

Detroit's CFO: Bankruptcy plan 'a road map to how we should be operating'

BY MATT HELMS AND TRESA BALDAS

The City of Detroit's chief financial officer, John Hill, testified Thursday that he believes numbers in the city's blueprint for exiting bankruptcy are reasonable, which will be key to the city's ability to prove that the plan is feasible, a critical test that the bankruptcy judge must decide before he can allow Detroit to emerge from the largest Chapter 9 case in U.S. history.

Detroit's bankruptcy legal team put the city's CFO on the stand as the first witness in the historic confirmation hearings on the city's bankruptcy exit strategy, attempting to make the case that Detroit's financial projections for a post-bankruptcy Motor City are sound and offer the best chance for its recovery.

"We'll do everything we can to adhere to it," Hill said under questioning from Jones Day lawyer Geoffrey Stewart. "We definitely believe the plan gives us a road map to how we should be operating."

But Hill said there was a caveat: The \$1.4 billion that the plan calls for reinvesting in improving quality of life and city services can't be

done if the funding doesn't come through. He testified that much of the money for reinvestment—all but about \$200 million—will come only if the city meets ambitious goals set out to cut costs and raise revenues for the city through actions like improved tax collections.

Detroit clearly will be walking a tightrope in meeting terms of the plan of adjustment, with court monitoring and state-imposed oversight through a financial review commission that could last 13 years or more. The commission would have ultimate say-so over spending and contracts city officials approve.

Hill worked for Washington, D.C.'s largest civic improvement group, the Federal City Council, and served as executive director of a federally appointed control board that took over budgeting and operations for D.C.'s city government in 1995-2001 as it faced a \$700-million deficit.

Hill said Congress gradually took more and more control away from city officials and granted powers to the control board because city leaders, including then-Mayor



Jaye Quadrozzi, Young & Associates

Marion Barry, did not make the tough decisions needed to keep the city solvent.

Hill testified that he was tapped for a project to help Detroit reform its abysmal grants management practices that had cost the city millions of dollars in federal money because Detroit wasn't following requirements.

Hill said emergency manager Kevyn Orr asked him to become CFO, and while he technically now reports to Orr, he has a strong working relationship with Mayor Mike Duggan and would like to stick around longer than his two-

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year contract to see reforms he has initiated through to completion.

“It’s pretty much the normal relationship you would expect with the chief executive of a city,” he said.

Much of Hill’s testimony was about his role in Detroit, what he expects to accomplish and how quickly it will get done. In addition, he also gave his analysis of whether projections in the plan of adjustment are realistic enough for the city to recover even as it seeks to spend hundreds of millions on improving police and fire service, public transit, blight removal and other critical city services.

During his testimony, Hill described the many problems he witnessed in Detroit since his arrival in November. He said the city wasn’t closing books on a monthly basis, which made getting monthly and annual financial statements very difficult to put together and audit. He said his office is looking into that problem, and should have

it fixed within a few months.

Hill also found an outdated and expensive technology system in Detroit, which relies heavily on manual input by low-level city workers, he said. Detroit also had a computer system called DREAMS that was, in practice, called a nightmare, he said, adding the city is now considering cloud-based systems by Oracle and CGI and hopes to select one by the end of the month.

The CFO said Detroit’s financial controls were very poor when he arrived. He said it was difficult to track whether all transactions had been reported in the system, and determining when revenues were coming in and going out. He also said grants management was abysmal, with no centralized control over the grant money and money that had not been spent. Now, an interim grants management system manages all active grants in the city under the control of the CFO.

Hill said the city will begin four-year budgeting, starting with the first fiscal year after it exits bankruptcy.

U.S. Bankruptcy Judge Steven Rhodes, overseeing Detroit’s case, has expressed concern about aspects of Detroit’s exit strategy, and other creditors stepped up Thursday to urge him to reject the plan of adjustment.

Lawyers for Wayne, Oakland and Macomb counties continued their attacks in bankruptcy court on Detroit’s proposals for how to deal with the city’s water department after bankruptcy, saying the plans don’t do enough to force the department to spend more money on fixing the aging system’s pipes and other infrastructure.

In a memorable moment, Oakland County lawyer Jaye Quadrozzi said in her opening statement that, based on the DWSD’s current plans, it would take 561 years to replace all the water and sewer lines. She said that, 561 years ago, the world was at the end of the Middle Ages and the fall of Constantinople.

Oakland, Wayne and Macomb counties have bitterly opposed city proposals to monetize the water department, saying the city wants to force suburban ratepayers to pay for pension shortfalls for the water department’s workforce. ■