



The \$1M Check That Sat in a Drawer: How Detroit Went Bust

By Chris Christoff – Bloomberg News - Aug 9, 2013

In late February, cash-strapped [Detroit](#) received a \$1 million check from the local school system that wasn't deposited. The routine payment wound up in a city hall desk drawer, where it was found a month later.

This is the way Detroit did business as it slid toward bankruptcy, which it entered July 18. The move exposed \$18 billion of long-term obligations in a city plagued by unreliable buses, broken street lights and long waits for police and ambulances. Underlying poor service is a government that lacks modern technology and can't perform such basic functions as bill collecting, according to Kevyn Orr, Detroit's emergency manager.

"Nobody sends million-dollar checks anymore -- they wire the money," said Orr spokesman Bill Nowling. Except in Detroit. "We have financial systems that are three, four, five decades in the past," Nowling said. "If we can fix those issues, then we'll be able to provide services better, faster, more efficiently and cheaper."

Detroit doesn't have a central municipal computer system, and each department bought its own machinery -- much of which never worked properly, according to Orr, 55, who took over in March. The last such acquisition, 15 years ago, was of a system based on [Oracle Corp. \(ORCL\)](#) technology that wasn't fully put to work.

Antiquated Rules

The city is buying new software to improve income-tax collection, especially from suburban commuters who work in Detroit, said James Bonsall, the chief financial officer hired by Orr. The dysfunction extends beyond machinery, Nowling said.

Union rules have "bumped" workers into positions they aren't qualified for as departments make cuts, he said. The city has no training programs and doesn't evaluate employees in 2,500 job classifications. "It has nothing to do with bad employees," Nowling said. "These employees in some instances are still following work rules that were created 40 years ago." Detroit's operational flaws are pronounced, according to a June 14 report from Orr.

It costs the city \$62 to process each paycheck, every pay period, for its 9,560 employees, compared with an average of \$18 for U.S. public employers, Orr said in the report. The main reason for the high cost is that almost 150 full-time workers produce Detroit's payroll, including 51 uniformed officers.

Hand Processing

The city's income-tax receipts are processed by hand, among the 70 percent of accounting entries done manually, according to Orr. He said in his report that the U.S. Internal Revenue Service described Detroit's tax-collection system as "catastrophic" in a July 2012 audit.

Detroit's antiquated accounting processes have meant some bills go uncollected for as long as six years, according to Orr, cutting funds that could buy new squad cars, emergency vehicles or computers. Victims of heart attacks in Detroit are likely to die because of slow responses to emergency calls since so few ambulances are running, Orr said in an interview.

City vehicles are old and their maintenance is poor, said Gary Brown, who left the City Council to help Orr improve municipal operations. A group of companies, including Detroit-based [General Motors Co. \(GM\)](#), have agreed to pay about \$8 million to provide new vehicles for emergency medical services and police. Brown said it's difficult to find 45 operable garbage trucks in a fleet of 180 to pick up trash five days a week.

Trash Contracting

"That's unconscionable," he said, citing too few mechanics, lax work rules and a lack of spare parts. He said there are plans to hire a hauling company to pick up trash. Bankruptcy may pay for better services by reducing Detroit's daily costs as much as 40 percent, said John Mogk, a law professor specializing in urban policy at the city's [Wayne State University](#). Orr has proposed giving holders of \$11.5 billion in municipal debt pennies on the dollar to free up money for programs, including new equipment.

"You're talking about \$300 million or \$400 million that would not go toward past obligations, but could be put into new investments or services for the city," Mogk said. "It opens up new opportunities for the city to try to improve [living conditions](#) in the city and try to stimulate economic growth."

Orr has proposed spending \$1.25 billion over 10 years to improve services -- especially public safety -- for a city that has lost a fourth of its population since 2000 and is riddled with blight. A neglected government infrastructure is partly to blame, Nowling said.

Slow Response

Police take an average of 58 minutes to respond to priority calls, compared with a national average of 11 minutes, Orr said in his June report. Besides too few officers -- the department's roster has shrunk by 40 percent since 2003 -- there's no computer system connecting precincts to let them quickly share information. Officers write tickets and reports by hand.

Police Commander Todd Bettison disputes the response times cited by Orr, saying it took an average 15 minutes for officers to get to 80 percent of the 277,800 calls received last year. The other 20 percent were mostly nonlife-threatening calls in which the response may have taken days, such as complaints about animals, Bettison said by telephone.

It isn't unusual for municipalities to use outdated technology, though Detroit is worse off than others, said Bill Brandt, chief executive officer of Development Specialists, Inc., a Chicago-based turnaround consultant. He said the Sept. 11 terrorist attacks exposed communications-systems flaws that made it hard for [New York](#) police and firefighters to coordinate.

Chevy Budget

Brandt said [Michigan](#)'s government could've helped Detroit acquire more up-to-date technology. "Not enough has gone into reinventing government," Brandt said. "It'll get there, but taxpayers have never enthusiastically supported a Cadillac and only want to pay for a Chevy."

The biggest challenge for the Motor City is serving a shrinking, poorer population that needs jobs, and is spread across an area larger than [Boston](#), [San Francisco](#) and [Manhattan](#) combined, Mogk said. Brandt said Orr's plan didn't lay out a long-term strategy for boosting jobs based in Detroit, which he said is the key to attracting new residents. "Improvement of services will help," Brandt said. Yet it is the promise of jobs that will lead more people to move into the city, he said.

Detroit resident Latisha Lee, 40, sees the result of fewer bulk trash pickups -- more illegal dumping. In an alley two blocks away, mattresses, broken furniture, carpeting and other debris have piled up.

Cleaner Suburbs

Lee lives near Eight Mile Road which demarks the city line with its northern suburbs. "I notice when I go across Eight Mile how much cleaner it is, how in the fall they can rake their leaves into the street and the city picks them up," Lee said in an interview on her porch. She said the property-tax bill is \$4,200 a year for her 1,100 square-foot bungalow. "For the amount of money we pay in taxes, we should have better city services," Lee said.

Brown agrees. He said curbing employee absenteeism and implementing worker-performance evaluations are among the ways the city can do a better job for residents. "People want to see the street lights come on, they want to see more police officers out there, they expect to see the level of service increase under the emergency manager," Brown said. "We're fixing a lot of things people don't see that will absolutely affect the things they do see."