

Deal makers cash in on Detroit pension funds Boards often ignore rule that requires openness, invest millions of dollars

By JENNIFER DIXON
FREE PRESS STAFF WRITER

Detroit's public pension boards routinely ignore their own rules and invest millions of dollars with companies that refuse to disclose when they pay middlemen to broker deals, a practice ripe for influence peddling, a Free Press investigation has found. Federal regulators and legal experts are leery of such arrangements because of the potential for abuse, including kickbacks. Last month, the U.S. Securities and Exchange Commission proposed a ban on letting investment groups hire consultants, lobbyists and others who smooth the way to getting money from public pension plans.

Such fees are at the heart of a scandal in New York, where politically connected insiders collected millions from money managers in return for getting them access to pension cash. New York and New York City have since banned the practice.

In Detroit, investment groups are supposed to disclose when they hire consultants or others to help convince pension trustees to invest in business deals. But the rule is frequently ignored. The Free Press found that the pension boards required disclosure in only seven of 18 deals since 2005 that the newspaper examined.

In some deals, political insiders — such as former pension Trustee Steven B. Pankake — obtained hundreds of thousands of dollars for helping companies secure money from Detroit's two pension boards.

Pankake did not respond to requests for comment. But his name turns up time and again in multimillion-dollar deals.

■ EX-TRUSTEE WORKS CLOSELY ON DEALS. 4A

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Ex-trustee keeps hands in pension fund business
He's been tied to some major deals, but his role is often hidden

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Two years ago, an investment group appeared before the Detroit police and fire pension board seeking \$15 million to invest in Texas real estate.

Before making its presentation, the Mc Rae Group of Companies of Scottsdale, Ariz., was required by pension rules to declare whether it had paid anyone to help with its sales pitch.

The company balked.

It was only later, under persistent questioning by one pension trustee, George Orzech, that the middleman was identified.

He was Steven B. Pankake, a former trustee on the police and fire board.

It turns out, Pankake was to receive a \$300,000 "sales commission" for helping the Mc Rae Group secure the \$15 million from his former colleagues, according to minutes from the 2007 vote on the project.

The deal, approved over the objection of Orzech and a second trustee, shows how business is often done at Detroit's two public pensions: Politically connected insiders are handsomely rewarded, and trustees don't always know who is cashing in behind the scenes.

While national regulators are leery of third-party payments because of their potential for abuse, Detroit's public pensions - with assets of more than \$5.5 billion - not only allow them, but often ignore their own rules requiring disclosure when these deals are presented.

Orzech calls such fees "influence peddling" and said people seeking pension money should not have to "pay upfront fees to politically tied people to get your idea heard." Pankake, who lives on the water in St. Clair Shores, did not return calls for comment.

Ronald Zajac, the attorney for Detroit's two pensions - and who has known Pankake since at least 1976, when Pankake became a trustee - declined to comment on behalf of board members. Pankake served until 1983.

The reluctance of Pankake and others to talk makes it difficult to determine exactly what Pankake did for investors to earn his six-figure fees. Did he offer invaluable advice on pitching real estate and other investments? Or merely capitalize on his ties to pension officials? Pension records provideno answers.

The disclosure rule

The pensions' disclosure rule is designed to promote transparency; to protect against schemes in

which political insiders demand cash in return for access to public pension money.

City workers who invest in the pension plans also have a stake in knowing who gets paid: Intermediaries are generally paid from the money invested by the public pensions.

But in 18 deals examined by the Free Press, Detroit's pensions obtained disclosure forms in only seven. In two instances, including the Mc Rae deal, the companies agreed to identify their middlemen only after the pension boards agreed to invest.

John Chamberlin, director of the University of Michigan's Center for Ethics in Public Life, said it is up to Zajac, the boards' lawyer, to ensure the disclosure rule is enforced.

"That does seem to me to be within the realm of what you would expect the general counsel to do - 'We have rules, are we following the rules?' An attorney is in a better position to ascertain that than anybody else," Chamberlin said.

A history of close ties

Several current and former trustees say Zajac and Pankake have been close for years, socially and professionally.

All but Orzech spoke on condition of anonymity, saying they feared repercussions if their names were used.

Pankake's wife, Carol A. Pankake, sold Zajac the Pankakes' Farmington Hills home in 1989 for \$170,000 and lent him \$50,000 toward the purchase, property records show. Orzech, who left the pension board in June after 21 years, contends that Zajac has obscured the role of Pankake and others in various deals.

"That's the main problem I've had with him from the very beginning," Orzech said.

Detroit's two public pensions - one for police and fire, one for general city workers - have recently drawn fire for their handling of pension money. The Free Press has chronicled how city pension trustees have lost millions of dollars on shaky investments and spent lavishly to attend conferences around the world.

City Councilwoman Sheila Cockrel, named to the city's general retirement pension board in January, said she has grown frustrated with how investments and other issues are presented to trustees.

"I am especially concerned over the board's practice of voting on important matters by verbal resolution, and then a written resolution memorializing the event is presented a week or two later for approval," Cockrel said in a statement.

She declined to comment further.

Pankake's involvement

The Free Press has discovered multiple instances in which Pankake's role as a middleman was not disclosed to the pension boards, or was revealed late in the game. In most cases, it is not yet clear whether these deals made money for the pension plans.

In one case, Southfield businessman Robert Shumake sought \$44 million for a lease deal involving General Motors parts warehouses.

Shumake never filed disclosure forms with the two plans in connection with the proposal.

Only later in 2007, as the deal was being finalized, did Shumake reveal to the police and fire pension board that a company tied to Pankake helped secure the deal.

According to a Sept. 18, 2007, letter, Shumake's company was to pay \$568,000 to SBP & Associates, a company founded by Pankake.

Darci Mc Connell, a spokeswoman for Shumake, said SBP was hired because it's a "recognized consultant ? that could assist with raising capital."

Shumake's firm paid another \$568,000 to Atrium Financial LLC, a company that wasn't even incorporated until the day after Shumake identified Atrium in the letter. Nearly two years later, Atrium remains a mystery. It doesn't show up in state real estate or financial licensing records.

Atrium's incorporation records listed Detroit attorney Denise J. Lewis of the Honigman Miller law firm as its registered agent. Lewis, who resigned that position in July, declined to answer questions about Atrium.

A Hawaii deal

Pankake also turned up in a condo development deal in Hawaii that Detroit's general retirement plan invested in.

And again, it wasn't through a disclosure form.

Triton Cos., a real estate company in Sarasota, Fla., approached North Star Financial Partners of Troy about securing investment money from Detroit's public pensions.

Brent Virkus, Triton's chief executive, said he remembers raising the issue in a 2005 conversation with Kelley Snook, North Star's president.

"I can help you get that deal done," he recalled Snook saying.

Snook introduced him to Pankake, who was licensed to sell investment products through North Star.

Snook, too, recalled the conversation and acknowledged touting Pankake's ties to the pensions. "I said, 'Call this guy and see if he can help you out.'" One month after Triton's proposal, Detroit's general retirement pension board agreed to invest \$7 million.

Pankake's role would never have been made public, except that he later sued Triton and others, claiming he was never paid the 1% commission - roughly \$70,000 - he said he was owed for the Hawaii deal.

Pankake also went to court in yet another pension deal - claiming he was owed \$250,000.

In that deal, the police and fire board agreed to invest \$6 million in a manufacturing venture involving Rochester businessman William Gruits.

Again, the pension board never required Gruits' company to disclose whether it was paying an intermediary.

But Pankake filed suit in February in Wayne County Circuit Court claiming that Gruits and others owed him \$250,000 for his consulting and for money he lent to help close the deal.

Gruits' lawyer, Michael J. Smith of Sterling Heights, declined to comment.

Gruits' company, DOTT Industries, is now insolvent, according to the pension funds' investment analyst.

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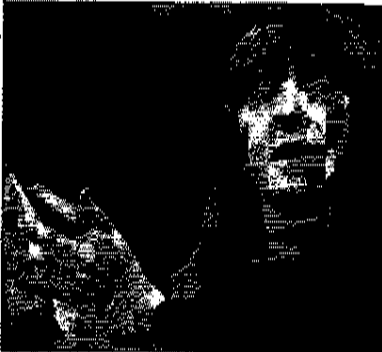
"THAT DOES SEEM TO ME TO BE WITHIN THE REALM OF WHAT YOU WOULD EXPECT THE GENERAL COUNSEL TO DO - 'WE HAVE RULES, ARE WE FOLLOWING THE RULES?'"

JOHN CHAMBERLIN, on the duties of the pension boards' lawyer



MANDI WRIGHT/Detroit Free Press

Detroit police and fire pension trustees meet April 9 in Detroit. The city's two public pensions' disclosure rule designed to promote transparency and protect against schemes is often ignored, the Free Press has found.



PATRICIA BECK/Detroit Free Press

Detroit City

Councilwoman

Sheila Cockrel, a trustee for the

General Retirement System, at a meeting Aug.

5. She said she has grown frustrated with how investments and other issues are presented to trustees.

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