



STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

April 28, 2014

DeAndre Windom, Mayor
City of Highland Park
12050 Woodward Avenue
Highland Park, Michigan 48203-3578

Highland Park City Council
12050 Woodward Avenue
Highland Park, Michigan 48203-3578

Dear Mayor Windom and Highland Park City Councilmembers:

On January 24, 2014, the City of Highland Park Financial Review Team transmitted its report to my Office. The report concluded, pursuant to Section 5(4)(b) of Public Act 436 of 2012, the Local Financial Stability and Choice Act, that a financial emergency exists within the City.

On January 30, 2014, I concurred in the assessment of the Financial Review Team and determined, pursuant to Section 6(1) of the Act, that a financial emergency exists within the City. My January 30, 2014, letter of determination set forth the findings of fact upon which my determination was based and also provided notice of the City's right to request a hearing upon the determination.

On February 3, 2014, the City Council by resolution requested a hearing upon the determination of a financial emergency in the City, pursuant to Section 6(2) of the Act. The hearing was conducted on February 11, 2014, before State Treasurer R. Kevin Clinton.

On February 24, 2014, the State Treasurer submitted to me his report concerning the testimony and information received at the hearing. Having carefully reviewed the record of that hearing, and pursuant to Section 6(2) of the Act, I hereby confirm my determination that a financial emergency exists in the City of Highland Park.

The testimony presented on behalf of the City of Highland Park Financial Review Team by Frederick Headen, Legal Advisor to the State Treasurer and member of the Review Team, documented the financial condition of the City, which I summarize as follows:

- During the City's 2013 fiscal year, the ending balance in the Water and Sewer fund increased from a negative \$5.5 million as of June 30, 2012, to a negative \$12.5 million as of June 30, 2013. This increase in the negative fund balance was attributable to a \$7.7 million operating loss during the 2013 fiscal year which was offset slightly by a \$771,000 transfer from the General Fund.
- As of October 31, 2013, the City owed approximately \$19.5 million in total accounts payable to various vendors. This total included an estimated \$18.2 million owed to the City of Detroit for water and sewer services; \$311,380 owed to DTE Energy; \$142,265 owed to Wayne County

for property assessing; \$125,370 owed to Wayne County for prisoner maintenance; \$105,667 owed to the City of Hamtramck for municipal income tax collection and administration; and \$101,284 owed to the State of Michigan for principal and interest upon outstanding emergency loans.

In fact, according to information provided by City officials to the Review Team, accounts payable increased by more than \$756,000 during just a one-month period, from September 30, 2013 to October 31, 2013. This increase was due primarily to water and sewer services provided by the City of Detroit.

- On November 22, 2013, the City of Detroit Water and Sewer Department filed a lawsuit in United States District Court against the City of Highland Park for an estimated \$17.7 million in delinquent accounts payable (consisting of \$16.9 million for unpaid sewer service and \$805,000 for unpaid water service). On December 30, the Court dismissed the majority of the lawsuit, but upon subject-matter jurisdiction grounds. In other words, the Court concluded that the lawsuit should have been filed in State court rather than in Federal court.
- On December 12, 2013, Fifth Third Bank served written notice upon City officials that failure by them to timely pay the City of Detroit for water and sewer services constituted an "event of default" upon a letter of credit extended by the Bank. The written notice also indicated that the bank would, beginning in January 2014, deny City officials access to bond proceeds on deposit with the Bank that City officials had been utilizing to remit certain monthly pension obligations. Since the Review Team filed its report, the Bank essentially has seized the remaining bond proceeds, forcing City officials to find other sources from which to pay certain monthly pension obligations.
- The City has a relatively high property tax millage rate and, correspondingly, a relatively low property tax collection rate. For example, during the 2012 calendar year, the City levied an aggregate of 59.7258 mills for various purposes (e.g., operations, garbage collection, pensions, and judgments). However, according to City officials, the City collected on average only 60 percent of property taxes levied. The remaining 40 percent of property taxes not collected for a given year were returned delinquent to the Wayne County Treasurer's Office for collection, but remained the responsibility of the City if not collected by the County.
- The City's 2013 fiscal year financial audit raised a specific doubt about the ongoing financial viability of the City. Noting that the City "has a significant net deficit in the Water and Sewer Fund at June 30, 2013," the financial audit stated that "[t]his condition raises substantial doubt about the City's ability to continue as a going concern."
- During the 2013 fiscal year, city officials violated Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, by engaging in unbudgeted expenditures in several funds.
- City officials had been consistently unable to issue timely and accurate bills to residential and commercial users of water and sewer services, in some instances for up to two years. One City official had expressed to the Review Team the belief that up to 80 percent of the

water and sewer accounts were delinquent, either because the City had not issued a bill or because the user had received a bill, but had not remitted the amount due.

It was noted that the present City administration had made a decision to stop issuing water and sewer bills altogether because of concerns over the accuracy of some of the bills that had been issued. Whether due to the City's delinquency in issuing accurate bills, an inability of residents to pay, or other factors, City officials had estimated that \$8.5 million in water and sewer bills were uncollectible. This represented 73 percent of the total Water and Sewer Fund receivables as reported in the City's June 30, 2013 audited financial statements.

The City's testimony was presented by City Attorney Todd Perkins, Mayor DeAndre Windom, City Council President Christopher Woodard, and Finance Director Earnestine Williams. Michigan Senator Bert Johnson also testified on behalf of the City.

City officials did not contest the findings of the Review Team report. However, Senator Johnson did question the accuracy of some of the accounts payable owed by the City. In particular, he questioned the amount owed to the City of Detroit for water and sewer services. However, he offered no countervailing evidence in support of his position. Furthermore, the accounts payable amounts contained in the Review Team report were provided to the Review Team by the City of Highland Park.

The testimony of City officials also expressed the view that they had formulated a plan to address the financial emergency. The essence of the testimony presented on behalf of the City was that City officials had made progress in addressing pension funding issues and financial reforms and could continue to make further progress if given additional time and State assistance.

However, as the State Treasurer set forth in his report summarizing the hearing, nothing presented by City officials at the hearing disturbed the Review Team's conclusion, and my subsequent determination, that a financial emergency exists within the City. Therefore, pursuant to Section 6(2) of the Act, I confirm my determination that a financial emergency exists within the City of Highland Park.

Pursuant to Section 7(1) of the Act, the Highland Park City Council must within seven days of the date of this confirmation adopt a resolution that selects one of the following four statutory options to address the financial emergency:

- (a) The Consent Agreement option pursuant to Section 8 of the Act.
- (b) The Emergency Manager option pursuant to Section 9 of the Act.
- (c) The Neutral Evaluation Process option pursuant to Section 25 of the Act.
- (d) The Chapter 9 Bankruptcy option pursuant to Section 26 of the Act.

DeAndre Windom, Mayor
Highland Park City Council
April 28, 2014
Page 4

The deadline by which the Highland Park City Council must submit an adopted resolution selecting one of the foregoing statutory options is 5:00 P.M., Monday May 5, 2014. The resolution must be submitted to the Michigan Department of Treasury, Office of Legal Affairs, Richard H. Austin Building, First Floor, 430 West Allegan Street, Lansing, MI 48922. The e-mail address is MIStateTreasurer@michigan.gov. Pursuant to Section 7(3) of the Act, if the City Council fails or refuses to select a statutory option by the deadline, the City will be required to proceed under the Neutral Evaluation Process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rick Snyder", is positioned above the printed name and title.

Rick Snyder
Governor