

# City of Petersburg Emergency Financial & Operational Restructuring

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

January 3, 2017

# Agenda

- Background & Reminder
- 5 Month Plan
- **RBG Progress Report**
  1. S&P Ratings Report to the City
  2. Finance Leadership Meeting
  3. PPEA Process Update
  4. City Administration Reorganization
  5. Preparation for 1/10 Budget Working Session
  6. Details of RAN Fees & Payments Made
- Transparency
  - Key Milestones

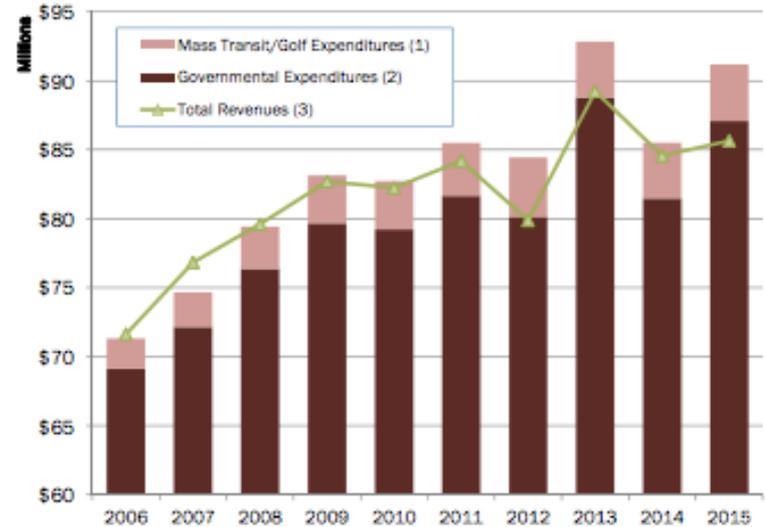
# Background & Reminder

## Governmental, Mass Transit and Golf Funds

Fiscal Year	Expenditures Mass Transit/Golf (1)	Expenditures Governmental (2)	Total Revenues (3)	Surplus (Deficit)
2006	2,207,103	69,117,310	71,635,381	310,968
2007	2,500,457	72,158,936	76,829,525	2,170,132
2008	3,049,122	76,375,348	79,596,926	172,456
2009	3,460,204	79,668,879	82,692,844	(436,239)
2010	3,505,975	79,214,494	82,239,230	(481,239)
2011	3,834,946	81,657,871	84,186,793	(1,306,024)
2012	4,299,727	80,140,067	79,878,828	(4,560,966)
2013	4,032,005	88,798,157	89,238,273	(3,591,889)
2014	4,025,575	81,483,802	84,553,700	(955,677)
2015	4,107,319	87,076,939	85,653,894	(5,530,364)

**The City began its deficit in 2009 and continued it to the current fiscal year**

### Revenues vs Expenditures (Governmental, Mass Transit/Golf Funds)



(1) Net of Depreciation  
 (2) Excludes Capital Projects Fund  
 (3) Includes Net Other Financing Sources (Uses) for the General and Non-Major Governmental Funds and Net Non-Operating Revenue for the Mass Transit and Golf Funds.

Source: City CAFRs

Complete

In Progress

# 5 Month Plan

*#1 Priority for Phase 1 was securing the RAN to address the short term fiscal crisis. Phases 2 & 3 will focus on long term financial stability.*

## Financial Emergency Turnaround – Key Activities

Phase 1: 10/25/16 – 12/2/16

Phase 2: 12/5/16 – 1/27/16

Phase 3: 1/30/16 – 3/31/16

Strategic Theme 1: Short Term Financing

Strategic Theme 2: Long Term Financing and Fiscal Plan

Strategic Theme 3: Technology, Data and Process Platform

1. Finalize list of Outstanding Invoices from FY16 and Prior.
2. Secure Revenue Anticipation Note (RAN).
3. Pay current FY17 obligations with RAN.
4. Develop a long-term financing strategy to deal with the deficit.
5. Validate the FY17 budget, audit cell phone bills and utility bills.
6. Conduct benefits eligibility audit.
7. Conduct document reviews to build on previous work: Report by VA Secretary of Finance, Aug 3, 2016, PFM Report.
8. Identify Capital Funds that can be deferred.
9. Develop Internal/External Communications Plan.
10. Prioritize workforce compensation issues and review salary survey.
11. Appropriate, by Council action, Amended FY 17 budget.

1. Determine the revenue cycle and what billing cycles should change to help cash flows, including state-shared revenues.
2. Provide a budget to actual assessment of FY 17 to Council.
3. Determine critical positions to hire.
4. Issue RFP for the City's CAFR/Auditing responsibilities.
5. Review the city's economic development plan and individual agency plans.
6. Conduct organizational assessment, and identify resource gaps.
7. Conduct business process reviews for financial operations, create standard operating procedures & policies.
8. Start recruiting critical hires.
9. Conduct technology assessment and define a robust and scalable platform.
10. Map process flows for Accounts Payable.
11. Publish a 2018 Budget Calendar that includes CIP.

1. Provide recommendations for upgraded systems/procedures to track cash.
2. Implement long-term financing strategy to deal with the deficit.
3. Make recommendations for process improvement, roles & responsibilities.
4. Establish a long term financial operating platform based on Phase 2's technology assessment.
5. Fill key positions and make recommendations for key positions (e.g., City Manager).
6. Identify additional cost savings and lines of revenue.
7. Implement technologies that enhance financial transparency.
8. Recommend a draft FY18 capital and operating budget.
9. Conduct mid year FY17 budget review
10. Hand off knowledge repository to city & submit our Exit Plan.

# S&P Ratings Report to the City

The S&P currently gives the City a “BB” rating with a negative outlook. However, S&P removed its negative CreditWatch rating which was placed on Aug. 26, 2016.

S&P Observation	RBG Plan to Fix
“Weak economy”	Tourism is key for us, and we are keeping the Golf course open, and Museums open. We plan to create revenue opportunities for the City such as the PPEA to establish long term and consistent revenue generation.
“Very weak management with vulnerable financial policies and practices”	RBG is onboarding a national recruitment firm to bring strong leaders to the city. Specifically, we are hiring for City Manager, Asst City Manager, Police Chief, Fire Chief, Public Works & Economic Development.
“Very weak budgetary performance”	RBG is updating the FY17 Budget, and plans to conduct a Budget to Actuals exercise every month with Council and then institutionalize this practice after we leave.
“Very weak budgetary flexibility”	RBG is working on increasing the fund balance, and challenging leaders to raise specific tax rates (e.g., the Personal Property Tax).
“Very weak liquidity”	
“Very strong debt and contingent liability position”	RBG has prioritized paying the monthly debt service and developing the City’s plan for paying off the \$6.5M RAN by its due date in October 2017.

# Finance Leadership Meeting – 1/3/17

**RBG will conduct specific Forensic Audits in these areas: Purchase Card, Commissioner of Revenue & Treasurer's Office**

- RBG conducted an All Hands meeting on 1/3/17 with the Commissioner of Revenue and the Treasurer
- On 9/2/14, Council adopted Resolution Ord. No. 14-83 that only allowed billing and collections on two billing dates. This restricts the City from collecting on revenue on a more timely basis and has negatively impacted revenue collections.
- RBG found many bills have not been processed and the Treasurer has committed to processing them by end of this week
- ***Example: RBG observed that 6,899 vehicles are not assessed a minimum Personal Property Tax. We are reviewing if any statute prohibits charging a minimum tax.***
- Going forward, RBG and the Treasurer agree on a Lockbox system to enable same business day payments
- RBG will report back to Council on how we plan to repeal the ordinance and introduce a new ordinance

**RBG will introduce changes to the Personal Property Tax that will allow us to maximize our billing and collection efforts**

# Petersburg Team for the PPEA Process

**Since our 12/13/16 Council Meeting, we have moved forward with reviewing Aqua Virginia, Inc's water proposal and meeting with other firms.**

- **City of Petersburg Team**
  - Tangela Innis, Project & Procurement Lead
  - Tom Tyrrell, Interim City Manager
  - Robert Bobb, The Robert Bobb Group
  - Nelsie Birch, Interim Finance Manager
  - Joe Preston, City Attorney
- **Technical Team**
  - Timmons Group
- **Financial Team**
  - Davenport & Co.
- **Legal Team**
  - Sands Anderson, PC
- **PPEA Proposal received from Aqua Virginia, Inc (meeting with Aqua Dec 2016)**
- **Meetings Scheduled for 1/4/17 – Wednesday**
  - Timmons Group
  - ESG Operations, Inc
  - American Water Works Company

*The PPEA Procurement Process is managed by Tangela Innis: [tinnis@petersburg-va.org](mailto:tinnis@petersburg-va.org)*

# PPEA Process – Timeline (1 of 2)

- December 7, 2016 - City receives unsolicited proposal from Aqua Virginia, Inc. under the Public-Private Education Facilities and Infrastructure Act of 2002 (**the "PPEA"**) to purchase the City's water and wastewater utility assets dated December 7, 2016 (**the "Aqua Proposal"**).
- December 9, 2016 - City Purchasing Manager sets forth findings of City as to proceeding with competitive negotiation PPEA procedures rather than competitive bidding PPEA procedures
- December 13, 2016 - City Council accepts Aqua Proposal for consideration. City already has retained Timmons engineering firm under general contract, and Timmons will provide independent analysis regarding the specifics, advantages, disadvantages, and the long- and short-term costs of the Aqua Proposal and any competing proposals that are submitted
- Prior to December 23, 2016 - City posts "Public Notice by the City of Petersburg, Virginia of Receipt of Unsolicited PPEA Proposal and Invitation for Competing Proposals (17-0008)" (**the "Public Notice"**) on the City website; Public Notice is also published in newspapers of general circulation in the City, in *Virginia Business Opportunities* and on the Commonwealth's electronic procurement website. The Public Notice states that copies of the more detailed Receipt of Unsolicited PPEA Proposal and Solicitation of Competing Proposals (17-008) (**the "Receipt and Solicitation"**) are available from the City's Purchasing Office; the Receipt and Solicitation was also posted on the City's website.
- December 23, 2016 to January 30, 2017 - any proposal in competition with the Aqua proposal is to be posted and published within 10 days of receipt in the same manner that the Aqua Proposal was posted and published.
- January 30, 2017 (2:30 p.m.) – any competing proposals to the Aqua Proposal are to be submitted to the city (as stated in the Receipt and Solicitation).

# PPEA Process – Timeline (2 of 2)

- January 31, to April 4, 2017 – City to receive any written comments on PPEA proposals
- January 31 and February 7, 2017 - publish a Notice of Public Hearing in the local newspaper of general circulation, for February 21, 2017 public hearing on all PPEA proposals received.
- February 21, 2017 - City Council holds public hearing on all PPEA proposals received
- February 21, 2017 – City Council votes on whether to proceed and negotiate a Comprehensive Agreement with Aqua or with another proposing company, or not to proceed with negotiations.
- February 22 to March 14, 2017 – negotiate Comprehensive Agreement
- March 7, 2017 - publish a Notice of Public Hearing in the local newspapers of general circulation, for March 21, 2017 public hearing on disposition of real property involved in sale of water and sewer system assets.
- March 15, 2017 – post final form of negotiated Comprehensive Agreement on City website, and publish in local newspapers of general circulation summary of Comprehensive Agreement and location where copy of Comprehensive Agreement is available for public inspection.
- March 21, 2017 - City Council holds public hearing on disposition of real property involved in sale of water and sewer system assets.
- April 4, 2017 - City Council votes on approval of Comprehensive Agreement (subject to approval of transaction as required by existing agreements and applicable state statutes and regulations) (three-fourths of all members elected to Council must vote in favor).
- April 5, 2017 - Must make PPEA procurement records available upon request.
- April 5, 2017 to May 4, 2017 - submit a copy of the Comprehensive Agreement to the Commonwealth's Auditor of Public Accounts.

# PPEA Process – Questions Received (1 of 3)

- Any proposed long-term financial plans.
- Additional documents related to ARWA and SCWA:
  - Fiscal Agency Agreement or related financial agreement with any financial institution
  - Indenture of Trust or related documents(s)
  - Supplemental Indenture of Trust or related documents
  - Most recent Official Statement(s)
  - Most recent Rating Agency Reports
- Financial Audits for the past three years;
- If not detailed in the Financial Audits, a breakdown of expenses and revenues for the water system for the past three years;
- If not detailed in the Financial Audits, a breakdown of expenses and revenues for the wastewater system for the past three years;
- Depreciation Schedule for the water system assets, to include date of service for each component of the assets, as well as the source of funding (i.e. grants, tapping fees, developer dedications, debt, etc.), original cost, accumulated depreciation and net value
- Depreciation Schedule for the wastewater system assets, to include date of service for each component of the assets, as well as the source of funding (i.e. grants, tapping fees, developer dedications, debt, etc.), original cost, accumulated depreciation and net value;

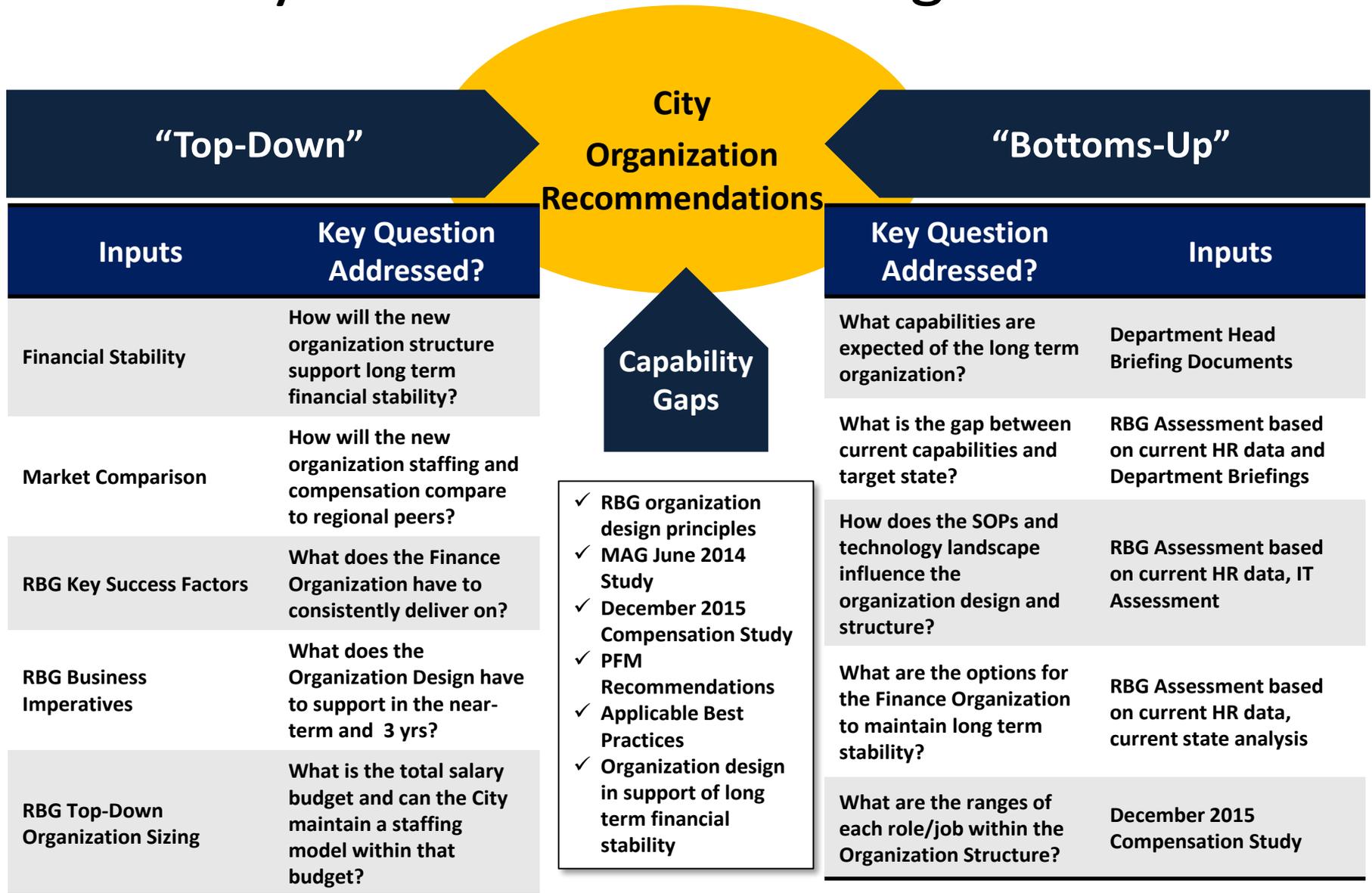
# PPEA Process – Questions Received (2 of 3)

- Copies of any and all agreements, contracts, etc. (“contracts”) that would survive the transfer of ownership (from a sale) of the water and wastewater system assets to the successful Proposer. These contracts would include those with builder(s)/developer(s) as well as those with the Appomattox River Water Authority (“ARWA”) and South Central Wastewater Authority (“SCWA”) and any other inter-municipal contracts;
- Summary of payments made to either ARWA, SCWA or other utility system owners wherein the City purchased capacity from such entities;
- Permits issued for the systems;
- Reports generated by consultants, engineers, etc. addressing the capital needs of the systems, including a five-year capital plan;
- Rate Schedules applicable to those connected to and receiving service from the systems;
- Rules and Regulations governing the provision of service for those connected to and receiving service from the systems;
- Copies of any correspondence between the City and federal, state or local agencies relating to the systems compliance to local, state and federal laws, rules and regulations, etc. (i.e. Notices of Violations, Consent Orders and Agreements, etc.);
- Operational Reports generated over the past 2 years, including any Reports that would be submitted annually, bi-annually, quarterly or monthly to any federal, state or local agencies regulating the systems;

# PPEA Process – Questions Received (3 of 3)

- Breakdown of customer by class (i.e. Residential, Commercial, Industrial, Institutional, Municipal, Other, Fire Hydrants), to include number of customer connections (and total EDUs) by class and average daily water usage by class;
- Without disclosing employee names, please provide job titles, job descriptions, wages/salaries and summary of benefits and costs for those employees that the City will seek the successful Proposer to offer employment opportunities to upon the transfer of the assets at closing;
- Overall system map for both the water and wastewater systems; and
- Copies of any deeds associated with land whereon water and wastewater systems are situated.
- Who is the best person to talk to, and is there data (financial or operational) that is being shared to other interested buyers.

# City Administration Reorganization



# Recommendations for New City Council

**Interactions with City Administration**

**Policies and Procedures**

**Proposed City Council Vision Session**

**Considerations for Standing Committee**

# Finance Manager Overview

# Prep for 1/10 Budget Working Session

- Conducting a Top to Bottom Review of FY17 Budget
- Reviewing all 19 PFM Recommendations to examine what materialized, what has not, and if performance is consistent with what has worked
- Meeting with all department heads as a group and privately on an going basis
- Conducting Budget Deep Dive with all department Heads – looking at spend rates, available budget, where they can prioritize contracts, reduce fleet and cell phones
  - RBG has a dedicated City staff member doing a deep dive scrub on fleet assets based on what current system records show for fleet mgmt
- Conducting Deep dive on existing payables, understand if any should have been paid in FY16, and if so, how the FY17 budget should be adjusted
- Validating revenue assumptions for budget

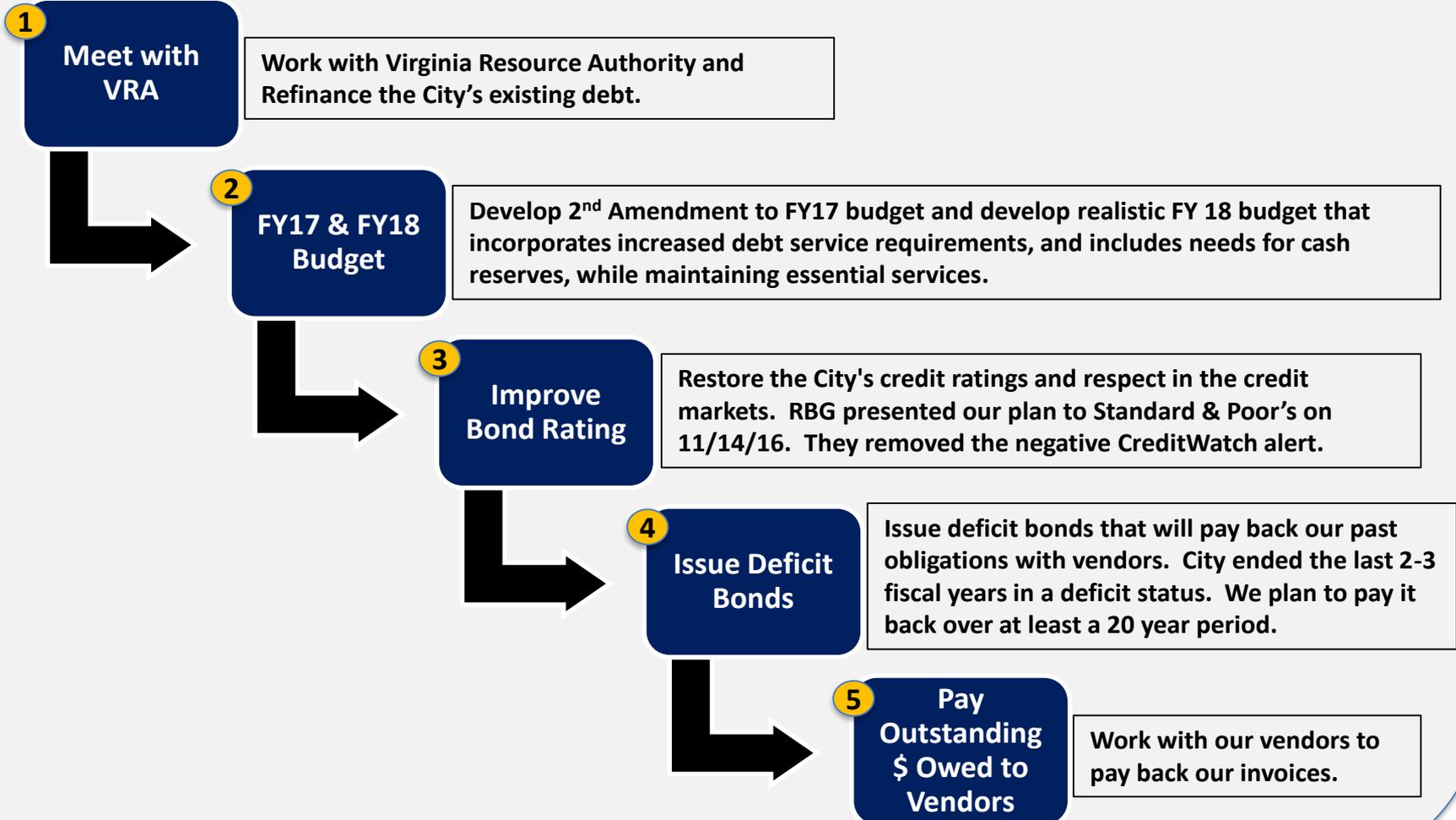
# Prep for 1/10 Budget Working Session

## Our preparation to develop the 2<sup>nd</sup> Amendment to the FY17 Budget includes:

- **Conducting a Top to Bottom Review of FY17 Budget**
- **Reviewing all 19 PFM Recommendations to examine what materialized, what has not, and if performance is consistent with what has worked**
- **Meeting with all department heads as a group and through 1:1 office hours**
- **Conducting Budget Deep Dive with all department Heads – looking at spend rates, available budget, where they can prioritize contracts, reduce fleet and cell phones**
  - **RBG has a dedicated City staff member doing a deep dive scrub on fleet assets based on what current system records show for fleet management**
- **Conducting a Deep dive on existing payables, understand if any should have been paid in FY16, and if so, how the FY17 budget should be adjusted**
- **Validating revenue assumptions for budget**

# Long Term Financial Restructuring

## Sequence of Activities



# Details of RAN Fees & Payments Made

## Total Revenue Anticipation Note: \$6.5M

- **Cost of Issuance: \$532,690**
- This includes the cost for the following:
  - Placement Agent: Crews & Associate \$49,861
  - Placement Agent Council: Williams Mullen \$17,500
  - City Attorney to Financing: Woodley Flynn \$54,149.84
  - Special Municipal Advisor: Municipal Resource Advisors \$150,000
  - Bond Counsel: Sands Anderson \$123,600
  - Financial Advisor: Davenport \$132,579.17
  - Trustee: UMB \$5,000
- **Net Proceeds to the City: \$5.97M**
- Proceeds Received: December 8, 2016
- Interest Rate: 4.5%
- Maturity: October 1, 2017
- Monthly Sinking Fund Payment: \$673,806.25
- Sinking Fund Payment Commences: January 1, 2017
- Sinking Fund Payment Ends: October 1, 2017
- Total Interest Provided to Investors: \$238,062.50
- Total Amount to be Paid by City by October 1, 2017 (Par Amount/Principal + Interest):  
**\$6,738,062.50**

# Explanation of RAN Fees & Utilization

## Total Revenue Anticipation Note: \$6.5M

- Funds are being used to fund cash flow and not as new revenue.
- **The total amount of disbursements from December 8 – 22 totaled \$8.4M.**
- The payments are as follows:
  - City Payroll \$2.2M
  - Debt Service \$0.3M
  - Schools Transfer \$0.9M
  - \$5.0M in Payments to Vendors and Regional Authorities/Partners (see following page for full list).
- Our focus has been on regional authorities and partners, public safety, safety of our employees, and financial stability.

# 1/3/17 – Working Session Recap

## Review What We Discussed

- **2<sup>nd</sup> Amendment to FY17 Budget will be presented on 1/10**
- **S&P Ratings Report and RBG Plan to Address**
- **RAN Fees and Payments**
- **City Administration Reorganization Strategy for FY18**

# Transparency

- RBG Key Milestones to Date
- RBG Plan of Entry
- Issues Identified from 11/1/16 Council Report

# RBG Key Milestones to Date

Key Milestones	Description	Due Date	Status
Council Meeting	Presentation Deck: RBG Plan of Entry and Issues Identified	11/1/2016	COMPLETED
Settle Lawsuit with SCWA	Settle Lawsuit with SCWA	11/14/2016	COMPLETED
Council Meeting	Presentation Deck: 2 Council Resolutions to make 11/18 and 12/2 Payroll, Defer \$6.6M in project funds	11/15/2016	COMPLETED
Payroll for Nov. 18	Payroll for Nov. 18	11/18/2016	COMPLETED
Receive \$1.3M Capitalized Interest	Receive \$1.3M Capitalized Interest	11/18/2016	COMPLETED
Paying Schools for November	Paying Schools for November	11/18/2016	COMPLETED
Paying DS for November	Paying DS for November	11/18/2016	COMPLETED
RBG Invoice to City of Petersburg	Invoice for Services to Date	11/25/2016	COMPLETED
Secure Ran/Receive Funding	Secure Ran/Receive Funding	12/1/2016	COMPLETED
Successfully separating our restricted funds	Successfully separating our restricted funds	3/17/2017	IN PROGRESS

# RBG Key Milestones to Date

Key Milestones	Description	Due Date	Status
Paying VRS in FULL each pay period	Paying VRS in FULL each pay period	12/1/2016	COMPLETED
Payroll for Dec. 2	Payroll for Dec. 2	12/2/2016	COMPLETED
Budget/Actual for FY 17 with any necessary amendments	Budget/Actual for FY 17 with any necessary amendments	12/9/2016	COMPLETED
Council Meeting	Presentation Deck: talk personnel and our strategy for getting the 10% restored	12/13/2016	COMPLETED
Paying \$1.3M to SCWA by Dec. 15 + December Invoice	Paying \$1.3M to SCWA by Dec. 15 + December Invoice	12/15/2016	COMPLETED
Payroll for Dec. 16	Payroll for Dec. 16	12/16/2016	COMPLETED
FY 18 Budget Development/Proposal, including DS requirements and Fund Balance Set-Aside and RAN repayment	FY 18 Budget Development/Proposal, including DS requirements and Fund Balance Set-Aside and RAN repayment	2/17/2017	IN PROGRESS
Paying Schools for December	Paying Schools for December	12/16/2016	COMPLETED
Paying DS for December	Paying DS for December	12/16/2016	COMPLETED

# RBG Key Milestones to Date

Key Milestones	Description	Due Date	Status
Long Term Debt Restructuring Secured	Long Term Debt Restructuring Secured	3/17/2017	IN PROGRESS
Pay all of our regional partners and keep current: Jail, Training Facility, SCWA, Appomattox	Pay all of our regional partners and keep current: Jail, Training Facility, SCWA, Appomattox	12/16/2016	COMPLETED
RBG Invoice to City of Petersburg	Invoice for Services to Date	12/25/2016	COMPLETED
Payroll for Dec. 30	Payroll for Dec. 30	12/30/2016	COMPLETED
Hiring Key Department Head Positions (list them out and check them off)	Hiring Key Department Head Positions (list them out and check them off)	2/17/2017	IN PROGRESS
Council Meeting	Presentation Deck: 1730 organizational meeting to elect new Mayor / Vice Mayor 1830 regular meeting	1/3/2017	COMPLETED

# RBG Key Milestones to Date

Key Milestones	Description	Due Date	Status
Council Meeting	Presentation Deck: 1730 Special working session to present and discuss 2nd amended FY 17 budget, FY 18 budget planning guidance and calendar, and long term plan for fiscal stability	1/10/2017	IN PROGRESS
Council Meeting	Presentation Deck: regular meeting to adopt / appropriate 2nd amendment FY 17 budget.	1/17/2017	IN PROGRESS
RBG Invoice to City of Petersburg	Invoice for Services to Date	1/25/2017	IN PROGRESS
RBG Invoice to City of Petersburg	Invoice for Services to Date	2/25/2017	IN PROGRESS
RBG Invoice to City of Petersburg	Invoice for Services to Date	3/25/2017	IN PROGRESS

# Full List of Deferred Projects

Projects to be Deferred			
Project Name	Allotted Budget	Budget Spend	Projects to be Deferred
Poor Creek - 24" Line Replacement	\$1,793,000.00	\$98,227.15	\$1,694,772.85
Equipment	\$275,000.00	\$67,045.00	\$207,955.00
Poor Creek - Force Main	\$1,800,000.00	\$0.00	\$1,800,000.00
Public Works Facility	\$450,000.00	\$70,000.00	\$380,000.00
Brickhouse Run Sewer Line	\$250,000.00	\$0.00	\$250,000.00
Tank Assessment Program	\$1,875,000.00	\$500,000.00	\$1,375,000.00
Contingency	\$23,124.41	\$0.00	\$23,124.41
Museums	\$90,139.29	\$57,983.27	\$32,156.02
City Hall	\$729,050.00	\$664,883.81	\$64,166.19
Golf Course Improvements	\$148,000.00	\$20,578.40	\$127,421.60
Sheriff Facility Improvements	\$192,500.00	\$0.00	\$192,500.00
Parking Area Replacement	\$187,900.00	\$153,745.65	\$34,154.35
Jail Farm	\$45,000.00	\$0.00	\$45,000.00
Health Dept Roof Repair	\$89,000.00	\$0.00	\$89,000.00
Blandford Cemetary	\$30,000.00	\$0.00	\$30,000.00
Dogwood Tract Parking Lot	\$145,000.00	\$86,597.88	\$58,402.12
School Buses	\$529,528.00	\$523,278.00	\$6,250.00
Seige Museum HVAC	\$500,000.00	\$44,613.29	\$455,386.71
COR Carpet Replacement	\$8,000.00	\$5,750.00	\$2,250.00
Station 4 Roof Replacement	\$50,000.00	\$49,220.00	\$780.00
Sycamore St. Bathroom Addition	\$84,961.00	\$70,168.21	\$14,792.79
Recreation Center Design & Permits	\$50,000.00	\$47,500.00	\$2,500.00
Seige Museum Repair	\$515,000.00	\$61,618.77	\$453,381.23
Union Station Roof Repair	\$45,000.00	\$44,050.00	\$950.00
Magistrate Relocation	\$43,850.00	\$26,882.99	\$16,967.01
CA Exterior Wall & Cornice	\$40,000.00	\$39,934.35	\$65.65
City Hall Roof Replacement	\$37,056.00	\$18,880.00	\$18,176.00
Hustings Court Roof Replacement	\$249,785.00	\$217,240.67	\$32,544.33
Elevator Replacement	\$89,444.00	\$89,440.00	\$4.00
Outing Pavilion	\$50,000.00	\$40,150.00	\$9,850.00
Cart Path/Parking Lot	\$109,414.00	\$108,958.42	\$455.58
Clubhouse	\$759,000.00	\$723,416.35	\$35,583.65
Local Cost of Issuance	\$27,989.00	\$22,356.29	\$5,632.71
Contingency	\$55,385.00	\$0.00	\$55,385.00
Less Project Overages			-\$19,281.88
<b>Total Amounts Deferred</b>			<b>\$7,495,325.32</b>

Additional Needs			
Project Name	Project Description		Expenses Identified
South Side Depot Restoration	85-90% Complete. Cost is \$190,000 or 20% City obligation; An Additional 80% paid by VDOT		\$190,000.00
Ambulance	Cost \$286,000; reimbursed \$143,000 by Federal Govt		\$143,000.00
Jeb Stuart School Boiler Replacement	Project cost is \$70,570 + \$10,000 contingency		\$80,570.00
Conduct Technology Assessment/Define Robust and Scalable Financial Operating Platform			\$500,000.00
<b>Total Expenses Accounted For</b>			<b>\$913,570.00</b>
<b>Net Total Amounts Deferred</b>			<b>\$6,581,755.32</b>

**Net amounts deferred is \$6.6M after \$900K of critical expenses**

# RBG Plan of Entry

- **Priority One is restructuring financial operations:**
  - *Balancing and keeping current budget balanced*
  - *Budget Policies and Monitoring/Reporting transparency*
  - *Financial Reporting/ Accounting Practices/Internal Auditing*
  - *Revenue Collections and billings*
- **Define a Strategy for short term borrowing and securing funding to restructure the long term deficit**
- **Create a Staffing Plan and develop a Leadership Recruitment Plan**
- **Establish leading policies, practices and procedures for each department**

# Issues identified in Week 1 (1 of 4)

## **Issue #1: +/- \$18.0M Deficit from FY 2016 and Prior**

- Figure Based on Analysis done by the State NOT the City; City has not maintained Records.
- We observed City has paid invoices from prior years using current year revenues (at least one example of an invoice paid twice from FY 16).

### **Key Activities**

- Update the Analysis to Get a Final List of Outstanding Invoices from FY 16 and Prior
- Develop long-term financing strategy to deal with the deficit
- Communicate to vendors our plan and when they can expect to be paid

## **Issue #2: +/- \$6.0M Invoices Unpaid for FY 2017**

- City has not had a strategic approach to handling the growing list of unpaid vendor invoices.
- Current FY that began July 1 has not been kept current and there continues to be a cash flow challenge as there is not enough money in the bank in cash to fulfill the current obligations.

### **Key Activities**

- Secure Revenue Anticipation Note (RAN)
- Communicate to Vendor Community
- Pay all current obligations for FY 17 with the RAN

## **Issue #3: FY 17 Budget is Unrealistic, Lacks Transparency, and Has Not been appropriated or made available to the public**

- Even with the \$12.5M reduction from the original budget to the amended budget, there is a lack of accountability and information related to the FY 17 budget to ensure that the City can meet what is planned.
- It appears that cutting employees salaries by 10% and reduction in force was taken over dramatically eliminating services.

### **Key Activities**

- Map the process with the Finance team and Treasurer.
- Optimize how work can be done between the two departments
- Determine who is responsible to determine cash flows (cash versus obligations)
- Determine who is responsible for ensuring enough cash is in the bank to meet obligations.
- Determine the revenue cycle and what billing cycles should change to help cash flows, including state-shared revenues.
- Provide recommendations for upgraded systems/procedures to track cash.

# Issues identified in Week 1 (2 of 4)

## Issue #4: Cash Flow Projections are Unrealistic and Process to Determine Cash in Bank/Cash Flow is informal

- Revenue Anticipation Note was Assumed to be Available in November. However, the proceeds may not be available until December (at the earliest). This leaves November vulnerable to ensuring payroll obligations are able to be met.
- Property Taxes may not be paid until December; however, bills are to be mailed the first week of November.
- Much of the information related to cash in the bank is done through email and is not formalized in a central system.

## Issue #6: Capital Projects and Capital Budgeting are Unrealistic

- The prime issue is that the City is obligated to paying the debt service on these bonds but has not yet drawn down the funds.
- In 2015, the City issued bonds through the Virginia Resource Authority's bond pool.
- To date, \$4.7M of projects have not begun and \$6.8M of bond proceeds have not been accessed.

## Issue #5: South Central Wastewater Authority Lawsuit

### Key Activities

- Attend the hearing and share our good faith commitment.
- Work with VRA, Bond Counsel and Davenport to develop a solution.

# Issues identified in Week 1 (3 of 4)

## **Issue #7: 10% Pay Reduction for City Employees and Mass Exodus of Employees**

As part of the budget reduction this summer, the City cut 10% pay across the board. This has resulted in 146 resignations and to date this fiscal year almost \$200K in leave payouts.

### **Key Activities**

- Develop a path to restore the 10%.
- Communicate our commitment to staff
- Evaluate pay scales—especially department heads.
- Determine critical positions to hire.
- Make an analysis of consolidation of services and positions.

## **Issue 8: Use of restricted funds for General Fund purposes.**

The City has historically used special revenue funds and enterprise funds to pay General Fund obligations.

### **Key Activities**

- Develop a plan to separate the funds, including separate bank accounts, separate codes, etc.
- Determine how to handle federal and state grant funds management.
- Ensure cross training for grant fund draw-down out of Finance.

## **Issue 9: FY 15 CAFR found NO material issues; FY 16 has not started**

The FY 15 CAFR did not find any material issues with the fiscal controls and accounting practices of the City. Additionally, a part-time/seasonal employee was hired by the City to conduct several journal entries to “get the books ready for the auditors.”

### **Key Activities**

- Develop a plan to get the FY 16 CAFR done. One idea is to reach out to the auditor of public accounts for assistance.
- Review the management letter from the past audits to ensure that all identified is followed up on.
- Review the contract with the current auditors.
- Consider issuing a new RFP for the City’s CAFR/Auditing responsibilities.

# Issues identified in Week 1 (4 of 4)

## **Issue 10: No full-time finance staff/Lack of Financial Policies**

- The Finance Director was terminated last spring along with the City Manager. The Assistant Finance Director became Acting Finance Director and resigned effective Oct. 22. In addition, there was no succession planning nor was there an appropriate and professional handoff of passwords, responsibilities, etc.
- The Accounts Payable process is loose and lacks control and diligence. Several changes to the process have occurred that removes the use of the system to control the invoices to be paid and checks to be cashed. It is unclear how many invoices are not accounted for in the system.

## **Issue 11: Potential fraudulent activity**

In the brief time spent being brought up to speed on City activities, it is apparent there has been significant negligence that may go beyond just the right to terminate an employee.

### **Key Activities**

- Review emails/documents to trace any suspicious or fraudulent acts.

## **Issue 12: Decentralization of traditional finance responsibilities with the elected Treasurer and elected Commissioner of Revenue and unclear division of responsibilities/accountability**

The Commissioner of Revenue is responsible for the billing function of the City while the City Treasurer is responsible for the collection of funds, printing of checks, and management of cash. The Finance Department is responsible to keep the City's books and develop and appropriate City budget.

### **Key Activities**

- Flow the process of all three.
- Make recommendations for process improvement and clear division and/or consolidation of responsibilities.