



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

October 9, 2013

Mr. Harlan Goodrich, Secretary
Local Emergency Financial Assistance Loan Board
Local Audit and Finance Division
Michigan Department of Treasury
Lansing, MI 48909

Dear Mr. Goodrich:

On September 9, 2013, a preliminary review of the City of Highland Park (City) began pursuant to Section 4 of PA 436 of 2012, the Local Stability and Choice Act. An Interim Report of the Preliminary Review was sent to the City on September 30, 2013. The Township was then given five days to respond to that Interim Report.

In its response to the Interim Report, the City clarified that the interfund borrowing was from the General Fund to the 08 Pension Bond Debt Fund, not the General Fund borrowing from the 08 Pension Bond Debt Fund. The Department concurs with this correction and has updated the final report accordingly. Copies of both the Interim Report of the Preliminary Review and the City's response are included as attachments to the Final Report.

As required by Section 4(2) of the Act, the Final Report of the Preliminary Review of the City is being transmitted to the Local Emergency Financial Assistance Loan Board for their review. The Local Emergency Financial Board will determine if probable financial stress exists in the City within 20 days of receipt of the Final Report. Therefore, a determination for the City shall be issued no later than Tuesday, October 29th.

Sincerely,

A handwritten signature in cursive script that reads "Andy Dillon".

Andy Dillon
State Treasurer

Attachments

cc: Senator Bert Johnson – 2nd Senate District
Representative Thomas F. Stallworth III - 7th House District
DeAndre Windom, Mayor
Christopher Woodard, Council President



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

DATE: October 9, 2013

TO: Local Emergency Financial Assistance Loan Board

FROM: Andy Dillon, State Treasurer

SUBJECT: Final Report of the Preliminary Review of the City of Highland Park

Background

On September 9, 2013, the Department of Treasury commenced a preliminary review of the finances of the City of Highland Park (City) to determine whether or not probable financial stress existed. Section 4 of Public Act 436 of 2012, the Local Financial Stability and Choice Act, requires a preliminary review to be conducted if one or more of the conditions enumerated therein occurs. The preliminary review of the City began after it was determined that the conditions enumerated in parts (d), (j), (n), (p), and (s) of section 4(1) of the Act¹ existed.

Preliminary Review Findings

- The City of Highland Park violated a requirement of sections 17 to 20 of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. In the fiscal year ending June 30, 2012, there were four activities in the General Fund that went over budget, with Transfers Out being the largest at \$491,161. This transfer went to the Water and Sewer Fund to supplement its operations. The most significant amount was \$3,525,306 over budget in the 2012 Federal Grants Fund activity for Community and Economic Development. All General Fund activities that went over budget totaled over \$533,562. However, when netted together with other expenses and transfers, the City's total General Fund expenditures were actually under budget by \$1,186,566. There was also a transfer from the Major Streets Fund to the Local Streets Fund of \$275,000 that was not budgeted.
- Highland Park filed a five-year deficit elimination plan in 2009. The City is in breach of its obligations under that plan, and has ended each subsequent year, except 2011, with a higher deficit than the prior year. In Fiscal Year 2011, the General Fund transferred \$3.8 million to the Water and Sewer Fund for operational purposes. Using unaudited numbers as of June 30, 2013, the Water & Sewer Fund increased the deficit from \$5.5 million in fiscal year 2012 to over \$8.2 million. The City's deficit elimination plan for Fiscal Year 2012 has not been approved because it would not eliminate the deficit within five years.

Local Emergency Financial Assistance Loan Board

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- The City has ended its fiscal year in a deficit condition in one or more funds since at least 2008, as defined in section 21 of Public Act 140 of 1971, as amended, the Glenn Steil State Revenue Sharing Act of 1971. For the fiscal year ending June 30, 2012, deficits existed in entity-wide governmental activities of \$46.8 million in unrestricted net assets, and a \$16.4 million deficit in total net assets. The business-type activities ended with a deficit of \$5.4 million in unrestricted net assets, and a deficit of \$2.2 million in total net assets.

For 2012, the City had deficits in the Federal Grants Fund of \$210,976, the NSP 1 Fund of \$116,608, the CDBG Fund of \$146,097, and the Water and Sewer Fund of \$5,522,340. Unaudited deficits for the fiscal year ending June 30, 2013 included the Federal Grant Fund of \$537,229, the NSP 1 Fund of \$53,536, the CDBG Fund of \$149,805, the CDBG Program Income Fund of \$9,222, the Fire Station Construction Grant Fund of \$712,717, and Water & Sewer Fund of \$8,219,080.

- During the latter part of 2012, the City closed its water plant facility, citing maintenance issues and other problems. The City of Detroit now supplies water to Highland Park at an average rate of more than \$80,000 each month. Repairs to the water treatment plant are estimated to be over \$9 million, which include removing debris and algae in the raw water reservoir; implementing an algae growth-control strategy; and installing high- and low-water level alarms on the finished water reservoir. The City's water infrastructure is old and deteriorating, with increasing water main breaks over the past year.
- The Water and Sewer Fund has had operating losses since 2008, impacting cash flows and undermining the City's ability to pay its bills:

Water and Sewer Fund	2008	2009	2010	2011	2012	unaudited 2013
Revenues	\$ 4,743,770	4,965,088	5,099,785	5,290,608	\$ 7,483,792	\$ 5,590,259
Expenses	6,980,834	6,889,623	7,677,838	6,798,258	8,394,495	8,199,695
Operating Income (Loss)	(2,237,064)	(1,924,535)	(2,578,053)	(1,507,650)	(910,703)	(2,609,436)
Nonoperating Revenue (Expense)	(62,333)	(111,423)	(114,421)	(110,593)	(106,660)	(87,305)
Transfers / Contributed Capital	226,956	(24,805)		3,874,694	491,161	
Net Deficit - Beginning of year Restatement amount	(295,949)	(2,368,390)	(4,429,153)	(7,121,627)	(4,996,138)	(5,522,340)
Net Asset (Deficit) - End of Year	\$ (2,368,390)	\$ (4,429,153)	\$ (7,121,627)	\$ (4,996,138)	\$ (5,522,340)	\$ (8,219,081)

- Operational decisions have exacerbated the cash flow issues in the Water and Sewer Fund. Specifically, there is a two-year delay in sending many customer billings, and the City excludes delinquent water bills from the tax rolls. This results in over \$452 thousand of chargebacks from prior years that are not offset by current year delinquencies being placed on the rolls. Receivables jumped 73% from 2011 to 2012 - over \$1.8 million. Records for 2013 were not reliable for inclusion because they had not yet been reconciled. However,

during the Department of Treasury's review it was indicated by the City that only approximately 10% of the water bills are being paid in full.

Additionally, there is a settlement agreement between the City of Detroit and City of Highland Park which requires 65% of the revenues collected for water services go directly to the City of Detroit, with only 35% delivered to Highland Park. As of July 2013, the Water and Sewer Fund has accumulated a significant accounts payable balance of over \$15 million to Detroit, with some payables dating back to 2000. This balance continues to increase by more than \$80,000 each month for water billed from the Detroit Water and Sewer Department, and is largely left unpaid.

- The City has had significant interfund borrowing. The largest amounts from fiscal year 2012 include \$463,771 the 08 Pension Bond Debt Fund has borrowed from the General Fund. The General Fund used \$534,445 which was never distributed to the TIFA Fund. In addition, the General Fund borrowed \$69,102 from the Federal Account Fund, a restricted fund. Interfund borrowing continued in Fiscal Year 2013. However, the books were not reconciled and the amounts could not be confirmed. In the City's response to the Interim Report, the City clarified that the 08 Pension Bond Debt Fund borrowed from the General Fund. The General Fund was reimbursed when debt millage was received. The Department of Treasury concurs with this statement and has adjusted the above statement accordingly. The Department of Treasury also concurs that the Federal Account Fund is the correct fund name, not the Federal Grants Fund.
- The City has experienced a decline in revenues for the past several years. There is also a projected decrease in state revenue sharing for Fiscal Years 2013 through 2020 due to a decline in population. The City's taxable value has gone from \$181,237,687 in 2007 to \$147,875,388 in 2012 - a 18.41% decrease. The homestead millage rate is 77.0092 mills (the State average is 29.3) and the City has a 60% collection rate.

	2008	2009	2010	2011	2012	Unaudited 2013	2014 Budget
General Fund Revenues	\$ 12,876,356	\$ 12,141,944	\$ 10,788,634	\$ 12,087,629	\$ 10,718,332	\$ 11,078,800	\$ 10,647,265
General Fund Expenditures	39,326,495	12,678,323	11,866,955	11,281,828	9,424,870	10,638,150	10,299,210
Operating Surplus (Deficit)	(26,450,139)	(536,379)	(1,078,321)	805,801	1,293,462	440,650	348,055
Other Financing Sources (Uses)	30,000,000	(766,046)	(766,046)	(4,259,221)	(443,574)		
Special Item - Debt forgiveness	-	-	-	4,699,592	-	-	-
Net Change in Fund Balances	3,549,861	(1,302,425)	(1,844,367)	1,246,172	849,888	440,650	348,055
Fund Balance (Deficit) - (as restated)	(474,060)	3,075,801	1,773,376	(70,991)	2,141,874	2,991,762	3,432,412
Fund Balance (Deficit) - End of year	\$ 3,075,801	\$ 1,773,376	\$ (70,991)	\$ 1,175,181	\$ 2,991,762	\$ 3,432,412	\$ 3,780,467

- As of June 18, 2013, the City has over \$48.5 million in long term debt, and another \$44.8 million in unfunded pension and other postemployment benefits (OPEB). These liabilities total \$93.3 million altogether. Of the \$48.5 million in long term debt, governmental activities totaled roughly \$39.1 million and the business-type activities accounted for the remaining \$9.4 million. To pay for a portion of the debt, there is an extra voted millage for "pension" debt that was originally \$27 million.

- In 2007, the City’s three pension plans, the General Employees’ Pension Plan, Police and Fire Retirement System, and Former Michigan Employees’ Retirement System (MERS), were 5.6%, 6.6%, and 14% funded respectively. During the 2008 fiscal year, the City issued \$27 million in pension bonds to fund a \$37 million unfunded pension liability. The actuarial valuation as of December 31, 2011 (the latest available), indicates the City had an \$18.7 million unfunded pension liability and a funding status of 43.5%, 7.3% and 57.2% for the same pension plans. Since 2009, the average funded percentage for the average of all three plans has trended downward, as can be seen in the following table:

Audit Report	Assets	Liability	Unfunded Liability	% Funded	Actuarial Date
2008	\$ 4,537,667	\$42,252,289	\$37,714,622	10.7%	As of 12/31/2006
2009	25,204,504	41,809,011	16,604,507	60.3%	As of 12/31/2007
2010	23,378,545	39,247,144	15,868,599	59.6%	As of 12/31/2008
2011	23,378,545	39,247,144	15,868,599	59.6%	As of 12/31/2009
2012	19,810,017	35,875,066	16,065,049	55.2%	As of 12/31/2010
2013	16,590,428	35,318,684	18,728,256	47.0%	As of 12/31/2011

Note 2013 is unaudited. All amounts are actuarially determined.

- The City failed to make the actuarial required contribution for the General Employee’s Retirement Plan and Public Safety Retirement Plan, increasing its pension obligation by \$159,232 and \$357,488 respectively for the fiscal year ending June 2012. As previously stated, the City set aside money from the 2008 pension bond issuance to pay the current payroll contributions for two pensions, MERS and General Employees. The City indicated it has about \$9 million remaining, and estimates this will last between two to three years. After that, the City has not determined what resources will be available to fund retirement payments for current retirees.
- As of June 30 2012, the City has failed to make the total annual required contribution for other post-employment benefits (OPEB). At the end of its fiscal year, its unfunded liability was \$26.1 million. The total cost for fiscal year 2012 was \$2,183,771, of which \$1,359,562 was paid. The 2013 cost will be similar to that of 2012. However, the City has only paid approximately \$1 million for current retirees.
- There are currently several lawsuits pending against the City. One significant lawsuit is for \$320,000, with \$30,000 to be paid by the City and the remainder to be assessed as a judgment levy that must be added to the earliest property tax rolls. \$200,000 will be assessed on the Summer 2013 tax roll and the \$90,000 balance will be on the Winter 2013 tax roll. Of the other various lawsuits pending, six of them have a total potential loss to the City of over \$2.8 million. Out of those six, a judgment in the amount of \$2 million was entered against the City on September 19, 2013. Once the order is signed, the City will appeal the jury’s verdict.
- The City stopped its employer’s contribution to the Defined Contribution Plan, which was noncompliant with an agreement with MERS. In a letter dated March 26, 2013, MERS states

that “while employee contributions are voluntary, employers are required to make contributions to employee’s *[sic]* defined contribution accounts.” The City must now supply additional paperwork and retroactive contributions to MERS for those employee accounts that missed contributions.

- The City received a letter from the law firm of Clark Hill which stated that “[o]n behalf of Fifth Third Bank, the issuer of the letter of Credit securing the captioned Bonds, I am providing this notice that Event of Defaults have occurred under the Amended and Restated Reimbursement Agreement (the “Reimbursement Agreement”), dated as of July 15, 2011, between Fifth Third Bank (the “Bank”) and the City of Highland Park (the “City”), as amended, pursuant to Section 10.1.3 and 10.1.14 thereof, and under Sections 10(vi) and 10(viii) of the Terms and Conditions executed by the City as of July 10, 2013. The Events of Default are based on the commencement of a preliminary review of the finance of the City on September 4, 2013, by the Michigan Department of Treasury under Act No. 436, Michigan Public Acts of 2013 *[sic]*, and the City’s continuing failure to provide to the Bank any information regarding the review or the conditions leading to it.”

An Interim Report on the Preliminary Review was sent to the City of Highland Park on September 30, 2013. The City was given five days to respond to that report. Copies of both the Interim Report (Attachment A) and the response from the City of Highland Park (Attachment B) are attached.

As the state financial authority for units of local governments, I am forwarding this Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board pursuant to Section 4(2) of Public Act 436 of 2012.

ⁱ Subdivision (d) provides that “[t]he state financial authority receives written notification that a local government has not timely deposited its minimum obligation payment to the local government pension fund as required by law.”

Subdivision (j) provides that “[t]he local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.437 to 141.440.”

Subdivision (n) provides that “[t]he local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan.”

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 (s) provides that “[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.”



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

ANDY DILLON
STATE TREASURER

DATE: September 30, 2013
TO: Local Emergency Financial Assistance Loan Board
FROM: Andy Dillon, State Treasurer
SUBJECT: Interim Report - Preliminary Review of the City of Highland Park

Background

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Preliminary Review Findings

- The City of Highland Park violated a requirement of sections 17 to 20 of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. In the fiscal year ending June 30, 2012, there were four activities in the General Fund that went over budget, with Transfers Out being the largest at \$491,161. This transfer went to the Water and Sewer Fund to supplement its operations. The most significant amount was \$3,525,306 over budget in the 2012 Federal Grants Fund activity for Community and Economic Development. All General Fund activities that went over budget totaled over \$533,562. However, when netted together with other expenses and transfers, the City's total General Fund expenditures were actually under budget by \$1,186,566. There was also a transfer from the Major Streets Fund to the Local Streets Fund of \$275,000 that was not budgeted.
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Restatement amount				(130,962)		
Net Asset (Deficit) - End of Year	<u>\$ (2,368,390)</u>	<u>\$ (4,429,153)</u>	<u>\$ (7,121,627)</u>	<u>\$ (4,996,138)</u>	<u>\$ (5,522,340)</u>	<u>\$ (8,219,081)</u>

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- There are currently several lawsuits pending against the City. One significant lawsuit is for \$320,000, with \$30,000 to be paid by the City and the remainder to be assessed as a judgment levy that must be added to the earliest property tax rolls. \$200,000 will be assessed on the Summer 2013 tax roll and the \$90,000 balance will be on the Winter 2013 tax roll. Of the other various lawsuits pending, six of them have a total potential loss to the City of over \$2.8 million. Out of those six, a judgment in the amount of \$2 million was entered against the City on September 19, 2013. Once the order is signed, the City will appeal the jury's verdict.
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- The City received a letter from the law firm of Clark Hill which stated that "[o]n behalf of Fifth Third Bank, the issuer of the letter of Credit securing the captioned Bonds, I am providing this notice that Event of Defaults have occurred under the Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement"), dated as of July 15, 2011, between Fifth Third Bank (the "Bank") and the City of Highland Park (the "City"), as amended, pursuant to Section 10.1.3 and 10.1.14 thereof, and under Sections 10(vi) and

10(viii) of the Terms and Conditions executed by the City as of July 10, 2013. The Events of Default are based on the commencement of a preliminary review of the finance of the City on September 4, 2013, by the Michigan Department of Treasury under Act No. 436, Michigan Public Acts of 2013 [*sic*], and the City's continuing failure to provide to the Bank any information regarding the review or the conditions leading to it."

ⁱ Subdivision (d) provides that "[t]he state financial authority receives written notification that a local government has not timely deposited its minimum obligation payment to the local government pension fund as required by law."

Subdivision (j) provides that "[t]he local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.437 to 141.440."

Subdivision (n) provides that "[t]he local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

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 (s) provides that "[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."

**CITY OF HIGHLAND PARK**

Return to Excellence

DeAndre Windom
Mayor

October 7, 2013

BY ELECTRONIC AND UNITED STATES FIRST CLASS MAIL

Mr. Andrew Dillon
State Treasurer
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Treasurer Dillon, Mr. Koryzno, Jr., and Ms. Schafer,

On behalf of the City Council, my administration, the residents, and businesses in the City of Highland Park, I am providing a response to the interim report of findings cited in the Preliminary Review of the City of Highland Park dated September 30, 2013 (the "Interim Preliminary Review" or "IPR"). We appreciate the opportunity to clarify or correct certain statements, numbers or conclusions in the Interim Preliminary Review.

Page 1 | Bullet Point 1 :: Violations of Public Act 2 of 1968

In FY 2012, the City's general fund expenditures were under budget by \$1,186,566 (\$1,677,727 less \$491,161 see page 58). More importantly, the City's actual net change in its general fund was \$849,888, the second, consecutive net positive change in the general fund.

The City did not budget or amend its General Fund budget for the \$491,161 transfer to the Water and Sewer Fund. The unbudgeted operating transfer of \$491,161 was a decision made by Tony Saunders (State-appointed), after year end, to re-class the interfund as an operating transfer, thereby hitting P&L.

Management has been fiscally responsible in setting an appropriate budget for the overall fund. As described in the audited FY 2012 financial statements (page 57), the City needed to address specific overages within three departments, totaling only \$42,401 (Assessor - \$5028, Legal - \$11432, and Community and Economic Development - \$25941).

As you know, most federal grants require a municipality to first expend its funds prior to obtaining reimbursement from the Federal government. In FY 2012, in order for the City to comply with and maximize the amount of funds to be received under certain Federal grants, namely NSP 2, the City did accelerate the expenditures of its funds, without amending its budget, in order not to lose a portion of the grant funding. Furthermore, the City did experience and record a positive revenue variance in Federal Grants for Community and Economic Development equal to \$3,578,915. This amount of revenue offsets the \$3,525,306 negative expenditure variance cited in the IPR. Please refer to "Budgetary Comparison Schedule – Major Special Revenue Funds Federal Grants Year Ended June 30, 2012, page 60 of the audit.

The IPR also cited a \$275,000 transfer from the Major Street Fund to the Local Street Fund. Pursuant to Act 51 regulations, the City made a one-time transfer between these funds after it has evaluated its revenue and expenditures for each of these Funds. The transfer replenished the Local Streets Fund for the City activity; actual Local Streets expenditures over revenues were \$269,000.

Page 1 | Bullet Point 2 :: Water and Sewer Fund

The unaudited revenues for the Water and Sewer Fund for FY 2013, currently presented as \$5,590,259, excludes a significant amount of unbilled water and sewer revenue. The adjustment for unbilled receivables has not yet been booked for FY 2013. Once the entry is made, the City's receivable and revenue will increase.

The City does expect the accumulated deficit in the Water and Sewer Fund for FY 2013 to remain at approximately \$5,550,000. The FY 2013 operating transfer from the General Fund to the Water and Sewer Fund will be approximately \$622,279. This consists mainly of the chargebacks the general fund had to absorb (\$452,067) plus administrative charges (\$111,100.)

The City is currently implementing its plan to generate and send water and sewer bills to its system users (businesses and residents), adopt an ordinance to increase the water and sewer rates and address the collection of unpaid water and sewer bills, including a shut-off of services.

As cited in the IPR, the deficit elimination plan for the Water and Sewer Fund for FY 2012 was adopted by the City but was not approved by the Department of Treasury. With the above changes to increase the revenue to the water and sewer fund, the accumulated deficit in the water and sewer fund should be eliminated in five years.

Page 2 | Bullet Point 1 :: Statement of Net Assets (Deficit)

While the information provided in this bullet point is true and presented in accordance with GASB 34 reporting requirements, the City and many other local units of government in the state of Michigan also have deficits shown in their statements of net assets. The City, as most local units of government, monitors its fiscal health based upon the fund-based statements, beginning on page 15 of the audited FYE 2012 financial statements. The City would like to focus on the trend that has occurred in its General Fund since FY 2011 – a positive net change in fund balance and a corresponding positive general fund balance.

Page 2 | Bullet Point 1 :: Federal Grants Fund

The deficits presented for both FY 2012 and FY 2013 are generated because the grants are “reimbursement-based.” Meaning the City must expend funds and then seek reimbursement from the granting agency (typically the County of Wayne or the State of Michigan). The grants are continually monitored by the Community and Economic Development department and/or project managers hired to oversee the projects as well as monitored by the City’s Finance department at year end close-out.

The deficits reported in the Federal Grants Fund, the NSP 1 fund and the CDBG Fund are offset by “deferred revenue” in each of the funds. Please refer to pages 65 and 66 of the City’s audit financial statements for FY 2012.

Page 2 | Bullet Point 2 :: Water Plant

The City cannot afford the \$9 million in repairs that are needed to make the water plant operational and were denied a loan through the State’s SRF program. Therefore, the City is purchasing water from the City of Detroit.

The City has met with the City of Detroit’s Water and Sewer Department, with the knowledge of the Department of Treasury, to negotiate an agreement to provide services to City. The City of Detroit, pursuant to its charter, cannot enter into a contract or agreement with the City as it relates to the sale of water.

Page 2 | Bullet Point 3 :: Water and Sewer Fund

The City is in the early stages of its audit for FY 2013. The 2013 unaudited amount for revenue of \$5,590,259 (see table on page 2) is understated and should be revised. The amount of revenue for FY 2013 is estimated to be \$7,150,000. Using this revised revenue amount and the estimated General Fund transfer of \$622,280 as described above, the FY 2013 unaudited Net Assets (Deficit) is estimated be \$5,500,000, the same as FY 2012 Net Assets (Deficit).

Page 2 | Bullet Point 4 :: Water and Sewer Fund - Operations

The City’s administration has commenced a plan to increase revenue for the Water and Sewer Fund. The following action items have or will be presented to City Council for approval:

- At tonight’s City Council meeting, a proposal will be presented to hire an outside firm to assist the City to send billings to customers on a go-forward basis;
- City Council will be considering an ordinance to increase water and sewer rates (a component in the City’s approved deficit elimination plan); and

- City Council will be considering an ordinance to address the payment of delinquent bills, including a shut off policy for its residents and business customers (a component in the City's approved deficit elimination plan).

The City would like to negotiate a contract with the City of Detroit Water and Sewer Department to address the unpaid balance. However, for reasons stated above, the two parties cannot enter into a contract.

The statement that only 10% of the City's water bills are being paid in full is untrue. Approximately 50% of the water bills are paid on a timely basis. The City will be addressing the delinquent payment of water bills by adopting an ordinance that shut off service and transfer the unpaid balance as a lien on the property.

Page 3 | Bullet Point 1 :: Interfund Borrowing

The interfund borrowing between the General Fund and the 08 Pension Bond Debt Fund represents an advancement from the General Fund to pay debt service, which includes principal, interest, letter of credit fees and fees for professional services such as the trustee. The 2008 Pension Bonds are secured by an unlimited tax general obligation pledge (the City levies 26 mills for debt service) and is also secured by distributable state aid to be received by the City from the State of Michigan. The payment of letter of credit fees was due prior to the receipt of funds from the debt tax millage. In order to avoid a default, the General Fund, which receives distributable state aid, advanced \$463,771 to the 08 Pension Bonds Fund to pay debt service as defined above. As soon as the debt millage is received from the tax payer or Wayne County purchases the City's delinquent taxes attributed to the 2008 Pension Bonds, the 08 Pension Fund repaid the General Fund.

Page 3 | Bullet Point 1 :: TIFA

As presented in the audited FY 2012 financial statements, the General Fund owed the TIFA \$534,445. Since FY 2003, the City has been transferring the appropriate amount of captured property taxes to the TIFA. During FY 2013, the City transferred property and provided other services to the TIFA. This will reduce the amount owed from the General Fund to the TIFA.

Page 3 | Bullet Point 1 :: Federal Accounts Fund

As presented in the audited FY 2012 financial statements, the General Fund owed the Federal Accounts Fund, not the Federal Grants Fund \$69,102 (see page 65 and Note 6).

Page 3 | Bullet Point 1 :: Interfund Reconciliation

The sentence "...the books were not reconciled and the amounts could not be confirmed" may lead the reader to conclude that the City's records are incomplete. The City's interfund activity is monitored and reconciled throughout the year, with the exception of property tax activity which is adjusted at year-end after the City receives its property tax settlement. The sentence in the IPR may need to be deleted or altered to clarify the status of the City's preparation for its FY 2013 audit.

Page 3 | Bullet Point 2 :: Revenue Sharing

The amount of revenue sharing, primarily the constitutional and Economic Vitality Incentive Program (EVIP) components, is determined by the City's population, an appropriation by the State of Michigan, and the City's compliance with the EVIP program requirements. The City has maximized the amount of revenue sharing payments by reviewing census data and being in full compliance with the EVIP program requirements. Furthermore, the City incorporates into its annual general fund budget, the amount of revenue sharing payments, constitutional and EVIP, as generated by the Department of Treasury.

Page 3 | Bullet Point 2 :: Taxable Value

For the five year period of 2007 to 2012, the City's taxable value has declined from \$181,237,687 to \$147,875,388, or an 18.41% decrease. The City's 2013 taxable value has increased to \$160,357,640 or an 8.44% increase over the 2012 taxable value. Therefore, to restate the past five year period of 2008 to 2013, the City's taxable value has declined from \$175,384,497 to \$160,357,640, or an 8.57% decrease.

Page 3 | Bullet Point 2 :: Homestead Millage

For 2012, the City's tax rate was 51.7758 mills for operating, rubbish, judgment and the 2008 UTGO pension bonds. The City's portion of the 2012 total property tax rate of 77.0092 mills is 67.23%. The cited average of 29.3 does not represent the average for cities and townships in Wayne County (see attached report 2012 Total Property Tax Rates in Michigan).

Page 3 | Bullet Point 2 :: History of the General Fund

Since FY 2011, the City has had an operating surplus and one is projected to continue in FY 2013 and FY 2014. Furthermore, the General Fund has and is expected to have a positive fund balance.

Page 3 | Bullet Point 3 :: Long-Term Debt

The statements and amounts are correct and include accumulated compensated absences. Of the \$48.5 million in long-term debt, \$6.05 million are building authority bonds and are self-supporting obligations and secured by a lease with the State of Michigan (Department of Human Services).

Page 3 | Bullet Point 4 :: Pension Plans

The statements and amounts are correct.

Page 4 | Bullet Point 1 :: Pension Plans

For FY 2012, the City did not make its actuarial required contribution for the General Employees' Retirement Plan and Public Safety Retirement Plan. As for FY 2012, the City had approximately \$11.8 million in assets for the two plans (not \$9 million as stated in the IPR), which would provide for four (4) years of payments to the beneficiaries of those plans if no additional contributions are made.

Page 4 | Bullet Point 2 :: OPEB ARC

Like many local units of governments in Michigan, the City did not make its annual required contribution for other post-employment benefits (OPEB). The City has been and expects to be current on paying its OPEB requirements on a "pay-as-you-go" basis. For FY 2012, the City paid approximately \$1.36 million for OPEB.

Page 4 | Bullet Point 3 :: Lawsuits

Please restate the status of the \$320,000 lawsuit as "final" rather than as "pending." The City has placed the judgment on the property tax rolls and has paid approximately \$200,000. The City is in compliance with the judgment terms, including the timely payment of the judgment.

The remaining pending lawsuits allegedly totaling \$2.8 million is not a true value of the liability facing the City. As previously communicated in a report to the Review Team, the value under "potential loss to the City" was based on what the Plaintiff was requesting, or \$2.36 million rather than the \$2.8 million state in the IPR, and not based on a legal assessment of the value of the case. For example, one lawsuit requested over \$125,000.00 and the City settled the lawsuit for \$2,800. The actual judgment that was entered against the City on September 19, 2013 was \$1.57 million not \$2.0 million. The City has filed an appeal requesting a remittitur (a lower judgment) or a new trial. The appeal process will likely take a year or more to resolve and therefore the City has not paid or recorded the liability on its books.

The Department of Treasury should note in the IPR, since the appointment of the first emergency manager in 2001, it has been the City's practice to defend itself against all lawsuits and to place any judgments on the property tax roll rather than self-insure itself against any judgment.

Page 4 | Bullet Point 4 :: Defined Contribution Plan

As part of the 2012 Fiscal Stabilization Plan, the City implemented the elimination of the 401(k) for regular employees. In December, 2012, MERS inquired why the City had not contributed to the Defined Contribution Plan. It was a minor oversight on the City's part to notify MERS of the change and the City has been proactively working with MERS to resolve the issue, which includes the adoption of amendments to MERS plan documents. The City plans to reinstate all employees and make retroactive payments to MERS by December 31, 2013. It is the City's goal is to be in compliance with the requirements of the defined contribution plan with MERS.

Page 4 | Bullet Point 5 :: Event of Default

The Department of Treasury's letter informing the City of the commencement of a preliminary review of the finances of the City on September 4, 2013 triggered Fifth Third Bank's notice of Event of Default. The City had been in constant communication and consistent full disclosure under the terms of the Reimbursement Agreement with Fifth Third Bank. The City will be providing a copy of this Response to Fifth Third Bank.

Summary

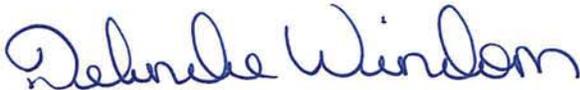
The findings in the Interim Preliminary Review show that the City has, with the assistance of the Department of Treasury, accomplished its goals in having and maintaining a positive general fund balance. Our challenge is to eliminate the accumulated deficit in the Water and Sewer Fund. With the knowledge of the Department of Treasury, the City has commenced the process to accomplish this goal. As stated above, the City's administration has commenced a plan to increase revenue for the Water and Sewer Fund. The following action items have or will be presented to City Council for approval:

- At tonight's City Council meeting, a proposal will be presented to hire an outside firm to assist the City to send billings to customers on a go-forward basis;
- City Council will be considering an ordinance to increase water and sewer rates (a component in the City's approved deficit elimination plan); and
- City Council will be considering an ordinance to address the payment of delinquent bills, including a shut off policy for its residents and customers (a component in the City's approved deficit elimination plan).

The City would also like to negotiate a contract with the City of Detroit and hereby formally request the continued assistance from the Department of Treasury.

Again, we appreciate the opportunity to clarify or correct the information and facts in the Interim Preliminary Review. If you have any questions, please contact me.

Regards,



DeAndre Windom
Mayor

cc: Senator Bert Johnson – 2nd Senate District
State Representative Thomas F. Stallworth III – 7th House District
Members of the City of Highland Park Council

Attachment: 2012 Total Property Tax Rates in Michigan – Wayne County

2012 TOTAL PROPERTY TAX RATES IN MICHIGAN

School District	Total Millage for Principal Residence or Ag Exemption	Total Millage NonHomestead	Total Millage Industrial Personal (IPP)	Total Millage Commercial Personal (CPP)	w/ AdValorem Special Assessment Millage	
					Total Millage for Principle Residence or Ag Exemption	Total Millage NonHomestead
MILAN CITY						
81100 MILAN	43.5988	61.5736	37.5988	49.5736	43.5988	61.5736
SALINE CITY						
81120 SALINE	43.9405	61.9405	37.9405	49.9405	43.9405	61.9405
YPSILANTI CITY						
81020 YPSILANTI	64.3680	82.368	58.3680	70.3680	64.3680	82.3680
COUNTY: WAYNE						
BROWNSTOWN TWP						
82150 TAYLOR	25.2148	43.2148	19.2148	31.2148	33.2148	51.2148
82290 GIBRALTAR	31.3148	49.3148	25.3148	37.3148	39.3148	57.3148
82365 WOODHAVEN	33.1926	51.1926	27.1926	39.1926	41.1926	59.1926
CANTON TWP						
82100 PLYMOUTH-CANTO	27.6073	45.6073	21.6073	33.6073	35.6413	53.6413
82160 WAYNE-WESTLAND	29.8036	47.8036	23.8036	35.8036	37.8376	55.8376
82430 VAN BUREN	28.0614	46.0614	22.0614	34.0614	36.0954	54.0954
GROSSE ILE TWP						
82300 GROSSE ILE TWP.	44.3101	60.0587	38.3101	50.3101	44.3101	60.0587
HURON TWP						
82180 FLAT ROCK	34.7847	52.7847	28.7847	40.7847	34.7847	52.7847
82340 HURON	34.7847	52.7847	28.7847	40.7847	34.7847	52.7847
82365 WOODHAVEN	35.7625	53.7625	29.7625	41.7625	35.7625	53.7625
NORTHVILLE TWP						
82100 PLYMOUTH-CANTO	32.2273	50.2273	26.2273	38.2273	32.2273	50.2273
82390 NORTHVILLE	33.4273	51.4273	27.4273	39.4273	33.4273	51.4273
PLYMOUTH TWP						
82100 PLYMOUTH-CANTO	29.4199	47.4199	23.4199	35.4199	29.4199	47.4199
REDFORD TWP						
63090 CLARENCEVILLE	43.5735	61.5735	37.5735	49.5735	48.7735	66.7735
82110 REDFORD UNION	49.6129	67.6129	43.6129	55.6129	54.8129	72.8129
82140 SOUTH REDFORD	47.3129	65.3129	41.3129	53.3129	52.5129	70.5129

2012 TOTAL PROPERTY TAX RATES IN MICHIGAN

School District	Total Millage for Principal Residence or Ag Exemption	Total Millage NonHomestead	Total Millage Industrial Personal (IPP)	Total Millage Commercial Personal (CPP)	w/ AdValorem Special Assessment Millage	
					Total Millage for Principle Residence or Ag Exemption	Total Millage NonHomestead
<i>SUMPTER TWP</i>						
58020 AIRPORT	28.7219	46.7219	22.7219	34.7219	28.7219	46.7219
81070 LINCOLN	33.4923	51.4923	27.4923	39.4923	33.4923	51.4923
82340 HURON	32.5321	50.5321	26.5321	38.5321	32.5321	50.5321
82430 VAN BUREN	29.6421	47.6421	23.6421	35.6421	29.6421	47.6421
<i>VAN BUREN TWP</i>						
81070 LINCOLN	33.6163	51.6163	27.6163	39.6163	33.6163	51.6163
82430 VAN BUREN	29.7661	47.7661	23.7661	35.7661	29.7661	47.7661
<i>ALLEN PARK CITY</i>						
82020 ALLEN PARK	49.6586	67.6586	43.6586	55.6586	49.6586	67.6586
82045 MELVINDALE	42.6586	60.6586	36.6586	48.6586	42.6586	60.6586
82405 SOUTHGATE	48.7086	66.7086	42.7086	54.7086	48.7086	66.7086
<i>BELLEVILLE CITY</i>						
82430 VAN BUREN	42.9777	60.9777	36.9777	48.9777	42.9777	60.9777
<i>DEARBORN CITY</i>						
82030 DEARBORN	60.2309	72.0609	54.2309	66.2309	60.2309	72.0609
82240 WESTWOOD	47.4917	65.4917	41.4917	53.4917	47.4917	65.4917
<i>DEARBORN HTS. CITY</i>						
82030 DEARBORN	57.9757	69.8057	51.9757	63.9757	57.9757	69.8057
82040 DEARBORN HIEGHT	49.9047	67.9047	43.9047	55.9047	49.9047	67.9047
82150 TAYLOR	45.2365	63.2365	39.2365	51.2365	45.2365	63.2365
82160 WAYNE-WESTLAND	50.5087	68.5087	44.5087	56.5087	50.5087	68.5087
82230 CRESTWOOD	45.2365	63.2365	39.2365	51.2365	45.2365	63.2365
82240 WESTWOOD	45.2365	63.2365	39.2365	51.2365	45.2365	63.2365
<i>DETROIT CITY</i>						
82010 DETROIT	67.0700	84.9008	61.0700	72.9008	67.0700	84.9008
<i>ECORSE CITY</i>						
82120 RIVER ROUGE	76.3736	89.898	70.3736	81.7236	88.0206	101.5450
82250 ECORSE	67.2280	84.9418	61.2280	72.9418	78.8750	96.5888

2012 TOTAL PROPERTY TAX RATES IN MICHIGAN

School District	Total Millage for Principal Residence or Ag Exemption	Total Millage NonHomestead	Total Millage Industrial Personal (IPP)	Total Millage Commercial Personal (CPP)	w/ AdValorem Special Assessment Millage	
					Total Millage for Principle Residence or Ag Exemption	Total Millage NonHomestead
<i>FLAT ROCK CITY</i>						
82180 FLAT ROCK	46.0414	64.0414	40.0414	52.0414	46.0414	64.0414
82290 GIBRALTAR	45.1414	63.1414	39.1414	51.1414	45.1414	63.1414
82365 WOODHAVEN	47.0192	65.0192	41.0192	53.0192	47.0192	65.0192
<i>GARDEN CITY CITY</i>						
82050 GARDEN CITY	48.9319	66.9319	42.9319	54.9319	48.9319	66.9319
<i>GIBRALTAR CITY</i>						
82290 GIBRALTAR	45.3217	63.3217	39.3217	51.3217	45.3217	63.3217
<i>GROSSE POINTE CITY</i>						
82055 GROSSE POINTE	47.0740	57.7445	41.0740	53.0740	47.0740	57.7445
<i>GROSSE PTE FARMS CITY</i>						
82055 GROSSE POINTE	46.7211	57.3916	40.7211	52.7211	46.7211	57.3916
<i>GROSSE PTE PARK CITY</i>						
82055 GROSSE POINTE	46.8301	57.5006	40.8301	52.8301	46.8301	57.5006
<i>GROSSE PTE SHORES CITY</i>						
82055 GROSSE POINTE	51.1011	61.7716	45.1011	57.1011	51.1011	61.7716
<i>GROSSE PTE WOODS CITY</i>						
82055 GROSSE POINTE	53.1753	63.8458	47.1753	59.1753	53.1753	63.8458
<i>HAMTRAMCK CITY</i>						
82060 HAMTRAMCK	53.8861	71.8861	47.8861	59.8861	53.8861	71.8861
<i>HARPER WOODS CITY</i>						
82055 GROSSE POINTE	67.2379	77.9084	61.2379	73.2379	76.7379	87.4084
82320 HARPER WOODS	62.5485	80.5485	56.5485	68.5485	72.0485	90.0485
<i>HIGHLAND PARK CITY</i>						
82070 HIGHLAND PARK	77.0092	94.7392	71.0092	82.7392	77.0092	94.7392
<i>INKSTER CITY</i>						
82080 INKSTER	71.8611	89.8611	65.8611	77.8611	71.8611	89.8611
82150 TAYLOR	56.3611	74.3611	50.3611	62.3611	56.3611	74.3611
82160 WAYNE-WESTL.CH.	62.2133	80.2133	56.2133	68.2133	62.2133	80.2133
82160 WAYNE-WESTLAND	62.2133	80.2133	56.2133	68.2133	62.2133	80.2133
82240 WESTWOOD	56.3611	74.3611	50.3611	62.3611	56.3611	74.3611

2012 TOTAL PROPERTY TAX RATES IN MICHIGAN

School District	Total Millage for Principal Residence or Ag Exemption	Total Millage NonHomestead	Total Millage Industrial Personal (IPP)	Total Millage Commercial Personal (CPP)	w/ AdValorem Special Assessment Millage	
					Total Millage for Principle Residence or Ag Exemption	Total Millage NonHomestead
<i>LINCOLN PARK CITY</i>						
82090 LINCOLN PARK	50.0569	68.0299	44.0569	56.0299	50.0569	68.0299
<i>LIVONIA CITY</i>						
63090 CLARENCEVILLE	37.8902	55.8902	31.8902	43.8902	37.8902	55.8902
82095 LIVONIA	36.8055	54.8055	30.8055	42.8055	36.8055	54.8055
<i>MELVINDALE CITY</i>						
82045 MELVINDALE	47.9209	65.9209	41.9209	53.9209	57.9209	75.9209
<i>NORTHVILLE CITY</i>						
82390 NORTHVILLE	41.6733	59.6733	35.6733	47.6733	41.6733	59.6733
<i>PLYMOUTH CITY</i>						
82100 PLYMOUTH-CANTO	41.4933	59.4933	35.4933	47.4933	41.4933	59.4933
<i>RIVER ROUGE CITY</i>						
82120 RIVER ROUGE	85.7534	99.2778	79.7534	91.1034	88.7534	102.2778
<i>RIVERVIEW CITY</i>						
82400 RIVERVIEW	42.3917	60.3917	36.3917	48.3917	42.3917	60.3917
<i>ROCKWOOD CITY</i>						
82290 GIBRALTAR	51.1842	69.1842	45.1842	57.1842	51.1842	69.1842
<i>ROMULUS CITY</i>						
82130 ROMULUS	42.9512	59.0042	36.9512	47.0042	42.9512	59.0042
82160 WAYNE-WESTLAND	39.4814	57.4814	33.4814	45.4814	39.4814	57.4814
82161 TR-WAY-WEST/RO	38.9014	56.9014	32.9014	44.9014	38.9014	56.9014
82365 WOODHAVEN	41.6070	59.607	35.6070	47.6070	41.6070	59.6070
<i>SOUTHGATE CITY</i>						
82405 SOUTHGATE	50.5886	68.5886	44.5886	56.5886	50.5886	68.5886
<i>TAYLOR CITY</i>						
82150 TAYLOR	48.2181	66.2181	42.2181	54.2181	48.2181	66.2181
<i>TRENTON CITY</i>						
82155 TRENTON	53.3841	67.2877	47.3841	59.3841	53.3841	67.2877
82400 RIVERVIEW	49.3477	67.3477	43.3477	55.3477	49.3477	67.3477
<i>WAYNE CITY</i>						
82160 WAYNE-WESTLAND	49.4457	67.4457	43.4457	55.4457	49.4457	67.4457

2012 TOTAL PROPERTY TAX RATES IN MICHIGAN

School District	Total Millage for Principal Residence or Ag Exemption	Total Millage NonHomestead	Total Millage Industrial Personal (IPP)	Total Millage Commercial Personal (CPP)	w/ AdValorem Special Assessment Millage	
					Total Millage for Principle Residence or Ag Exemption	Total Millage NonHomestead
WESTLAND CITY						
82050 GARDEN CITY	41.0289	59.0289	35.0289	47.0289	41.0289	59.0289
82080 INKSTER	50.0930	68.093	44.0930	56.0930	50.0930	68.0930
82095 LIVONIA	37.4689	55.4689	31.4689	43.4689	37.4689	55.4689
82150 TAYLOR	34.5930	52.593	28.5930	40.5930	34.5930	52.5930
82160 WAYNE-WESTLAND	40.4452	58.4452	34.4452	46.4452	40.4452	58.4452
82161 TR-W/W CHERRY HI	39.8652	57.8652	33.8652	45.8652	39.8652	57.8652
82162 TR-W/W ROMULUS-	39.8652	57.8652	33.8652	45.8652	39.8652	57.8652
WOODHAVEN CITY						
82290 GIBRALTAR	46.7717	64.7717	40.7717	52.7717	46.7717	64.7717
82365 WOODHAVEN	48.6495	66.6495	42.6495	54.6495	48.6495	66.6495
WYANDOTTE CITY						
82170 WYANDOTTE	51.4179	69.3369	45.4179	57.3369	51.4179	69.3369
COUNTY: WEXFORD						
ANTIOCH TWP						
83010 CADILLAC	25.6716	43.6716	19.6716	31.6716	25.6716	43.6716
83070 MESICK	26.7716	44.7716	20.7716	32.7716	26.7716	44.7716
VILLAGE OF MESICK MESICK	37.7716	55.7716	31.7716	43.7716	37.7716	55.7716
BOON TWP						
83010 CADILLAC	26.7785	44.7785	20.7785	32.7785	26.7785	44.7785
83070 MESICK	27.8785	45.8785	21.8785	33.8785	27.8785	45.8785
VILLAGE OF HARRIETTA CADILLAC	31.7785	49.7785	25.7785	37.7785	31.7785	49.7785
CEDAR CREEK TWP						
83060 MANTON	29.8593	47.8593	23.8593	35.8593	29.8593	47.8593
CHERRY GROVE TWP						
67055 PINE RIVER	26.8867	44.8867	20.8867	32.8867	26.8867	44.8867
83010 CADILLAC	27.1667	45.1667	21.1667	33.1667	27.1667	45.1667
CLAM LAKE TWP						
57030 MCBAIN	26.4474	44.4474	20.4474	32.4474	26.4474	44.4474
67055 PINE RIVER	27.4674	45.4674	21.4674	33.4674	27.4674	45.4674
83010 CADILLAC	27.7474	45.7474	21.7474	33.7474	27.7474	45.7474