



STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

March 19, 2014

Donna J. Squalls, Supervisor
Charter Township of Royal Oak
21131 Garden Lane, Second Floor
Ferndale, Michigan 48820

Board of Trustees
Charter Township of Royal Oak
21131 Garden Lane, Second Floor
Ferndale, Michigan 48820

Dear Supervisor Squalls and Charter Township of Royal Oak Board of Trustees:

On January 24, 2014, the Charter Township of Royal Oak 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 Township.

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 Township. 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 Township's right to request a hearing upon the determination.

On February 6, 2014, the Township Supervisor requested a hearing upon the determination of a financial emergency in the Township, 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 Charter Township of Royal Oak.

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

- Financial audit reports for the township for its last three fiscal years indicated that Township officials were not monitoring their budgets and adjusting them when necessary as required by law. For example, actual general fund revenues were less than had been budgeted for fiscal years 2010 and 2011. However, in neither fiscal year did Township officials amend those budgets to reflect the fact that less revenue was being realized than had been estimated.
- As of December 10, 2013, Township officials had not adopted a budget for the 2014 fiscal year which began on January 1, 2014. This was a clear violation of several provisions of state law. Public Act 359 of 1947, the Charter Township Act, which applies to the Charter Township of Royal Oak, contains several provisions governing the budget formulation and adoption process, provisions with which Township officials failed to comply.
- In addition to general property taxes levied for operating purposes, the Township historically has relied heavily upon unit-wide ad valorem special assessments to fund many services, including police and fire. However, despite the substantial number of mills legally dedicated specifically for police and fire services, both the Township's Police Fund and the Fire Fund were projected to end in a deficit condition for the 2013 fiscal year and did end in a deficit condition for the 2012 fiscal year.
- For the past five fiscal years, Township officials had not filed annual financial audits with the Michigan Department of Treasury within the six-month statutory timeframe required by Public Act 2 of 1968, the Uniform Budgeting and Accounting Act. The Act requires that a local government file its financial audit within 6 months after the end of its fiscal year. In the case of the Charter Township of Royal Oak, that deadline is June 30 each year. However, the earliest that Township audits were filed within the last 5 years was July 14th. In one year (2010), the audit was not filed until October 19th.
- The Review Team noted considerable dysfunction with regards to decision-making and communication by Township officials. For example, several Township officials, including Trustees, expressed to the Review Team frustration at their inability to receive timely and accurate information regarding the financial and operational activities of the Township. It was observed that there had been occasions when the Board had been expected to make significant financial or operational decisions without having received relevant information in advance of a meeting, or that financial information when received in advance had subsequently been revised without notice or explanation.

The Township's testimony was presented by Supervisor Donna J. Squalls, Financial Consultant William Cunningham, and Township Attorney Michael Hurley. It is noteworthy that Township officials testified that they did not contest the findings of the Review Team report. Rather, their testimony sought to explain how certain events which the Review Team documented had occurred.

The testimony of Township 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

Township was that Township officials had made progress in implementing a budget and financial reforms and could continue to make further progress if given additional time.

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

Pursuant to Section 7(1) of the Act, the Township's Board of Trustees 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.

The deadline by which the Township's Board of Trustees must submit an adopted resolution selecting one of the foregoing statutory options is 5:00 P.M., Wednesday March 26, 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 Board of Trustees fails or refuses to select a statutory option by the deadline, the Township will be required to proceed under the Neutral Evaluation Process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rick Snyder".

Rick Snyder
Governor