The Enronization of American business

Michigan auto supplier robs workers' wages, pensions, health benefits

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When nearly 400 DCT, Inc. workers lost their jobs this past February, they quickly learned that any protection or safeguards afforded them by federal law abruptly ended when their company went bankrupt. Last year, the company (formerly known as Detroit Central Tool) had around 800 employees, down from 1,200 in 2000. It is now apparent that an entire community and thousands more workers and their families are suffering the impact of DCT's demise resulting from dubious business practices.

With only 30 minutes' notice, workers were terminated on February 7. DCT—a supplier of automobile assembly line systems in Sterling Heights, Michigan in suburban Detroit—shut its doors in a court-ordered involuntary Chapter 7 bankruptcy. On the same day as the closure, DCT announced its sale for $15.1 million to Utica Enterprises, Inc., a tooling supplier in nearby Shelby Township, with most of the proceeds going to Comerica Bank, DCT's primary lender **.**

Federal law usually entitles workers in a mass layoff to 60 days' notice. However, the company claimed "an unforeseeable business circumstance," allowing it to evade proper notification. While DCT owners claimed they did not know of the impending shutdown, there were many signs—unknown to the workers—that the company was in trouble for at least a decade.

The workers' last paycheck only paid them through noon of their final day on the job. Nine hundred DCT vendors, who were owed $29.5 million, obtained a temporary restraining order freezing DCT's assets, resulting in the workers' final paychecks bouncing.

Living paycheck to paycheck is common reality of everyday life for millions of American workers. Journalist Jeffrey McCracken of the *Detroit Free Press* wrote an in-depth exposé tracing DCT's collapse and its effect on the company's workforce.

In the case of Joe Pal, who worked for DCT for 18 years, his wife deposited his last paycheck and wrote several checks on it. At the time, she told the *Free Press*, "Now we'll probably have our checks to our electricity bills, cable, and credit cards bounce since we wrote them off Joe's check."

About $550,000 of DCT's final $850,000 payroll is still tied up—as well as the employees' access to their 401(k) funds. Workers have been told not to expect any of this money until October. Typically, laid-off workers can get at least 18 months of health-care coverage from their old plan under a federal law known as COBRA (The Consolidated Omnibus Budget Reconciliation Act of 1986). But on the day of the shutdown, workers at the plant discovered they would not receive severance pay, their 401(k) matching funds or continuation of health coverage.

For example, one former DCT worker made a $700 payment to keep her health-care plan going under COBRA. However, she learned days later at her dentist's office that the plan had been cancelled. The federal law does not cover workers in cases of bankruptcy and DCT's insolvency nullified its obligations to provide coverage to its former workers.

Not only have DCT workers lost their jobs, health insurance and retirement funds, but they are also burdened with huge medical expenses. One couple has $65,000 in unpaid medical bills. Dave Hladik, a vice president in charge of outsourcing, worked at DCT for 10 years. His wife Louise had heart surgery previous to the plant shutdown. She told the *Detroit Free Press,* "I don't know that there's been a crime, but I don't feel a sense of fairness when money we put into our plan is now not there to cover our bills."

At the time of the closing, workers were told in a letter by DCT owner and president, Bronce Henderson, that all of their medical claims would be covered until February 7 if the bills were submitted by February 15. Workers learned, however, that this was untrue. Instead of coverage for previous medical claims, they are stuck with at least $700,000 in unpaid medical bills, even though their claims were submitted months before the company went bankrupt.

Each week workers paid between $25 and $45 into a self-funded health-care plan. With nearly 400 workers before the closing, more than $10,000 was coming in weekly, and at least $500,000 yearly. But none of these funds went to pay workers' unpaid medical bills.

In a curious development, only one month before the shutdown, DCT switched to a different company to administer employees' health benefits. The new company, Cambridge Integrated Services, like most health plan administrators, gets money from its clients and then pays the claims. However Cambridge only received $180,000 from DCT in early January to cover some old medical bills, and has since accumulated another $700,000 in unpaid bills and has no money from DCT to pay them. Workers are asking: what happened to the money they put in every week? And why did DCT switch to a different health administrator only weeks before bankruptcy?

The *Detroit Free Press* detailed the case of April Migliorati, whose husband John worked for DCT for nearly 11 years. He died at age 33 from a rare form of cancer on January 15, after spending most of 2001 undergoing surgeries, chemotherapy and physical therapy. The *Free Press* reported: "April Migliorati has more than $183,000 in unpaid claims, including one bill from Beaumont Hospital for $157,535.34.

"The 30-year-old Chesterfield Township woman also hasn't gotten the money from her husband's $20,000 life-insurance policy through DCT and can't access the $36,000 he had in his DCT 401(k) retirement plan. She's been told the money is there, but no one from DCT has been willing or able to sign off on the necessary documents so she can get it."

DCT claims their financial troubles began in the summer of 2000 with the slump in the auto industry. About this time, Ford Motor Co. and DaimlerChrysler were discussing plans to delay or completely cancel future product programs. Ford pushed back plans to build a redesigned

Mustang from 2003 to 2005. The Firestone tire recall also severely impacted Ford, and even more projects were delayed. During the summer and fall of 2000 Chrysler used huge incentives to sell its old minivan and millions to launch its new one. But facing a $500 million loss in the third quarter of 2000, future platforms at Chrysler were delayed as well.

These circumstances proved fatal for DCT, which had sales of about $200 million in 2000 with about 850 employees. Due to canceled or deferred business in 2001, the company lost $140 million. In 2002 another $125 million was canceled or deferred.

DCT, like many companies that had been awarded auto contracts for these projects, had invested millions of dollars for new equipment, new technologies and additional staffing to prepare for the increased business demands.

The company's claim, however, that the auto slump was mainly responsible for their financial problems is only part of the picture. While the downturn in the auto industry certainly exacerbated DCT's financial predicament, it only served to bring to fruition a process that was already well under way.

DCT, founded in 1966, grew from a very modest family-owned tool and die shop to sales of $200 million a year by 2000—mainly from Ford and Chrysler. The *Detroit Free Press* exposé traced DCT's questionable business practices, dating back to at least the early 1990s.

DCT received more than $36 million in loans from the Detroit General Retirement System (DGRS) fund in the 1990s. This is the pension fund that serves 23,000 active and retired Detroit city workers. It is unclear how much money DCT actually owed because the company never lived up to the terms of its original loans, which the company defaulted on and then restructured. But the pension fund would have received its $36 million principal back plus $23.27 million in interest. Instead of this total of almost $60 million, the fund got back just $26.87 million before DCT folded.

Details are murky on how the fund came to do business with DCT. Former Detroit Mayor Dennis Archer acknowledges telling the fund's board of trustees that the company impressed him after touring its then-Detroit headquarters. This is not the first time that Detroit city workers' pension funds have been put at risk. In the early 1990s the same pension fund came under fire for an investment loss when it put $70 million into the Grand Traverse Resort and then spent another $40 million to buy it out of foreclosure. This venture cost the pension fund $25 million.

DGRS agreed to restructure the loans to DCT and took a 15 percent ownership stake in the company. The deal was structured so that, even after converting some of the debt into an ownership stake, the pension fund was still owed $5 million by DCT. Documents uncovered by the *Free Press* indicate that payments to the fund were extremely sporadic. Beginning in 1993, payments were coming in monthly, then every other month, then sometimes just two or three times a year. The last time the pension fund received a payment was in September of 2001. Incredulously, late last year DCT attempted to get another $5-10 million loan from DGRS. The request was denied.

In 1998—while DCT was failing to meet the terms of its loans to the pension fund and was pleading poverty—it spent $4.5 million to move its operations from Detroit to a former tank plant property in Warren, Michigan. The city of Warren, a northern Detroit working class suburb, had just purchased the abandoned 153-acre tank plant property from the US Army for the sum of $5.9 million. The deal was very quickly worked out in order to maintain the site's state renaissance zone status, which gave developers tax breaks.

The first tenant was none other than DCT. The Warren City Council and other politicians were so eager to close the deal it appears that there was little, if any, investigation of DCT's financial status. The company's own audited statements, however, show losses of $15.9 million in 1998. Meanwhile, DCT paid no local property taxes and agreed to purchase an additional 30 acres on another part of the site for its future world headquarters. The city—by this time completely devastated from auto plant shutdowns and layoffs in the 1980s—was promised that the new DCT facility would eventually provide 1,200 to 2,000 jobs, mostly for engineers paying $25-27 an hour. DCT never built the headquarters. It pulled out of the former tank property in 1999 and moved to Sterling Heights, its final location.

One month before terminating its final 400 employees, DCT lavishly entertained 35 executives, their spouses and others at the January 11 Detroit auto show charity preview. Tickets for the event alone were $10,000, but thousands more were spent on transportation, dinner and drinks at the Country Club of Detroit in Grosse Pointe Farms.

Moreover, DCT had memberships for its all of its top executives, which included initiation fees to private country clubs that run from $10,000 to $75,000 per person. A former DCT executive secretary who had a similar job at Chrysler told the *Detroit Free Press*, "They had phenomenal perks. DCT executives were getting a lot more than even executives at Chrysler got."

While no expense was spared on DCT executives, an entirely different modus operandi was in effect for vendors. Vendors, especially smaller ones, often had to wait for months to even get small bills paid. Dave Hladik told the *Detroit Free Press,* "We had a lot of vendors relative to our size because we needed new ones to replace the old ones we weren't paying. Vendors were told to cut their bill 10 percent and then we'd pay them. We had lots of little shops, with maybe two or three guys, who were owed maybe $20,000 and we'd never pay them. A lot of them just went under."

Batton Technical, a supplier of skilled and manufacturing labor to DCT for eight years, is owed $448,000. It took DCT many months to pay invoices, and they were never paid in full. The company had to lay off a dozen people at the end of 2001 because of the financial hit from DCT.

In addition to these questionable business practices, DCT had an intricate network of subsidiaries that, according to former DCT bookkeepers and accountants, were used to pay executive compensation and expenses. The bankruptcy trustee has found at least 20 DCT subsidiaries.

While former DCT workers are owed millions of dollars in pay, 401(k), and health-care claims, majority owner Bronce Henderson owns a $2 million home in the upscale community of Bloomfield Hills, Michigan and a $1.95 million condo in Naples, Florida.

Because of the diverting of money and privileges to DCT executives as the company headed into bankruptcy, former employees, vendors and investors refer to its demise as a mini-Enron. Ironically, DCT's auditor in the late 1990s was Arthur Anderson, Enron's accounting firm.

From the looting of Detroit city workers pension funds, expensive perks, nonpayment to vendors—a picture of not only unsound and unscrupulous business practices emerge, but of illegality. DCT's methods of accumulating large amounts of wealth in the hands of top executives have brought devastation to its workers as well as the surrounding communities where its facilities were located. Far from an aberration, these methods reveal the daily workings of corporate America, which operates more and more in the realm of criminality.