STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

July 22, 2015

BY ELECTRONIC MAIL

Warren C. Evans, County Executive
County of Wayne
500 Griswold, 31st Floor
Detroit, MI 48226

Wayne County Board of Commissioners
500 Griswold, 31st Floor
Detroit, MI 48226

Dear County Executive Evans and Wayne County Board of Commissioners:

Public Act 436 of 2012, the Local Financial Stability and Choice Act, requires that I, as Governor, reach one of the following two conclusions within 10 days of receiving a financial review team report:

(a) A financial emergency does not exist within the local government.

(b) A financial emergency exists within the local government.

I have reviewed in detail the report submitted to me on July 21, 2015, by the Wayne County Financial Review Team. I agree with the conclusion of the report, which was that a financial emergency exists within Wayne County.

Therefore, I wish to inform you that, pursuant to Section 6(1)(b) of the Local Financial Stability and Choice Act, I have determined that a local government financial emergency exists within Wayne County.

Findings of Fact

Section 6(2) of the Act requires that, upon a determination by me of a financial emergency, I provide you with findings of fact utilized as the basis upon which this determination was made, and a concise and explicit statement of the underlying facts supporting the factual findings.

Preliminary Review

On June 19, 2015, the Michigan Department of Treasury commenced a preliminary review of the finances of Wayne County to determine whether or not probable financial stress existed. Section 4(1) of the Act permits a preliminary review to be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the City resulted from the conditions enumerated in subdivisions (a), (p), (r), and (s) of Section 4(1) having occurred within the County.[1]

The preliminary review found, or confirmed, the following:

- County officials violated requirements of Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act. Section 17 of the Act provides, in part, that "the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

- The County ended a fiscal year in a deficit condition and was in breach of its obligations under a deficit elimination plan. For the County's 2014 fiscal year, deficits existed in the entity-wide governmental activities of $373.0 million in unrestricted net assets. Unrestricted General Fund deficits peaked at $156.4 million in 2013 and were reduced to $82.8 million in 2014. The recent reduction in the deficit was primarily due to a transfer of $91.6 million from the Delinquent Tax Revolving Fund, which will increase borrowing costs to the County when collecting delinquent taxes on behalf of local governments within the County. Unrestricted deficits in the General Fund began in the 2008 fiscal year, with an unrestricted deficit of $10.6 million. Without taking remedial measures, County officials projected a $171.4 million deficit by fiscal year 2019.

- County officials had not filed an adequate or approved deficit elimination plan with the Department of Treasury for fiscal years 2010, 2011, and 2012. For fiscal year 2013, County officials proposed to transfer $81.0 million from the Delinquent Tax Revolving Fund ($91.6 million actually was transferred) and to create a Waste Water Authority to realize a one-time payment of $121.0 million from participating communities. However, the proposed deficit elimination plan was not certified by the Department of Treasury because the plan did not qualify. No deficit elimination plan had been submitted for the County's 2014 fiscal year; it was due when the County's most recent audit report was submitted at the end of March 2015.

[1] Subdivision (a) provides that "[t]he governing body or the chief administrative officer of a local government requests a preliminary review. The request shall be in writing and shall identify the existing or anticipated financial conditions or events that make the request necessary. Subdivision (p) provides that "[t]he municipal government has ended a fiscal year in a deficit condition as defined in section 21 of the Glenn Steil state revenue sharing act of 1971, 1971 PA 140, MCL 141.921, or has failed to comply with the requirements of that section for filing or instituting a financial plan to correct the deficit condition." Subdivision (r) provides that "[t]he local government has been assigned a long-term debt rating within or below the BBB category or its equivalent by 1 or more nationally recognized credit rating agencies." Subdivision (s) provides "[t]he existence of other facts or circumstances that, in the state treasurer's sole discretion for a municipal government, are indicative of probable financial stress or that, in the state treasurer's or superintendent of public instruction's sole discretion for a school district, are indicative of probable financial stress.

- On May 29, 2015, the Wayne County Circuit Court entered a $49.3 million judgment against the County. Subsequently, on June 4, 2015, the County Commission voted to remit the judgment amount by transferring money from the Delinquent Tax Revolving Fund. However, the County Executive vetoed the action and the veto was not overridden. Because the County lacked the financial ability to remit the judgment from existing resources, County officials acceded to having a judgment placed upon the County's summer property tax rolls.

- The County's primary pension plan was 45.1 percent funded and had a liability of $910.5 million based upon the last actuarial valuation dated September 30, 2013, in contrast to a 94.8 percent funding ratio and a total liability of $49.6 million in 2004. Over the past 10 years, the pension funding ratio decreased by 52.4 percent, while the unfunded liability increased to more than 18 times its 2004 level. The decreased funding ratio was caused by reopening plans to new members in 2002 and 2008, underperforming investments, increasing payrolls, and generous incentives including for early retirement that waived age requirements and enabled eligible persons to purchase years of service at discounted rates.

- Recently, the County's credit rating was downgraded by the three major credit rating services. Moody's rating is now at Ba3, Fitch's rating is at B, and Standard and Poor's rating is at BB+. The ratings by Fitch's and Standard and Poor's are classified as non-investment grade, speculative, or junk, while Moody's rating is only slightly better.

- Total long-term obligations of the County, including component units but not pension obligations, were $3.3 billion as of the 2014 fiscal year. Total obligations compared to total Net Position (i.e., debt to equity ratio) were 2.2 (i.e., long-term obligations were 2.2 times the size of the County's Net Position).

- Over the past several years, taxable valuation of real and tangible personal property within the County declined approximately 24 percent, reducing the amount of property taxes received by the County and underlying units of local government. Since 2007, the property tax revenues in the County's General Fund decreased by over $155.7 million, as total General Fund expenditures increased by over $50.0 million.

- For the last several years, County officials had issued tax anticipation notes to meet cash-flow shortages. The amounts borrowed for these purposes were $60.0 million in 2009, $100.0 million in each of the years of 2010 through 2012, $90.0 million in 2013, and $75.0 million in 2014. The prolonged use of short-term borrowing evidenced a declining cash position. County officials projected significant cash shortages of over $100.0 million in its General Fund until September 2015 when the summer property tax levy is collected.

- Total interfund borrowing in fiscal year 2012 was $110.9 million, an increase of $95.5 million from the prior year. The majority of the interfund borrowing, $87.4 million, went to the General Fund. In 2013, total interfund borrowing increased to $148.8 million. Approximately $106.0 million of this amount was owed to other funds by the General Fund, while another $21.4 million was owed by the Juvenile Justice Fund. In fiscal year 2014, total interfund borrowing decreased to $64.7 million. The General Fund owed roughly $39.5 million of that amount to the Delinquent Tax Revolving Fund.

- County officials made significant recurring interfund transfers. For the past five years, County officials transferred from the General Fund to other funds an average of $109.5 million annually. Sixty-seven percent ($73.9 million) of those transfers were to the Juvenile Justice Fund and 13 percent ($14.5 million) were to Non-major Governmental Funds. Over the same period, the average annual transfer out of the Delinquent Tax Revolving Fund was $35.7 million; the majority of those transfers were to the General Fund, ranging from $4.0 million in 2010 to $91.6 million in 2014.

- In September 2011, construction began on a $300.0 million jail to replace and consolidate three aging jail facilities. In June 2013, construction was halted when estimates put the cost of completion at $391.0 million. From May 1, 2014 to April 30, 2015, County officials spent roughly $14.3 million on construction-related debt service and an additional $725,000 for site preservation. It was unclear whether County officials would sell the site or complete the construction.

On June 30, 2015, the State Treasurer submitted the foregoing preliminary review to the Local Emergency Financial Assistance Loan Board. On July 1, 2015, the Local Emergency Financial Assistance Loan Board determined that probable financial stress existed for Wayne County.

On July 2, 2015, I appointed a five-member Financial Review Team. The Review Team convened on July 7th, 9th, 10th, and 17th, 2015.

Review Team Findings

The Review Team found, or confirmed, the existence of the following conditions based upon information provided by County officials, or the County's financial audit, or other relevant sources:

- The County's last four annual financial audits revealed notable variances between General Fund revenues and expenditures as initially budgeted, as amended, and as actually realized. For example, in two fiscal years, 2012 and 2013, revenues were overestimated by $12.5 million and $26.5 million, respectively. In addition, County officials underestimated actual expenditures in three of the fiscal years by amounts ranging from $16.7 million to $23.7 million. In general, the amended budgets reflected increased revenues that never materialized, and increased expenditures, but not to the extent of amounts actually expended.

- Similar variances existed between interfund transfers to and from the General Fund as initially budgeted, as amended, and as actually realized. On the plus side, transfers out of the General Fund were generally less than finally budgeted. In contrast, County officials amended the budgets for three of the years in question to increase the level of transfers in. However, those increased amounts were not realized. For example, in 2014, County officials originally budgeted $73.8 million in transfers into the General Fund. Subsequently, the budget was amended to increase that amount to $138.8 million. Ultimately, only $96.0 million in incoming transfers were realized, leaving the budget $42.7 million short of expectations.

- County officials engaged in unbudgeted expenditures in violation of Sections 17 through 20 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.

- Although there was agreement among County officials that the existing detention facilities operated by the County are inadequate, there appeared to be no consensus among County officials about whether to complete construction on the new jail or to renovate the existing detention facilities.

- According to the County Executive's Recovery Plan, unfunded healthcare-related liabilities were estimated to be $1.3 billion as of the last actuarial valuation; funding set aside for this purpose amounts to less than one percent of liabilities; and, healthcare-related liabilities represent 40 percent of the County's long-term financial obligations. Yet, despite the financial significance of this matter, County officials had made no discernible effort to resolve it.

Conclusion

Based upon the foregoing information, the Review Team confirmed the findings of the preliminary review, the determination of the Local Emergency Financial Assistance Loan Board, and concluded that a financial emergency existed within the County. After thoroughly reviewing the report of the Review Team, I concur with their conclusion. Therefore, pursuant to Section 6(1)(b) of the Act, I have determined that a local government financial emergency exists within Wayne County.

Notice of Hearing

Pursuant to Section 6(2) of the Local Financial Stability and Choice Act, the chief administrative officer or governing body may within 7 days request a hearing upon the determination of a financial emergency. The deadline for requesting a hearing is 5:00 P.M., Wednesday July 29, 2015. A hearing request must be in writing and 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. In the event that a hearing is requested, it will be convened on Thursday July 30, 2015, at 10:00 A.M., at the Richard H. Austin (Treasury) Building before State Treasurer Nick Khouri, or his designee.

It should be noted that the hearing would not be an original fact finding proceeding. Its purpose would be to afford County officials an opportunity to indicate whether the findings of the Review Team report were supported by competent, material, and substantial evidence on the whole record. Therefore, any information which County officials may wish to present that was not available to the Review Team, or that concerns actions taken by County officials since the Review Team filed its report, or that concerns actions County officials anticipate taking in the future to address the financial emergency in the County, will be considered beyond the scope of the hearing.

Sincerely,

Rick Snyder

Rick Snyder
Governor