



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

DATE: December 21, 2009

TO: Governor Granholm

FROM: River Rouge Financial Review Team:
Robert J. Kleine, Chairman
Steven M. Bieda
James R. DeSana
Frederick Headen
John G. McNally
Thomas H. McTavish
Gregory E. Pitoniak

SUBJECT: Report of the River Rouge Financial Review Team

On November 9, November 19, November 24, and December 10, 2009, River Rouge Financial Review Team members met and reviewed information relevant to the financial condition of the City of River Rouge. Based upon those reviews, the Review Team concludes, in accordance with Section 14 (3)(b) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, that a serious financial problem exists in the City, but that a Consent Agreement containing a plan to resolve the problem has been adopted pursuant to Section 14(1)(c).

I. Background

A. Preliminary Review

On May 18, 2009, 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 the 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.¹

The preliminary review commenced on May 18, 2009, found, or confirmed, 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

¹ 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. (Case Number 05-532067) In a separate action, the Court also entered a money judgment against the City in favor of the Policemen and Firemen Retirement System. (Case Number 05-532066). 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.

Based upon the preliminary review, the State Treasurer concluded, and reported to the Governor on June 11, 2009, that a serious financial problem existed and recommended the appointment of a financial review team.

B. Review Team Findings

On October 23, 2009, the Governor appointed a seven-member Financial Review Team. The Review Team convened on November 9, 2009, November 19, 2009, November 24, 2009, and December 10, 2009, to consider information relevant to the financial condition of the City of River Rouge.

1. Conditions Indicative of a Serious Financial Problem

The Review Team found, or confirmed, the existence of the following based upon information

provided by City officials, or the City's audit firm, or other relevant sources:

- The Wayne County Circuit Court entered two judgment levies, for the Employees Retirement System and the Policemen and Fireman Retirement System respectively, without the prior approval of the Ecorse City Council which, pursuant to Section 12(1)(n) of the Act, is *prima facie* indicative of a serious financial problem.
- According to the City's fiscal year 2008 financial audit, the City's general fund deficit was \$1,664,264. While the City has experienced general fund deficits since its 2002 fiscal year, it should be noted that City officials have made measured progress in reducing the general fund deficit since the 2005 fiscal year.

General Fund Revenues, Expenditures,
and Change in Fund Balance

| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|------------------------------|---------------|---------------|---------------|---------------|
| Revenue | \$11,918,462 | \$12,716,435 | \$12,788,417 | \$13,883,908 |
| Expenditures | \$12,592,252 | \$12,427,018 | \$12,458,754 | \$13,426,070 |
| Operating Surplus/(Deficit) | (\$673,790) | \$289,417 | \$329,663 | \$457,838 |
| Transfers/Other Fin. Sources | \$209,393 | (\$53,795) | (\$53,820) | (\$186,848) |
| Beginning Balance | (\$1,982,322) | (\$2,446,719) | (\$2,211,097) | (\$1,935,254) |
| Ending Balance | (\$2,446,719) | (\$2,211,097) | (\$1,935,254) | (\$1,664,264) |

2. Review Team Meetings

On November 19, 2009, the Review Team met with Suzanne Schafer and Cary Vaughn, of the Local Audit and Finance Division, Bureau of Local Government Services, to review a ten-year history of City general fund revenues, expenditures, and changes in fund balance.

On November 19, 2009, Review Team members Steven M. Bieda, James R. DeSana, Frederick Headen, John G. McNally, and Gregory E. Pitoniak conducted a series of interviews in the City of River Rouge with Robert Alderman, Police/Fire Chief; Dennis Cora, City Treasurer; Raymond D. Charron, Chief Judge 26th-1 District Court; Carl Johnson and Kelli Burke, Purchasing/Finance; Mary Anne Reiman, Personnel Director; William Campbell, Public Works Director; and David Bower, City Attorney.

On November 24, 2009, the Review Team met by telephone conference with Gregory Terrell, of the certified public accounting firm Gregory Terrell & Company. On that same date, the Review Team

met with Michael Bowdler, Mayor; and with Karen Ward, City Councilmember Pro Tem, and Derek Perry and Mark Pruneau, Councilmembers. The Review Team was suitably impressed by the ability, candor, and earnestness displayed by the Mayor, City Councilmembers, and various City personnel with whom it met.

C. Conclusion and Recommendation

Based upon the foregoing meetings and review, the Review Team confirms the findings of the preliminary review, concludes that a serious financial problem exists in the City, but that a Consent Agreement containing a plan to resolve the problem has been adopted.

II. Section 14(2) Requirements

Section 14(2) of Act 72 requires that this report inform the Governor whether one or more of the conditions set forth in that section exist, have occurred, or are likely to exist or occur if remedial action is not taken.² The conditions in subdivisions (e), and (f) of Section 14(2) exist, have occurred, or are likely to exist or occur if remedial action is not taken, as follows:

² Section 14(2) of Act provides as follows:

- (a) A default in the payment of principal or interest upon bonded obligations or notes for which no funds or insufficient funds are on hand and segregated in a special trust fund.
- (b) Failure for a period of 30 days or more beyond the due date to transfer 1 or more of the following to the appropriate agency:
 - (i) Taxes withheld on the income of employees.
 - (ii) Taxes collected by the government as agent for another governmental unit, school district, or other entity or taxing authority.
 - (iii) Any contribution required by a pension, retirement, or benefit plan.
- (c) Failure for a period of 30 days or more to pay wages and salaries or other compensation owed to employees or retirees.
- (d) The total amount of accounts payable for the current fiscal year, as determined by the state treasurer's uniform chart of accounts, is in excess of 10% of the total expenditures of the local government in that fiscal year.
- (e) Failure to eliminate an existing deficit in any fund of the local government within the 2-year period preceding the end of the local government's fiscal year during which the review team report is received.
- (f) Projection of a deficit in the general fund of the local government for the current fiscal year in excess of 10% of the budgeted revenues for the general fund.

- As previously noted, the City had a general fund deficit of \$1,664,264 as of June 30, 2008, which was not eliminated within the two-year period preceding the end of the fiscal year of the City during which this Review Team report is received. (Section 14(2)(e)).
- For the current fiscal year, the City budgeted general fund revenues of approximately \$13,313,000. The estimated general fund deficit for the current fiscal year is projected to be approximately \$1,314,000. Therefore, it may be that the general fund deficit for the 2010 fiscal year will exceed 10 percent of general fund revenues for that year. (Section 14(2)(f)).³

III. Review Team Report Transmittal Requirements

Section 14(3) of Act 72 requires that a copy of this report be transmitted to Mayor Bowdler, River Rouge City Councilmembers, the Senate Majority Leader, and the Speaker of the House of Representatives.

cc: Michael Bowdler, Mayor
River Rouge City Councilmembers
Mike Bishop, Senate Majority Leader
Andy Dillon, Speaker of the House of Representatives

³ Because the financial audit of the City for its fiscal year ending June 30, 2009 is not statutorily due to be filed with the Department of Treasury until December 31, 2009, it was not available to the Review Team and, therefore is not part of this report.