



STATE OF MICHIGAN  
EXECUTIVE OFFICE  
LANSING

RICK SNYDER  
GOVERNOR

BRIAN CALLEY  
LT. GOVERNOR

January 30, 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:

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 January 24, 2014, by the Charter Township of Royal Oak Financial Review Team. I agree with the conclusion of the report, which was that a financial emergency exists within the Charter Township of Royal Oak.

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 the Charter Township of Royal Oak.

### 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 September 9, 2013, the Michigan Department of Treasury commenced a preliminary review of the finances of the Charter Township of Royal Oak 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 Township resulted from the conditions enumerated in subdivisions (h), (j), (k), (p), and (s) of Section 4(1) having occurred within the Township.<sup>1</sup> The preliminary review found, or confirmed, the following:

- Township officials procured a \$300,000 loan from a financial institution in violation of Public Act 34 of 2001, the Revised Municipal Finance Act, and without the approval of the Michigan Department of Treasury. The subsequent repayment of the unauthorized loan precipitated cash flow issues for the Township.
- Township officials engaged in expenditures in violation of Sections 17 through 20 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act. For the Township's 2012 fiscal year, the General Fund had unbudgeted expenditures of \$205,216, of which notably were tax refunds of \$125,785 and inspection wages of \$21,975. In addition, the Fire Fund and the Police Fund had \$215,050 and \$281,934 respectively, in unbudgeted expenditures.
- During the past five fiscal years, the Police Fund had unbudgeted expenditures (losses) averaging approximately \$95,000 annually. Unbudgeted expenditures were particularly high in 2012 (\$395,699), which Township officials attributed to a delinquent property tax chargeback that they allocated across various funds including the Police Fund.
- In addition to the Police Fund, the Township experienced unbudgeted expenditures in several other governmental funds during the past five fiscal years. As of December 31, 2012, the last fiscal year for which audited financial data is available, the Township's overall deficit increased by \$101,220, from a deficit of \$200,324 in fiscal year 2011 to \$301,544 in fiscal year 2012.

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<sup>1</sup> Subdivision (h) provides that "[t]he local government has violated a requirement of, or a condition of an order issued pursuant to, former 1943 PA 202, the revenue bond act of 1933, 1933 PA 94, MCL 141.101 to 141.140, the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821, or any other law governing the issuance of bonds or notes." 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 (k) provides that "[t]he local government fails to timely file an annual financial report or audit that conforms with the minimum procedures and standards of the state financial authority and is required for local governments under the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a, or 1919 PA 71, MCL 21.41 to 21.55." 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."



- At the conclusion of its 2012 fiscal year, the governmental activities of the Township as reflected in its government-wide based statements had an unrestricted net assets deficit of \$477,663 and a total net assets deficit of \$540,870.
- Township officials submitted to the Michigan Department of Treasury a deficit elimination plan which the Department deemed unacceptable. For example, while actual General Fund expenditures for fiscal year 2012 totaled \$908,608, the deficit elimination plan projected future expenditures ranging from \$636,759 and \$691,252 without any explanation of how such significant decreases in expenditures would be realized. Subsequently, Township officials submitted a revised plan that proposed to eliminate road patrols provided by the Oakland County Sheriff's Department and to rely solely on the Michigan State Police, thereby eliminating virtually all expenditures in the Police Fund. The Township would continue to levy a special assessment for police services and apply future revenues to the deficit. This revised plan also was deemed unacceptable due to questionable assumptions and proposed transfers from restricted funds.
- Township officials had not complied fully with monthly reporting requirements of which they were notified by the Michigan Department of Treasury on April 30, 2013. Compliance with the reporting requirements was a condition of any ongoing certification of the Township's deficit elimination plan. None of the first three monthly reports were filed timely. Township officials submitted some, but not all, of the reports at the beginning of September.
- Since fiscal year 2008, Township officials failed to timely file with the Michigan Department of Treasury annual financial audit reports as required by Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.
- Oakland County officials notified Township officials that the Sheriff's Department would terminate road patrols effective November 11, 2013, due to nonpayment for services. In the September 13, 2013, revised deficit elimination plan submitted to the Michigan Department of Treasury, Township officials noted that arrearages to the County were \$182,000 and might reach \$300,000 by the November 11, 2013, service termination date.
- City of Ferndale officials notified Township officials that the City would terminate fire protection services if the September payment was not received by October 18, 2013. The letter also indicated that the City was providing fire services to the Township without a contract and needed to reevaluate contract costs as they related to future services.

On October 9, 2013, the State Treasurer submitted the foregoing preliminary review to the Local Emergency Financial Assistance Loan Board. On October 23, 2013, the Local Emergency Financial Assistance Loan Board determined that probable financial stress existed for the Township.

On December 2, 2013, I appointed a five-member Financial Review Team. The Review Team convened on December 4th, 9th, 10th, and 18th, 2013, and January 16th, 2014.



## **Review Team Findings**

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

- According to the Township's 2012 fiscal year financial audit, the combined ending balance in its governmental funds (i.e., General, Police, Fire, Recreation, and Non-Major Governmental) decreased from \$200,324 as of December 30, 2011 to a negative \$298,983 as of December 30, 2012. This one-year negative net change in fund balance of \$499,307 resulted from an operating deficit (i.e., expenditures in excess of revenues) of the same amount.
- Financial audit reports for the Township for its last three fiscal years reflected differing degrees of variance between General Fund revenues and expenditures, as initially budgeted and as amended, versus General Fund revenues and expenditures actually realized. For example, actual General Fund revenues were less than had been budgeted for two of the three fiscal years in question (2010 and 2011). However, in neither fiscal year did Township officials amend the budget then in place to reflect the fact that less revenue was being realized than had been estimated. Similarly, General Fund expenditures exceeded what had been budgeted for two fiscal years (2010 and 2012). Again, however, Township officials failed to amend the budget then in effect to reflect this new reality.
- As of December 10, 2013, Township officials had not adopted a budget for the 2014 fiscal year which began on January 1, 2014. Indeed, Review Team members were advised that Township officials had until December 11, 2103, to submit budget proposals. By that date, Township officials had only two regularly scheduled meetings remaining during calendar year 2013 during which to consider and adopt the 2014 fiscal year budget.
- 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. For example, the Township levied 31.5000 mills to fund police and fire services in 2013. However, despite the substantial number of mills legally dedicated specifically for police and fire services, both the Police Fund and Fire Fund of the Township 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.

### **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 Township. 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 the Charter Township of Royal Oak.

### **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., Thursday February 6, 2014. In the event that a hearing is requested, it will be convened on Tuesday February 11, 2014, at 9:00 A.M., at the Richard H. Austin (Treasury) Building before State Treasurer R. Kevin Clinton, or his designee.

It should be noted that the hearing would not be an original fact finding proceeding. Its purpose would be to afford Township 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 Township officials may wish to present that was not available to the Review Team, or that concerns actions taken by Township officials since the Review Team filed its report, or that concerns actions Township officials anticipate taking in the future to address the financial emergency in the Township, will be considered beyond the scope of the hearing.

Sincerely,



Rick Snyder  
Governor