



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

ROBERT J. KLEINE  
STATE TREASURER

**DATE:** June 11, 2009

**TO:** Jennifer M. Granholm, Governor

**FROM:** Robert J. Kleine, State Treasurer *RJK*

**SUBJECT:** Preliminary Review of the City of River Rouge

### I. Background

On May 18, 2009, pursuant to an inquiry by a City of River Rouge resident, the Department of Treasury commenced a preliminary review of the finances of the City of River Rouge to determine whether or not a serious financial problem existed. Section 12(1) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, requires that a preliminary review be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the City of River Rouge resulted from the condition enumerated in subdivision (n) of Section 12(1) having occurred within the City.<sup>1</sup>

On May 18, 2009, Treasury staff met with various City officials, including David A. Bower, the City's Attorney, and Carl A. Johnson, the City's contractual accountant. Treasury staff spoke by telephone with Mayor Michael D. Bowdler. Treasury staff also obtained copies of a number of documents in an attempt to determine whether the River Rouge City Council granted its prior approval for the pension-related judgment levies in question.

As summarized below, based upon the foregoing information received and considered as part of the preliminary review, I conclude that a serious financial problem does exist in the City of River Rouge because no documentary evidence was found to indicate that the River Rouge City Council granted its prior approval for the two pension-related judgment levies in question. Therefore, I recommend appointment of a financial review team. Appointment of a financial review team is a prerequisite step in the Act 72 process to the appointment of an emergency financial manager.

### II. Preliminary Review Findings

The preliminary review found the following:

- On May 24, 2005, the City Treasurer informed the City Council that the Policemen and Firemen Retirement System was approximately 80 percent funded and the Employee Retirement System

<sup>1</sup> Subdivision (n) provides that "[a] court has ordered an additional tax levy without the prior approval of the governing body of the local government".

was approximately 65 percent funded. The City Treasurer also informed the City Council that the City could not pay the approximately \$1.0 million it owed to the Policemen and Firemen Retirement System.

- On June 16, 2005, the Policemen and Fire Retirement System directed its attorney to draft a complaint and application for writ of mandamus asking that the Wayne County Circuit Court order the City to pay to the retirement system the amount owed.
- On June 21, 2005, the River Rouge City Council approved an amended budget for the fiscal year ending June 30, 2005, which did not include the required contributions to the Policemen and Firemen Retirement System or contributions to the Employees Retirement System.
- On July 7, 2005, the Employees Retirement System approved litigation against the City to compel payment of the amount owed by the City to that retirement system.
- On November 4, 2005, the Wayne County Circuit Court entered a money judgment against the City in favor of the Employees Retirement System. In a separate action, the Court also entered a money judgment against the City in favor of the Policemen and Firemen Retirement System. In years subsequent to the initial judgments, the City and the two respective retirement systems stipulated to entry of new judgments to be entered against the City for the amount specified in the stipulation.
- On November 18, 2008, the Wayne County Circuit Court entered a money judgment, permanent injunction, and mandamus against the City in favor of the Policemen and Fireman Retirement System. In a separate action, the Court also entered the same relief against the City in favor of the Employees Retirement System. The permanent injunctions require the entry of a judgment levy on the tax rolls of the City in any future years for which the City does not pay its annual pension payment to the respective retirement systems.

It appears from the documentation which Treasury staff obtained that City officials did not contest the 2005 judgment levies and, indeed, may even have preferred them as a method of funding the pension obligations in subsequent years since it avoided the need to adjust the City's budget. However, no documentation was obtained that the River Rouge City Council formally approved either judgment in advance. The lack of prior approval constitutes a triggering event under Act 72.

cc: Valdemar L. Washington, Deputy State Treasurer  
Frederick Headen, Director, Bureau of Local Government Services