's not an injunctive issue.

20 THE COURT: They have to file a proof of claim every  
21 month?

22 MR. FUSCO: Pardon me?

23 THE COURT: They have to file a proof of claim every  
24 month?

25 MR. FUSCO: No. You have other remedies.

1 THE COURT: Where is their relief post-confirmation?

2 MR. FUSCO: You have other remedies available to  
3 you.

4 THE COURT: Where is their relief post-confirmation?

5 MR. FUSCO: But is the whole -- does this case turn  
6 on just because you've added a count for injunctive relief,  
7 that because I brought this action and say I'm being  
8 overcharged by "X" dollars a month and I want you to pay back  
9 the money, and I want you --

10 THE COURT: When it's a --

11 MR. FUSCO: -- to stop doing it --

12 THE COURT: When it's a continuing claim, why not?  
13 It arises every month.

14 MR. FUSCO: Well, it's going to --

15 THE COURT: Every month.

16 MR. FUSCO: -- be a continuing claim, and the plan  
17 is going to deal with that if we don't resolve it in any  
18 other way. Now, the next question, okay, what happens the  
19 day after the plan is confirmed.

20 THE COURT: The plan will say I'll pay ten cents on  
21 a dollar on unsecured claims. How does that resolve the  
22 problem the day after confirmation?

23 MR. FUSCO: Well, once -- the day after  
24 confirmation, the stay goes away, and I assume you can bring  
25 it again if you want, but that assumes that there's no merit



1 to going through the ADR process. You had a prior settlement  
2 on part of these claims. There's no reason to believe this  
3 process would not be beneficial in doing it. There's nothing  
4 to distinguish this case from the other claims we're trying  
5 to resolve. I mean we have --

6 THE COURT: (Inaudible) tort claim is a one-time  
7 incident.

8 MR. FUSCO: Um-hmm. And this was an incident  
9 that -- it occurred pre-petition. The damages continue to  
10 accrue, but the incident pre-petition was when the city --

11 THE COURT: Every bill is a new claim.

12 MR. FUSCO: Every new bill is an element of the  
13 damages. It's an element of the claim. And that claim is  
14 treated the same up until we confirm the plan of adjustment,  
15 and these issues are going to be resolved as part of the  
16 claims resolution process. And you're also forgetting the  
17 class action procedure if you're looking at the effect on the  
18 city if we're dealing with these five claims, but what you've  
19 asked for is a certification, I don't know how many co-ops  
20 there are out there and how many people they supply to, but  
21 this becomes inextricably intertwined with the entire  
22 treatment of the Water and Sewer Department. As your Honor  
23 knows, the emergency manager is endeavoring to reach a  
24 resolution of what to do with the Water and Sewer Department.  
25 There are a couple of things floating around right now. Five

1 claims may not make much, but a class certification is  
2 another issue, and that's one that should be handled by you  
3 and not by another court. Rule 7023 clearly gives you the  
4 right in your discretion to certify a class for claims  
5 purposes.

6 THE COURT: Do you want me to determine whether  
7 these --

8 MR. FUSCO: I think in the bankruptcy context --

9 THE COURT: -- citizens are being overcharged?

10 MR. FUSCO: I think the issue of whether to certify  
11 the class for purposes of claim determination is within your  
12 sole discretion under Rule 7023. No court has ever referred  
13 it to another court. If you don't have a certification on  
14 the day of filing, it becomes a bankruptcy issue, and it's  
15 your decision, and it has to be done timely so we don't delay  
16 the bankruptcy process, but the burden is on the movant to  
17 come in front of you and say, "I want this claim certified as  
18 a class," and then it's a discretionary judgment with you  
19 whether you do that or not, which you determine in the  
20 context of the normal issues we deal with in bankruptcy. We  
21 should not be ceding that to another court. I mean I think  
22 it's clear under 7023 it's your determination. It's not the  
23 District Court to determine whether we should certify this as  
24 a class. Now, are you going to have to get involved in  
25 determining whether the city is properly using commercial or

1 residential? You may have to as part of the -- as part of  
2 the final stage if we can't settle. Then it goes to  
3 litigation in front of you. This is not one of the 157  
4 matters which you can't hear. You can clearly enter a final  
5 judgment and determine this, and that's the way -- we believe  
6 at this point in the case that's exactly what should happen.  
7 I have every confidence we will probably resolve it, but we  
8 need to start the process.

9 MS. CLARK: Your Honor, I think, based on your  
10 comments, that you understand the primary concern here is the  
11 injunctive relief going forward, and if we can't bring post-  
12 confirmation claims, how are we going to pursue that  
13 equitable relief? Mr. Fusco keeps referring to basically  
14 damage claims, and this is more than damage claims. It's  
15 ongoing constantly, and claims continue to accrue every day.

16 As far as the ADR process goes, as we indicated,  
17 this not a certified class at this point. It's not defined,  
18 so I'm not sure exactly how this process would work with each  
19 co-op filing their own claim and each separate claim being  
20 sent to ADR and then if no -- if they don't agree --

21 THE COURT: How many co-ops are there in the class?

22 MS. CLARK: At this point, there's five, but  
23 there's -- there could be more because it hasn't been defined  
24 yet. They get a notice process, and people can -- co-ops can  
25 elect in. There could be 30. Then we -- if they don't agree

1 after all this ADR procedures goes through, then we're back  
2 to square one, and we don't have our injunctive relief  
3 availability at all.

4 THE COURT: I wonder why the claim rises to the  
5 level of a constitutional claim. Why isn't it just a  
6 question of whether the city is administering its rate  
7 structure properly?

8 MS. CLARK: Your Honor, I did not file the class  
9 action lawsuit. It was filed --

10 THE COURT: Do you have an answer for me, sir?

11 MR. MORGAN: Yes, your Honor. Kerry Morgan  
12 appearing on behalf of Lasalle plaintiffs. Your Honor, this  
13 case was filed an equal protection claim because there was a  
14 prior Court of Appeals decision, Alexander versus City of  
15 Detroit, which held that the city's classification of a rate  
16 structure in another context, which said if there's four or  
17 less residences within a single structure, that was  
18 residential. If there's five or more within a single  
19 structure, that's treated in a commercial manner. The Court  
20 of Appeals -- Michigan Court of Appeals found that to not  
21 pass the rational basis test and declared it  
22 unconstitutional.

23 We came in, and we said, look, the same principle  
24 applies to this classification. They've chosen to take my  
25 clients, who have structures in which some have ten

1 individual dwellings under the cooperative system, which is  
2 not a condo and it's not a townhouse and it's not an  
3 apartment complex, its own unique body of ownership, and  
4 they've said, oh, that's more than four; therefore, it's  
5 commercial and it's not residential even though it's  
6 residential in every other capacity.

7 THE COURT: So your claim is not that the city is  
8 not administering its rate structure according to its terms.

9 MR. MORGAN: No. It is that they're --

10 THE COURT: Right. All right. I understand. Thank  
11 you.

12 MR. MORGAN: Thank you, your Honor.

13 THE COURT: Did you have something further, Ms.  
14 Clark?

15 MS. CLARK: No. Thank you, your Honor.

16 THE COURT: All right. The Court will take this  
17 under advisement. Is that our last one today?

18 MR. FUSCO: I believe that's it.

19 THE COURT: All right. We will be in recess then.

20 THE CLERK: All rise. Court is adjourned.

21 (Proceedings concluded at 4:04 p.m.)

INDEX

WITNESSES:

None

EXHIBITS:

None

I certify that the foregoing is a correct transcript from the sound recording of the proceedings in the above-entitled matter.

/s/ Lois Garrett

December 19, 2013

\_\_\_\_\_  
Lois Garrett

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN**

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

---

**APPELLEE CATHERINE PHILLIPS, ET AL.'S SUPPLEMENTAL DESIGNATION  
OF ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

Pursuant to Rule 8006 of the Federal Rule of Bankruptcy Procedure, Appellees, Catherine Phillips, *et al.* submit this designation of the contents of the record in connection with City of Detroit's Notice of Appeal filed on January 3, 2014 (Dkt No. 2375) and Governor Rick Snyder and State Treasurer Kevin Clinton's Notice of Appeal filed on January 9, 2014 (Dkt No. 2439) from the Order of Bankruptcy Judge Honorable Steven W. Rhodes entered in this case on November 6, 2013 (Dkt No. 1536) and the Order Denying Motion for Reconsideration, entered on December 20, 2013, (Dkt No. 2256).

**Designation of Items**

Appellees (Phillips Plaintiffs) designates the attached additional items from the Bankruptcy Court docket to be included in the record on this appeal to the United States District Court for the Eastern District of Michigan, as listed on the Appendix, attached hereto.

Respectfully submitted,

/s/Hugh M. Davis

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**U.S. Bankruptcy Court  
Eastern District of Michigan (Detroit)  
Bankruptcy Petition #: 13-53846-swr**

*Date filed: 07/18/2013*

Assigned to: Judge Steven W. Rhodes  
Chapter 9  
Voluntary  
No asset

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Filing Date	#	Docket Text
1/10/2014	<u>2448</u> (21 pgs; docs)	Motion To Stay Pending Appeal (related documents <u>1536</u> Memorandum Opinion and Order, <u>2256</u> Order on Motion To Reconsider) Filed by Interested Party State of Michigan (Attachments: # <u>1</u> Exhibit 1 - Prpposed Order # <u>2</u> Exhibit 2 - Notice of Motion and Opportunity to Object # <u>3</u> Exhibit 3 - Brief in Support # <u>4</u> Exhibit 4 - COS) (Schneider, Matthew) (Entered: 01/10/2014)
1/12/2014	<u>2452</u> (6 pgs)	Concurrence Filed by Debtor In Possession City of Detroit, Michigan (RE: related document(s) <u>2448</u> Motion To Stay Pending Appeal (related documents <u>1536</u> Memorandum Opinion and Order, <u>2256</u> Order on Motion To Reconsider) ). (Fusco, Timothy) (Entered: 01/12/2014)
1/24/2014	<u>2560</u> (18 pgs; 7 docs)	Response to (related document(s): <u>1536</u> Memorandum Opinion and Order, <u>2256</u> Order on Motion To Reconsider) Filed by Creditor Catherine W. Phillips (Attachments: # <u>1</u> Exhibit none # <u>2</u> Exhibit 2 - Order # <u>3</u> Exhibit 3 - Brief in Opposition # <u>4</u> Exhibit 4 - Certificate of Service

		# <u>5</u> Exhibit 5 - none # <u>6</u> Exhibit 6 - None) (Davis, Hugh) (Entered: 01/24/2014)
1/29/2014	<u>2594</u> (3 pgs)	Order Denying Motion to Stay Pending Appeal (Dkt. #2448). (Related Doc # <u>2448</u> ). (ckata) (Entered: 01/29/2014)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9  
CITY OF DETROIT, MICHIGAN, No. 13-53846  
Debtor. HON. STEVEN W. RHODES

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**RESPONDENTS' MOTION TO STAY THE EFFECT OF ORDER  
GRANTING PHILLIPS' MOTION FOR RELIEF FROM STAY  
(DKT. #1536-1) PENDING APPEAL OF THAT ORDER AND  
ORDER DENYING MOTION FOR RECONSIDERATION OF  
ORDER GRANTING PHILLIPS' MOTION FOR RELIEF FROM  
STAY (DKT. #2256)**

Respondents Michigan Governor Rick Snyder and Michigan  
Treasurer Kevin Clinton<sup>1</sup> (Defendants in *Catherine Phillips, et. al v.  
Snyder, et. al*, Case No. 13-cv-11370, filed in the United States District  
Court for the Eastern District of Michigan (the "*Phillips Case*")) by and  
through their attorneys, Matthew Schneider, Chief Legal Counsel, and  
Michael Murphy, move this Honorable Court under Fed. R. Bankr. P.  
8005 to stay its order granting Petitioners' motion for relief from stay

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<sup>1</sup> Andrew Dillon resigned on October 11, 2013. His replacement, Kevin Clinton, assumed office on November 1, 2013. Pursuant to Fed. R. Civ. P. 25(d), Mr. Clinton is automatically substituted as a party to this action in Mr. Dillon's place.

(Dkt. #1536-1) pending appeal from such order. In support of this motion, Respondents state:

1. This motion is timely based on Respondents' motion for reconsideration of the order lifting stay (Dkt. #1745).
2. On July 25, 2013, this Court entered *Order Pursuant to Section 105(a) of the Bankruptcy Code Extending the Chapter 9 Stay to Certain (A) State Entities, (B) Non Officer Employees and (C) Agents and Representatives of the Debtor* (the "Extended Stay Order")(Dkt. #166).
3. Petitioners, Plaintiffs in the *Phillips* Case, requested relief from the Extended Stay Order (Dkt. #1004).
4. On November 6, 2013, this Court issued an Opinion and Order (the "November 6 Order") (Dkt. #1536-1) ordering, in part, that "it is not necessary for the Court to grant relief from the stay to allow the Phillips case to proceed because that case is not subject to the Court's July 25, 2013 order. This order is conditioned on the Phillips plaintiffs' amendment of their complaint to eliminate their request for the removal of the Detroit emergency manager and for any other relief that diminishes the Detroit emergency manager's authority under P.A.



436.” Respondents filed a motion for reconsideration of the November 6 Order (Dkt. #1745) which this Court denied (Dkt. #2256).

5. Based on these Orders, Plaintiffs in the *Phillips* Case have filed a motion to reopen the District Court case and to dismiss Plaintiffs Phillips, Valenti, & AFSCME Council 25 and counts I and IX from the Complaint and to amend the relief requested. (*Phillips v. Snyder*, Eastern District of Michigan Case No. 2:13-cv-11370, R. 32, Pg ID #372.)

6. For the reasons set forth in the supporting brief attached, each of the factors for stay is met.

7. Pursuant to L.B.R. 9014-1(g), Respondents sought but did not obtain concurrence in this motion.

Accordingly, Respondents respectfully request that this Honorable Court stay the effect of its November 6 Order (Dkt. #1536-1) pending appeal of that Order and this Court’s Order denying Respondents’ motion for reconsideration (Dkt. #1745).

Respectfully submitted,

/s/ Matthew Schneider  
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Chief Legal Counsel  
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Dated: January 10, 2014

# Attachment 1 Proposed Order

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re

CITY OF DETROIT, MICHIGAN,

Debtor.

No. 13-53846

Chapter 9

HON. STEVEN W. RHODES

**ORDER GRANTING STAY OF THIS COURT'S ORDER DATED  
NOVEMBER 6, 2013, DKT NO. 1536**

THE COURT HAVING FOUND THAT:

Upon motion of the Governor and State Treasurer of Michigan to  
Stay this Court's Order Lifting the Automatic Stay (Dkt No. 1536),

IT IS HEREBY ORDERED that the Motion is granted and this  
Court's Order dated November 6, 2013, Dkt. No. 1536 is stayed pending  
appeal.

# Attachment 2

## Notice of Motion and Opportunity to Object

UNITED STATES BANKRUPTCY COURT  
Eastern District of Michigan

In re: CITY OF DETROIT

Chapter: 9  
Case No.: 13-53846  
HON. STEVEN W. RHODES

NOTICE OF MOTION FOR STAY OF ORDER,  
DOCKET NO. 1536

Defendant Governor and State Treasurer have filed papers with the Court to Stay an Order, Dkt No. 1536.

**Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one in this bankruptcy case. (If you do not have an attorney, you may wish to consult one.)**

If you do not want the Court to grant the relief sought in a motion, or if you want the Court to consider your views on the motion, within 14 days, you or your attorney must:

1. File with the Court a written response or an answer, explaining your position at:<sup>1</sup>

United States Bankruptcy Court  
211 W. Fort Street, Ste. 2100  
Detroit, Michigan 48226

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<sup>1</sup> Response or answer must comply with F. R. Civ. P. 8(b), (c) and (e)

If you mail your response to the court for filing, you must mail it early enough so the court will **receive** it on or before the date stated above. All attorneys are required to file pleadings electronically.

You must also mail a copy to:

Matthew Schneider  
Chief Legal Counsel  
Michigan Department of Attorney  
P.O. Box 30754  
Lansing, Michigan 48909  
(517) 373-3203

2. If a response or answer is timely filed and served, the clerk will schedule a hearing on the motion and you will be served with a notice of the date, time and location of the hearing.

**If you or your attorney do not take these steps, the Court may decide that you do not oppose the relief sought in the motion or objection and may enter an order granting that relief.**

Date: 01/10/13

Respectfully submitted,

/s/ Matthew Schneider

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# Attachment 3

## Brief in Support



UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9  
CITY OF DETROIT, MICHIGAN, No. 13-53846  
Debtor. HON. STEVEN W. RHODES

---

**RESPONDENTS' BRIEF IN SUPPORT OF MOTION TO STAY  
THE EFFECT OF ORDER GRANTING PHILLIPS' MOTION FOR  
RELIEF FROM STAY (DKT. #1536-1) PENDING APPEAL OF  
THAT ORDER AND ORDER DENYING MOTION FOR  
RECONSIDERATION OF ORDER GRANTING PHILLIPS'  
MOTION FOR RELIEF FROM STAY (DKT. #2256)**

**Introduction**

As this Court well knows, the City of Detroit Chapter 9 bankruptcy is the largest Chapter 9 bankruptcy filing in our country's history. Now that the Court has concluded that the City is eligible to proceed under Chapter 9, anything that could jeopardize or even delay the bankruptcy proceedings should be carefully scrutinized. Because the plaintiffs in the *Phillips Case*<sup>1</sup> seek a ruling that Michigan Public

---

<sup>1</sup> Capitalized terms not defined herein have the meaning ascribed in the Motion.

Act 436 of 2012 (P.A. 436) is unconstitutional, this Court's decision to grant relief from the automatic stay formerly extended to the *Phillips* Case under the Extended Stay Order potentially threatens to diminish or eliminate the authority of Detroit's Emergency Manager, and thus, jeopardizes, or at a minimum, potentially delays the City's ability to go forward with a plan of adjustment. Accordingly, as set forth in more detail below, Respondents have met the factors for stay and respectfully request that this Court stay the effect of its November 6 Order (Dkt. #1536-1).

## Argument

### I. This case meets all the factors for stay.

The factors this Court considers in determining whether an order should be stayed under Fed. R. Bankr. P. 8005 are generally the same factors considered in determining whether to issue a temporary restraining order or a preliminary injunction: "(1) the likelihood that the party seeking the stay will prevail on the merits of the appeal; (2) the likelihood that the moving party will be irreparably harmed absent a stay; (3) the prospect that others will be harmed if the court grants the stay; and (4) the public interest in granting the stay." *Michigan*

*First Credit Union v. Smith (In re Smith)*, 501 B.R. 332, 335 (Bankr. E.D. Mich. 2013) quoting *Michigan Coalition of Radioactive Material Users, Inc. v. Griepentrog*, 945 F.2d 150, 153 (6th Cir. 1991). The greater the likelihood of success on the merits, the less the court will require the movant to demonstrate irreparable harm. *Family Trust Foundation of Ky., Inc. v. Kentucky Judicial Conduct Comm'n*, 388 F.3d 224, 227 (6th Cir. 2004). Each factor is met here.

**A. The State is likely to prevail on the merits.**

The scope of the *Phillips* Case is sweeping and its potential impact on the Detroit bankruptcy pervasive. As this Court recognized in its order lifting the stay, the *Phillips* Case “assert[s] that P.A. 436 violates [Petitioners’] rights under the United States Constitution, art. IV, § 4; amend. I; amend. XIII; amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973-1973(q).” (Dkt. #1536-1 at 1-2.) Petitioners “seek[] damages, declaratory relief, and injunctive relief, including relief ‘restraining the Defendants *and any present and future EMs* from implementing or exercising authority and powers purportedly conveyed by Public Act 436.” (Dkt. #1536-1 at 1-2, emphasis added.)

Indeed, the entire complaint in the *Phillips* Case is riddled with facial and as-applied challenges to P.A. 436. (See *Phillips*, No. 2-13-cv-11370, R. 1, Complaint, PG ID #24-47.) And the complaint challenges P.A. 436 in every municipality, including Detroit.

Attempting to ameliorate that sweeping impact, Petitioners proposed to withdraw Counts I and IX and remove Plaintiffs Phillips, Valenti, and AFSCME Council 25 from their lawsuit. But such action does not insulate Detroit Emergency Manager Kevyn Orr from attack because counts II through VIII and X would still remain—and they attack P.A. 436 on facial grounds:

- Count II: “On its face. . . Public Act 436 . . . disenfranchises citizens from their right to a democratically elected form of local government and their right to elect local officials who possess general legislative power.” (*Phillips*, R. 1, Compl., at Pg ID #24-27.)
- Count II: “On its face. . . Public Act 436 violates the US Const., Art 4, § 4 through provisions of the statute that permit EMs [inter alia] to . . . ‘[b]e selected and appointed solely at the discretion of the Governor . . .’” (*Id.* at Pg ID #27-28.)
- Counts IV, V, and VI: “On its face . . . Public Act 436 violates the Equal Protection Clause of the US Const., Amend. XIV, § 1 . . . .”
- Count VII: “On its face . . . .Public Act 436 violates the Voting Rights Act through provisions that provide for the

appointment of EMs and entering of consent agreements that abridge and dilute the voting rights of citizens within these localities . . . .” (*Id.* at Pg ID #38-40.)

- Count VIII: “On its face . . . Public Act 436 violates the U.S. Const., Amend. I through provisions that provide for the appointment of EMs with powers that strip all authority of local elected officials . . . .” (*Id.* at Pg ID #40-43.)
- Count X: “On its face . . . Public Act perpetuates the vestiges of slavery.” (*Id.* at Pg ID #45-47.)

By their very wording and scope, these remaining claims challenge the appointment of all emergency managers in Michigan, including Detroit’s emergency manager Kevyn Orr and the validity of Mr. Orr’s decision to use the authority of P.A. 436 for filing the City’s Chapter 9 bankruptcy. If the relief Petitioners’ request in the *Phillips* Case is granted and P.A. 436 held unconstitutional, such a ruling could have retroactive effect, causing P.A. 436 to be “equally void from the outset,” *Village of Mainville, Oh. v. Hamilton Tp. Bd. of Trustees*, 726 F.3d 762, 766 (6th Cir. 2013). Such ruling could render Emergency Manager Orr’s actions in filing the Chapter 9 bankruptcy case invalid, greatly jeopardizing the Chapter 9 case. Thus, Respondents have a strong likelihood of success on their argument that the automatic stay

should continue to be extended to the *Phillips* Case because it threatens to undermine the validity of Detroit's bankruptcy filing.

**B. Without a stay, the State could suffer irreparable injury.**

Again, since P.A. 436 is the only vehicle for a municipality in Michigan to file bankruptcy, a holding that P.A. 436 is unconstitutional could call into question the entire eligibility of the City of Detroit to file Chapter 9 bankruptcy. Mich. Comp. Laws 141.1558 (1).

It cannot be overemphasized that Detroit's dire financial condition is not localized—it jeopardizes the financial health and credit rating of the entire State. In turn, a holding in the *Phillips* Case that P.A. 436 is facially unconstitutional and subsequent actions including invalidation of the Chapter 9 filing, and/or delay in submission of the plan of adjustment would cause irreparable harm to the State.

Even if such a holding does not void the actions already taken by Detroit Emergency Manager Kevyn Orr, it could seriously call into question the authority of Mr. Orr to go forward with a plan of adjustment on behalf of the City in the Chapter 9 case. A shift in the authority and decision making structure from the Emergency Manager

to Detroit's new City Council could seriously impair current efforts to submit a timely and efficient plan of adjustment. At a minimum, such a shift would undoubtedly cause delays that would irreparably harm not only Detroit but the entire State. This factor counsels for a stay.

**C. Others will not be harmed if the stay is granted.**

Petitioners are likely to argue that they will be harmed if this Court stays the November 6 Order because they will be unable to proceed with the *Phillips* Case and thus, they will be barred from challenging the constitutionality of P.A. 436 and its application to cities in Michigan. However, the State is not requesting a permanent injunction against the *Phillips* Case proceeding. Rather, the State is requesting that this Court stay its November 6 Order only pending appeal of such order so that the appellate court can may review whether the Petitioners' facial and as-applied constitutional challenges to P.A. 436 jeopardize the City's Chapter 9 case. Thus, this factor weighs in favor of granting the stay.

**D. The public interest would be served by a stay.**

The public will be harmed by any interference with the Chapter 9 bankruptcy. As this Court outlined extensively in its Opinion Regarding Eligibility, the City of Detroit has for decades been experiencing dwindling population, employment, and revenues. (Dkt. #1945, Opinion Regarding Eligibility at 12.) This decline has “led to decaying infrastructure, excessive borrowing, mounting crime rates, spreading blight, and a deteriorating quality of life.” (Dkt. #1945 at 12.) And even more important for purposes of the need for a stay, “the City no longer has the resources to provide its residents with the basic police, fire and emergency medical services that its residents need for their basic health and safety.” (Dkt. #1945 at 12.) “Detroit was, and is, insolvent . . . .” (Dkt. #1945 at 113.) As this Court poignantly recognized, the City needs help “to reverse this decline in basic services, to attract new residents and businesses, and to revitalize and reinvigorate itself.” (Dkt. #1945 at 13.)

The bankruptcy petition *is* that help. And because the provision of basic services is at stake, time is of the essence. The residents of Detroit would be irreparably harmed by *any* action that could



potentially harm or even delay the City's ability to address the delivery of these vital services. This factor weighs heavily for a stay.

In sum, each of the factors for a stay is met. Respondents therefore respectfully request that this Honorable Court stay the effect of its November 6, 2013 Order (Dkt. #1536-1) pending appeal of that order and this Court's Order denying Respondents' motion for reconsideration of the November 6, 2013 Order (Dkt. #2256).

Respectfully submitted,

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Dated: January 10, 2014

# Attachment 4

## Certificate of Service

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re	No. 13-53846
CITY OF DETROIT, MICHIGAN,	Chapter 9
Debtor.	HON. STEVEN W. RHODES

**CERTIFICATE OF SERVICE**

I hereby certify that on January 10, 2014, I electronically filed  
RESPONDENTS' MOTION TO STAY THE EFFECT OF ORDER  
GRANTING PHILLIPS' MOTION FOR RELIEF FROM STAY (DKT.  
#1536-1) PENDING APPEAL OF THAT ORDER AND ORDER  
DENYING MOTION FOR RECONSIDERATION OF ORDER  
GRANTING PHILLIPS' MOTION FOR RELIEF FROM STAY (DKT.  
#2256) with the Clerk of the Court for the United States Bankruptcy  
Court, Eastern District of Michigan, Southern Division using the ECF  
System, which will send notification of such filing to all attorneys and  
parties of record registered electronically.

*/s/ Matthew Schneider*

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Michigan Department of Attorney General

**IN THE UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

-----	x	
	:	
In re	:	Chapter 9
	:	
CITY OF DETROIT, MICHIGAN,	:	Case No. 13-53846
	:	
Debtor.	:	Hon. Steven W. Rhodes
-----	x	

**DEBTOR’S CONCURRENCE WITH AND JOINDER IN  
THE RESPONDENTS MOTION TO STAY THE EFFECT OF ORDER  
GRANTING PHILLIPS’ MOTION FOR RELIEF FROM STAY (DKT.  
#1536-1) PENDING APPEAL OF THAT ORDER AND ORDER DENYING  
MOTION FOR RECONSIDERATION OF ORDER GRANTING PHILLIPS’  
MOTION FOR RELIEF FROM STAY (DKT #2256)**

The City of Detroit (the “City”) concurs<sup>1</sup> with Respondents Michigan Governor Rick Snyder and Michigan Treasurer Kevin Clinton in moving (“State’s Motion”) this Court under Fed. R. Bankr. P. 8005 to stay its order granting Petitioners’ motion for relief from stay (Dkt. #1536-1) (“Order”) pending appeal from such order. In support of this concurrence and joinder, the City respectfully represents as follows:

1. The Phillips’ litigation should not be allowed to continue at this crucial time in this case prior to appellate review of the Order. It must be stayed

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<sup>1</sup> Due to the timing of the filing of the State’s Motion, and the absence of any specified time period for response, the City files this Concurrence at the earliest possible time. In the event this Court permits or invites formal responses the City intends to supplement this Concurrence.

for the same reason the Court found that the similar NAACP lawsuit was subject to its July 25, 2013 Order – its “potential to directly impact the City’s bankruptcy case.” Order at 4.

2. This Court allowed the Phillips suit to proceed based on their counsel’s representation that they would amend their complaint so that it would have no “bearing on the Debtor’s rights in this bankruptcy proceeding” as opposed to the NAACP suit which this Court found “explicitly seeks to remove all power and authority from the Detroit emergency manager.” Order at 4, 8. The Phillips plaintiffs themselves, however, admit that if their amended complaint is successful “the impact of the declaratory relief on the bankruptcy is unknown because the scope of the relief granted cannot be known until such time as the District Court actually issues its findings.” Response to Motion for Reconsideration [Dkt. #1888-4 at 6]. This statement cannot be reconciled with the Phillips’ plaintiffs’ earlier promise to this Court. As is now apparent, even though the Phillips’ plaintiffs’ amended complaint may not use the words “Kevyn Orr” or “Detroit emergency manager” it still challenges P.A. 436 in every municipality, including Detroit.<sup>2</sup>

3. It cannot be seriously questioned that the successful prosecution of the amended complaint would, at the very least, have the “potential to directly impact

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<sup>2</sup> Shockingly, the Plaintiffs’ amended complaint continues to include five Detroit residents—persons that should have no interest in the litigation if, indeed, Detroit is not one of the targets of the litigation. Response to Motion for Reconsideration [Dkt. #1888-7 at ¶¶ 20-22, 24-25.].

the City’s bankruptcy case” and could, quite possibly, provide a basis to invalidate or call into question the entire chapter 9 filing. Thus, even if this Court is correct that ‘a “finding by another court that P.A. 436 is unconstitutional will not automatically result in the removal of Kevyn Orr” the Phillips suit should still be subject to the July 25, 2013 Order because “such a ruling could have a retroactive effect, causing P.A. 436 to be equally void from the outset.” Order Denying Motion for Reconsideration [Dkt. #2256]; State’s Motion at 5; *Chicago, Indianapolis, & Louisville Ry. Co.*, 228 U.S. 559, 566 (1913) (“[A]n unconstitutional act is not a law, and can neither confer a right or immunity nor operate to supersede any existing valid law”); *Stanton v. Lloyd Hammond Produce Farms*, 400 Mich. 135, 144-45 (1977) (“[A]n unconstitutional law, in legal contemplation, is as inoperative as if it had never been passed.”).

4. It is not necessary, however, to determine at this point the exact consequences that would ensue from a ruling in the Phillips case. As the Plaintiffs themselves concede, it is impossible to conclude with exactitude what relief they will be afforded if successful.<sup>3</sup> This uncertainty poses practical and economic issues for the City. The mere pendency of litigation that could lead to the ouster of

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<sup>3</sup> The Phillips plaintiffs could specify in their amended complaint that they do not seek any relief that could impact upon the Detroit bankruptcy or Kevyn Orr’s appointment but they have declined to do so. Moreover, it is uncertain whether such a request would bind a court with respect to its ruling on the merits of the case or the relief that might be granted.

the Emergency Manager, or even a prospective limitation upon his duties or powers, is likely to cloud the delicate negotiations that are ongoing to reach agreement on a consensual plan of adjustment.' Also, because the City believes the outcome of the Phillips litigation is likely to impact this case, it may be forced to seek to intervene in the litigation causing the expenditure of legal fees and valuable time of the City's attorneys and officers. This Court need not look any further than its Eligibility Opinion as evidence of the significant consequences on the City and its residents that continuation of the Phillips litigation could cause.

5. Finally, if the target of the Phillips lawsuit is not Detroit – despite being filed two days after Mr. Orr took office – but is instead the municipalities of the other Phillips plaintiffs which had all been under Emergency Managers for at least two years, the plaintiffs cannot credibly argue that they will be harmed by a delay of a few more months. As such, the Order must be stayed pending its appeal.

## Conclusion

WHEREFORE, the City respectfully requests that this Court stay the Order pending the City and the State's appeal:

Dated: January 12, 2014

Respectfully submitted,

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ATTORNEYS FOR THE CITY OF DETROIT

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9

City of Detroit, Michigan,

Case No. 13-53846  
Debtor. Hon. Steven W. Rhodes

**PETITIONERS' RESPONSE TO RESPONDENTS' MOTION TO STAY THE EFFECT  
OF ORDER GRANTING PHILLIPS' MOTION FOR RELIEF FROM STAY (DKT. 1536)  
PENDING APPEAL OF THAT ORDER AND ORDER DENYING MOTION FOR  
RECONSIDERATION OF ORDER GRANTING PHILLIPS' MOTION FOR RELIEF  
FROM STAY (DKT. 2256)**

NOW COME Petitioners, (Plaintiffs in *Catherine Phillips, et. al v. Snyder, et. al*, Case No. 13-cv-11370, filed in the United States District Court for the Eastern District of Michigan (the "*Phillips Case*")) by and through their attorneys and, respond to the Governor and Treasurer's Motion under Fed. R. Bankr. P. 8005 to stay this Court's Order Granting Petitioners' Motion for Relief from Stay (Dkt. #1536-1) pending appeal by the Governor, Treasurer and Debtor from such Order. In opposition to that Motion, Petitioner's state:

1. Respondents have failed to even arguably meet the criteria for issuance of a stay pending appeal.

For the reasons stated in the accompanying brief, Petitioners respectfully request that this Honorable Court deny Respondent's Motion herein to stay the effect of its November 6, 2013 Order (Dkt. #1536-1) pending appeal of that Order and this Court's Order denying Respondents' Motion for Reconsideration (Dkt. #2256).

Dated: January 24, 2014

Respectfully submitted,  
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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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Exhibit 1 - None

To:

Petitioners' Response to Respondents' Motion to Stay the Effect of Order Grnating  
Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order  
Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from  
Stay (Dkt 2256)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

---

**Exhibit 2 - Order Denying Stay of This Court's Order Dated 11/6/13 (Dkt 1536)**

**To:**

**Petitioners' Response to Respondents' Motion to Stay the Effect of Order Granting  
Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order  
Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from  
Stay (Dkt 2256)**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9.

Case No. 13-53846

Hon. Steven W. Rhodes

---

**ORDER DENYING STAY OF THIS COURT'S ORDER DATED  
NOVEMBER 6, 2013, DKT NO. 1536**

THE COURT HAVING FOUND THAT:

Upon Motion of the Governor and State Treasurer of Michigan to Stay this Court's Order Lifting the Automatic Stay (Dkt No. 1536).

IT IS HEREBY ORDERED that the Motion is denied.

**Dated:**

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**Hon. Steven W. Rhodes**

F:\Cases\Phillips v. Snyder\In Re Detroit Bankruptcy\Pldgs\Order Denying Stay of this Court's Order of 11-6-13 (2014-01-23).docx

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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**Exhibit 3 - Brief in Opposition**

**To:**

**Petitioners' Response to Respondents' Motion to Stay the Effect of Order Granting Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from Stay (Dkt 2256)**



UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: Chapter 9

City of Detroit, Michigan,

Case No. 13-53846  
Debtor: Hon. Steven W. Rhodes

**BRIEF IN OPPOSITION TO RESPONDENTS' MOTION TO STAY THE  
EFFECT OF ORDER GRANTING PHILLIPS' MOTION FOR RELIEF FROM STAY  
(DKT. 1536) PENDING APPEAL OF THAT ORDER AND ORDER DENYING MOTION  
FOR RECONSIDERATION OF ORDER GRANTING PHILLIPS' MOTION FOR  
RELIEF FROM STAY (DKT. 2256)**

The Respondents' recitation of the procedural history of this matter is correct except that it fails to mention that after this Court ruled that the Phillips case was not subject to the automatic or extended stay (Docket number 1536-1, November 6, 2013), Respondents filed a Motion for Reconsideration which was also denied (Dkt. # 2256, December 20, 2013.)

In response to Respondents' Motion for Reconsideration, this Court exercised its option to allow Petitioners to file a response and held a hearing on the Motion for Reconsideration, thus allowing a full re-airing of all of Respondents' arguments. (Dkt. #1756.)

Further, Petitioners' Response to the Motion for Reconsideration included as an exhibit the proposed First Amended Complaint that it intended to file in the District Court. (Dkt. #1888-7.) Thus, this Court had the opportunity to scrutinize exactly what changes to their District Court complaint the Petitioners had made in compliance with the conditions and limitations contained in this Court's original Order (Dkt. #1536-1), and apparently did not find them wanting.

This Court's Order Denying Motion for Reconsideration (Docket 2256) soundly rejected Respondents' argument that a successful challenge to P.A. 436 will inevitably or automatically lead to the removal of Kevin Orr, noting that further action would need to be taken and that any

such further legal actions implicating the Detroit bankruptcy would be subject to the automatic stay.

This Motion to Stay this Court's prior rulings pending their appeal -- the Respondents' third bite at this apple -- brings nothing new to the table. In fact a cornerstone of the Respondents' argument continues to be that:

Petitioners "seek []damages, declaratory relief and injunctive relief, including relief 'restraining the defendants *and any present and future EMS* from implementing or exercising authority and powers purportedly conveyed by public act 436.'" (Dkt. #1536-1, pp. 1-2)

(Respondents' Brief, Dkt. #2448-3, p. 3.)

Respondents cite to this Court's original Opinion and Order which was quoting Petitioner's original District Court complaint (pp. 49-50). Petitioner's proposed First Amended District Court complaint no longer seeks the quoted relief. The new prayer for relief reads as follows:

#### **PRAAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray this Honorable court enter Judgment against Defendants providing:

- a. For declaratory relief holding that Public Act 436 violates the United States Constitution, Art. 4, §4; Amend I; Amend XIII; and Amend. XIV; and the Voting Rights Act of 1965, 42 U.S.C. §§ 1973 *et. seq.*;
- b. For liquidated, compensatory, and punitive damages in an amount fair and just under the circumstances;
- c. For preclearance remedies as permitted by 42 USC § 1973a(c);
- d. For attorneys' fees and costs; and
- e. For such further relief as is just and equitable.

Likewise, Respondents' entire motion is nothing but a rehash of its previous arguments.

A Motion to Stay pending appeal pursuant to Bankruptcy Rule 8005 should not be granted where the arguments presented by the movant have already been heard by the Court, briefed by the parties and subjected to oral argument with the court overruling the movant's objections, and the movant fails to advance new law or facts different or additional to those previously argued before the court. In re Roth American, Inc., 90 B.R. 94 (Bankr. M.D. Pa. 1988). Where, as here, the arguments presented by the Governor and Treasurer are substantively the same as those already twice rejected and/or properly addressed by this Court, there is no reason to believe that they will likely prevail on the merits on appeal nor that they will suffer irreparable harm if the stay is not granted.

#### Factors for Stay

Respondent's assertions that the State is likely to prevail on the merits, i.e. obtain a reversal of this Court's decision that the Petitioners' District Court constitutional challenge to the validity of a statute effecting the entire state (P.A. 436) is not stayed by Detroit's bankruptcy filing, is entirely unsupported by anything except ever higher-pitched screeching.

Respondents assert, as if it were a truth so universally recognized that no citation is necessary, that any relief Petitioners might obtain in the District Court case -- whether it be a wholesale finding that PA 436 violates every constitutional provision alleged in their Complaint, on its face, or a finding that a single clause in the law violates a single clause of the constitution as applied -- will automatically result in the nullification of the appointment of Kevin Orr as Detroit's Emergency Manager and the unwinding of every action he has taken, including initiating the bankruptcy and formulating and implementing a plan of adjustment under this Court's jurisdiction. For this grand proposition, Respondents' rely on what at best could be

considered dicta in a single case, Village of Mainville, Ohio v. Hamilton Township Board of Trustees, 726 F 3<sup>rd</sup> 762, 766 (6<sup>th</sup> Cir. 2013).

In that case, a developer was asserting that a lien filed against its real property for fees purportedly owed to the Township constituted a violation of the takings clause of the Fifth Amendment. The District Court below had concluded that the developer's claim was not ripe because it had not sought compensation through the procedures that the governmental unit provided prior to bringing its takings claim. This refers to a specific rule, applicable only to takings claims, handed down in Williamson Cnty. Reg'l Planning Comm'n v. Hamilton Bank, 473 U.S. 172 (1985). The developer was arguing, for the first time on appeal, that the Williamson County rule applied only to "as applied" challenges to the takings clause and not to "facial" challenges. The holding of the 6<sup>th</sup> circuit was that the developer had forfeited this argument by failing to raise it in the district court. In no way does the cited case even arguably stand for the proposition that a favorable decision in Phillips v Snyder would "have a retroactive effect, causing P.A. 436 to be 'equally void from the outset'." The phrase "equally void from the outset" quoted from Village of Mainville is taken completely out of context from a discussion about whether a facial challenge can be distinguished from an as-applied challenge by the remedy sought.

In sum, none of the factors for a stay have been met. Respondents have failed to set forth any basis for this Court to conclude that they are likely to prevail on their appeal. Nor have they cited any authority for the proposition that success in the Phillips case would (or even could form a basis to) nullify or undo anything which has happened up to that point in Detroit bankruptcy proceedings. Yet that is the irreparable injury they rely upon to obtain a stay. Respondents do not deny that the citizens of other governmental units now or in the future subjected to P.A. 436

will be harmed if the stay is granted. They merely argue, again without any authority or specifics, that the harm such delay would cause to the citizens of the rest of the State subject to PA 436 emergency management, is outweighed by the State's need to push Detroit through bankruptcy. Such balancing of interests however is not required because the Phillips case does not seek any relief which would affect the Detroit bankruptcy. Finally they assert that the public interest would be served by a stay because Detroit is insolvent and unable to provide basic services for its citizens. However true that may be, the public whose interest is to be considered here includes all the citizens of the State of Michigan, particularly those who are now or in the future will be subject to emergency management, not just the residents of Detroit. This Court has already protected these purported interests of Detroit's residents and the State by requiring the Phillips Plaintiffs to refrain from seeking relief that would directly affect Detroit, its Emergency Manager or its bankruptcy and by recognizing that it will be the gatekeeper and adjudicator of any future litigation intended to apply the holdings in the Phillips case to Kevin Orr or Detroit's bankruptcy.

Dated: January 24, 2014

Respectfully submitted,  
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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

---

**Exhibit 4 - Certificate of Service**

**To:**

**Petitioners' Response to Respondents' Motion to Stay the Effect of Order Granting  
Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order  
Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from  
Stay (Dkt 2256)**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

---

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on January 24, 2014, she filed the following documents with the court, using the court's CM/ECF system, which will send notice of the filings to all registered participants in this matter.

**Petitioners' Response to Respondents' Motion to Stay the Effect of Order Granting Phillips' Motion for Relief From Stay (DKT 1536-1) Pending Appeal of that Order and Order Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief From Stay (Dkt 2256).**

Respectfully submitted,

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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**Exhibit 5 - None**

**To:**

**Petitioners' Response to Respondents' Motion to Stay the Effect of Order Granting  
Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order  
Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from  
Stay (Dkt 2256)**

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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Exhibit 6 - None

To:

Petitioners' Response to Respondents' Motion to Stay the Effect of Order Grnating  
Phillips' Motion for Relief From Stay (Dkt 1536) Pending Appeal of that Order and Order  
Denying Motion for Reconsideration of Order Granting Phillips' Motion for Relief from  
Stay (Dkt 2256)

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re:  
City of Detroit, Michigan,  
Debtor.

Chapter 9  
Case No. 13-53846  
Hon. Steven W. Rhodes

**Order Denying Motion to Stay Pending Appeal (Dkt. #2448)**

Governor Rick Snyder and Treasurer Kevin Clinton filed this motion to stay pending appeal of this Court's Opinion and Order Denying NAACP's Motion for Relief from Stay (Dkt. #740) and Granting Phillips' Motion for Relief from Stay (Dkt. #1004). (Dkt. #1536) The motion seeks a stay of this order allowing the Phillips parties to pursue their claims against parties other than the City of Detroit or its officers. The City filed a concurrence and joinder. (Dkt. #2452) The Phillips parties filed an objection. (Dkt. #2560) The Court has determined that a hearing on this matter will not materially assist the Court.

In determining whether a stay pending appeal should be granted pursuant to Fed. R. Bankr. P. 8005, a court considers the same four factors that are traditionally considered in evaluating the granting of a preliminary injunction. *Mich. Coal. of Radioactive Material Users, Inc. v. Griepentrog*, 945 F.2d 150, 153 (6th Cir. 1991). In determining whether to issue an injunction, a bankruptcy court must consider:

1. Whether the movant has shown a strong or substantial likelihood of success on the merits;
2. Whether the movant has demonstrated irreparable injury;
3. Whether the issuance of an injunction would cause substantial harm to others; and
4. Whether the public interest is served by the issuance of an injunction.

*Am. Imaging Serv., Inc. v. Eagle-Picher Indus., Inc. (In re Eagle-Picher Indus., Inc.)*, 963 F.2d 855, 858–59 (6th Cir. 1992) (citing *In re DeLorean Motor Co.*, 755 F.2d 1223, 1228 (6th Cir. 1985)). The moving party bears the burden of proving by a preponderance of the evidence that a stay should issue. “[A] court’s decision to [grant or] deny a Rule 8005 stay is highly discretionary.” *In re Forty-Eight Insulations, Inc.*, 115 F.3d 1294, 1301 (7th Cir. 1997).

The Court concludes that although the appeal is probably not frivolous, the Movants have failed to show a reasonable likelihood of success on appeal. To succeed on appeal, they would have to establish that in allowing the Phillips parties’ claims to proceed, this Court abused its discretion. This is usually a difficult hurdle to overcome. See *B-Line, LLC v. Wingerter (In re Wingerter)*, 594 F.3d 931, 936 (6th Cir. 2010) (“An abuse of discretion occurs where the reviewing court has a definite and firm conviction that the court below committed a clear error of judgment.”) (citation and internal quotation marks omitted). In this case, that hurdle will be challenging because the Phillips parties’ claims, as amended, are unrelated to the City and their effect on the City’s bankruptcy, if any, is highly speculative and distant.

The Movants have also failed to establish that they will suffer irreparable harm absent a stay. The district court case to which this matter relates (#13-cv-11370), was in the beginning stages when the case was administratively closed due to the City’s bankruptcy filing. The defendant filed a motion to dismiss which had not yet been heard by the court. Presumably, that motion will now proceed to a resolution by the district court in due course. If the motion is granted, there will be no impact on this case. If the motion is denied, the case will then proceed through the discovery, summary judgment, trial and appellate processes, all before there may be any impact on the City. A resolution of that case is likely months or years away and the appeal of this matter will likely be resolved long before then.

The Court further finds that the issuance of a stay will cause substantial harm to the Phillips parties by denying their right to proceed with a claim that has little or nothing to do with the City or this bankruptcy.

Finally, the Court concludes that the public has a strong interest in avoiding unnecessary delay in the resolution of significant civil rights claims, such as those asserted by the Phillips parties in the district court.

Accordingly, the movants motion for stay pending appeal is denied.

It is so ordered.

Not for Publication

Signed on January 29, 2014

/s/ Steven Rhodes  
Steven Rhodes  
United States Bankruptcy Judge

**UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN**

In Re:

City of Detroit, Michigan

Debtor.

Chapter 9

Case No. 13-53846

Hon. Steven W. Rhodes

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**APPELLEE CATHERINE PHILLIPS, ET AL.'S SUPPLEMENTAL DESIGNATION  
OF ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL**

Pursuant to Rule 8006 of the Federal Rule of Bankruptcy Procedure, Appellees, Catherine Phillips, *et al.* submit this designation of the contents of the record in connection with City of Detroit's Notice of Appeal filed on January 3, 2014 (Dkt No. 2375) and Governor Rick Snyder and State Treasurer Kevin Clinton's Notice of Appeal filed on January 9, 2014 (Dkt No. 2439) from the Order of Bankruptcy Judge Honorable Steven W. Rhodes entered in this case on November 6, 2013 (Dkt No. 1536) and the Order Denying Motion for Reconsideration, entered on December 20, 2013, (Dkt No. 2256).

**Designation of Items**

Appellees (Phillips Plaintiffs) designates the attached additional items from the Bankruptcy Court docket to be included in the record on this appeal to the United States District Court for the Eastern District of Michigan, as listed on the Appendix, attached hereto.

Respectfully submitted,

/s/Hugh M. Davis

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