

# City of Petersburg Emergency Financial & Operational Restructuring

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

November 15, 2016

# Agenda

- Background & Reminder
- RBG Plan to Attack Immediate Fiscal Crisis
  - Our Plan to Make Payroll
  - Our Plan for Short Term Liquidity
  - Our Plan for Long Term Fiscal Stability
- Urgent Action Needed from Council
  - **Resolution 1: Utilize \$1.3M capitalized interest & Defer \$6.6M in VRA Project Funds**
    - Step 1: This enables Payroll for November 18 & Dec 2 – **our immediate Priority**
    - Step 2: This allows a court order receiver for SCWA to be dismissed
    - Step 3: This defers project funds to support long term fiscal stability
  - **Resolution 2: Approve the \$6.5M RAN to provide short term fund relief**
    - Step 1: This enables the City to pay back the SCWA \$1.3M by December 15<sup>th</sup>
    - Step 2: This pays for the remainder of 2016 Payroll and critical services for FY2017
- Key Problems & RBG Action Steps
  - Using General Funds Wrong
  - Losing out on State Reimbursement
- Transparency
  - Proposed list of deferred projects to save \$6.6M

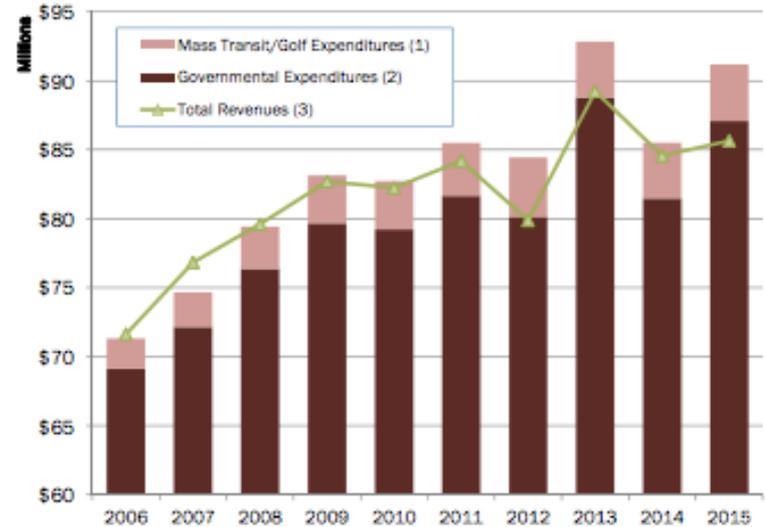
# Background & Reminder

## 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

# Background & Reminder

City of Petersburg, VA

## Cash Flow Summary - With RAN

RAN Funding Assumed in December 2016  
Monthly

	Actual Jul-16	Actual Aug-16	Actual Sep-16	Projected Oct-16	Projected Nov-16	Projected Dec-16	Projected Jan-17	Projected Feb-17	Projected Mar-17	Projected Apr-17	Projected May-17	Projected Jun-17	Total
Beginning Balance	1,698,696	2,997,697	2,658,430	5,530,056	2,280,269	(389,810)	7,362,333	4,900,287	2,291,156	6,179,964	3,378,859	3,048,345	
Total Revenues - FY 2017	5,496,909	3,305,160	10,514,721	5,795,207	4,558,935	10,348,317	5,372,455	5,754,420	12,943,515	5,772,111	7,787,587	12,897,199	90,546,537
PLUS(MINUS) Adjustment for July-Sept Actual(1)	1,554,217	2,589,009	(921,326)	(357,989)	(357,989)	(357,989)	(357,989)	(357,989)	(357,989)	(357,989)	(357,989)	(357,989)	0
PLUS RAN	0	0	0	0	0	6,500,000	0	0	0	0	0	0	6,500,000
<b>Total Cash Flow Receipts</b>	<b>7,051,126</b>	<b>5,894,169</b>	<b>9,593,395</b>	<b>5,437,218</b>	<b>4,200,946</b>	<b>16,490,329</b>	<b>5,014,466</b>	<b>5,396,431</b>	<b>12,585,527</b>	<b>5,414,122</b>	<b>7,429,598</b>	<b>12,539,210</b>	<b>97,046,537</b>
LESS Expenditures	5,752,125	6,233,435	6,721,769	8,687,004	6,871,025	8,138,186	6,803,762	7,332,812	8,023,969	7,542,477	7,087,362	8,640,755	87,834,682
LESS Other Payments	0	0	0	0	0	600,000	0	0	0	0	0	0	600,000
Less RAN REPAYMENT	0	0	0	0	0	0	672,750	672,750	672,750	672,750	672,750	3,272,750	6,636,500
<b>Total Cash Flow Expenditures</b>	<b>5,752,125</b>	<b>6,233,435</b>	<b>6,721,769</b>	<b>8,687,004</b>	<b>6,871,025</b>	<b>8,738,186</b>	<b>7,476,512</b>	<b>8,005,562</b>	<b>8,696,719</b>	<b>8,215,227</b>	<b>7,760,112</b>	<b>11,913,505</b>	<b>95,071,182</b>
Revenues Over (Under) Expenditures	1,299,001	(339,266)	2,871,626	(1,249,787)	(2,670,079)	7,752,143	(2,462,046)	(2,609,131)	3,888,808	(2,801,105)	(330,513)	625,705	1,975,355
Ending Balance	2,997,697	2,658,430	5,530,056	2,280,269	(389,810)	7,362,333	4,900,287	2,291,156	6,179,964	3,378,859	3,048,345	3,674,051	

### Annual Summary

Beginning Balance	
Total Revenues - FY 2017	
PLUS(MINUS) Adjustment for July-Sept Actual(1)	
PLUS RAN	
<b>Total Cash Flow Receipts</b>	
LESS Expenditures	
LESS Other Payments	
Less RAN REPAYMENT	6,636,500
<b>Total Cash Flow Expenditures</b>	<b>95,071,182</b>
Revenues Over (Under) Expenditures	1,975,355
Ending Balance	3,674,051

*This shows the use of the \$6.5M Revenue Anticipation Note (RAN) to address the immediate cash flow issues*

### RAN Payments

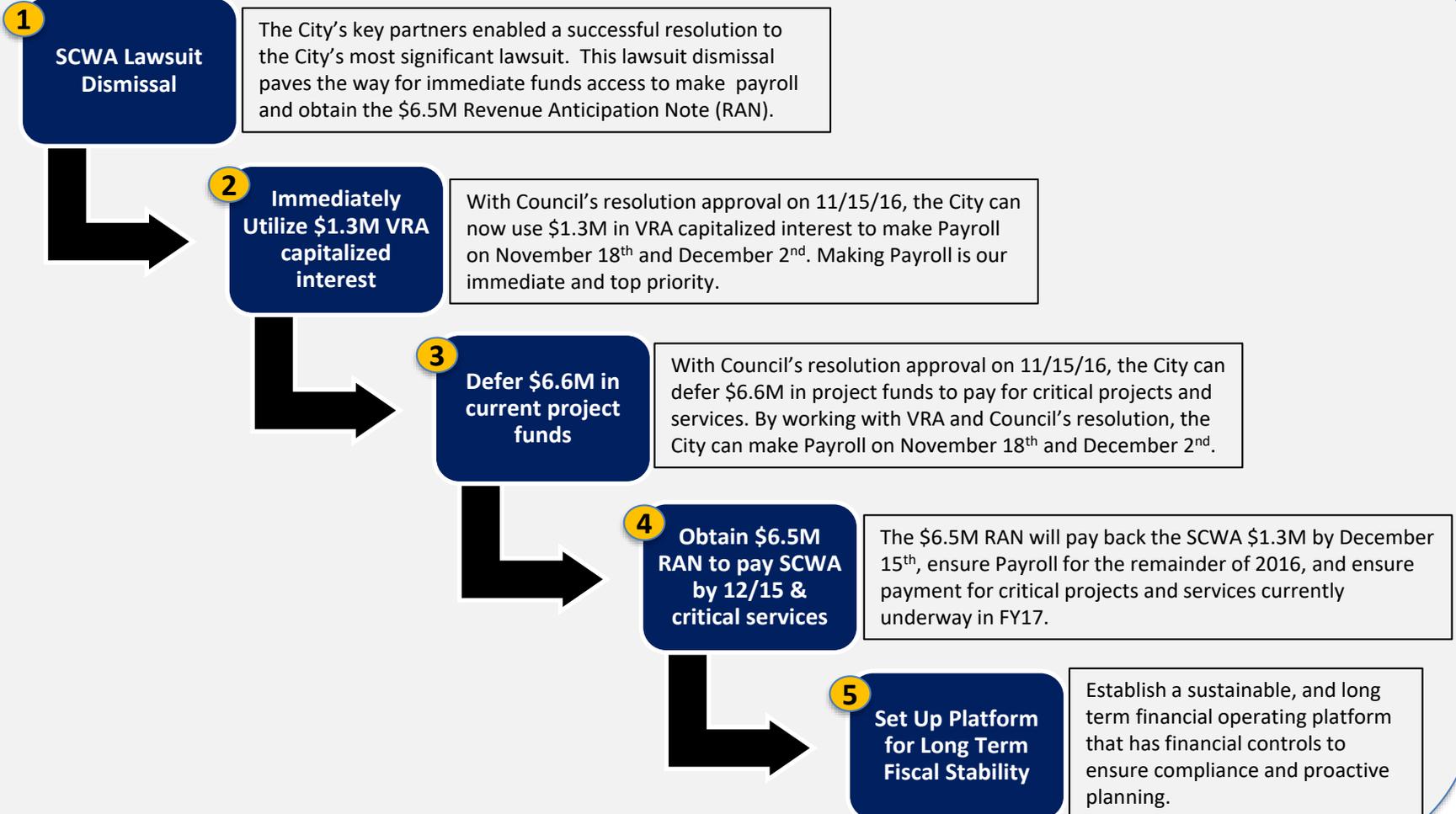
			Beg Bal	Ending Bal
1	1/1/2017	650,000	672,750	5,850,000
2	2/1/2017	650,000	22,750	5,200,000
3	3/1/2017	650,000	22,750	4,550,000
4	4/1/2017	650,000	22,750	3,900,000
5	5/1/2017	650,000	22,750	3,250,000
6	6/1/2017	650,000	22,750	2,600,000
7	7/1/2017	650,000	22,750	1,950,000
8	8/1/2017	650,000	22,750	1,300,000
9	9/1/2017	650,000	22,750	650,000
10	10/1/2017	650,000	22,750	0

(1) Represents difference between actual cash received and projections based on FY 2017 Budget.

Source: Based on cash flow data and budget provided by the City of Petersburg, VA

# Short Term Before Long Term

## Short Term Fiscal Stability – Sequence of Activities



# RBG Plan to Make Payroll

## Take Immediate Action to Address Payroll Crisis

### SCWA Lawsuit Dismissal Clears Path for Funds

- The SCWA Lawsuit was the primary obstacle to the City receiving short term financing of \$6.5M. **This was the City's most significant litigation case.**
- This dismissal enables the City to immediately utilize \$1.3M in capitalized interest accruing from unused Virginia Resource Authority (VRA) funds.
- **This enables Payroll for November 18 & Dec 2 – our immediate Priority.**
- As of 11/18/16, after we have made our November debt payment, payment to key vendors, \$427,500 to Schools, and Payroll, **we will have \$78,000 remaining** – assuming no other revenues are received by the city.
- **Our Key Partners helped make this happen:** *Governor's Office, VA Secretary of Finance, Deputy Chief of Staff, Deputy General Counsel, VRA Executive Director, Davenport & Company, Sands Anderson PC, SCWA Chairman*

# RBG Plan for Short Term Liquidity

Utilize the \$6.5M RAN to Stabilize Immediate Cash Flow

## Short Term Liquidity Plan

- By achieving the SCWA lawsuit dismissal, the City can proceed with obtaining the **\$6.5M** Revenue Anticipation Note (RAN)
- **\$1.3M** of the RAN will go toward paying the SCWA by December 15, 2016
- Then we ensure Payroll for remainder 2016
- Pay for critical services such as:
  - Emergency communication system
  - Critical maintenance and utility bills
  - VRA payments for line of duty pay
  - Federal and State funded services that have not been paid for
  - Expenditures that have already been executed for current FY17
- Note: In January 2017, we will conduct a budget to actuals analysis on the current budget to determine if any budget revision should be made

**This is not a Green Light to Spend!**

# RBG Plan for Long Term Stability

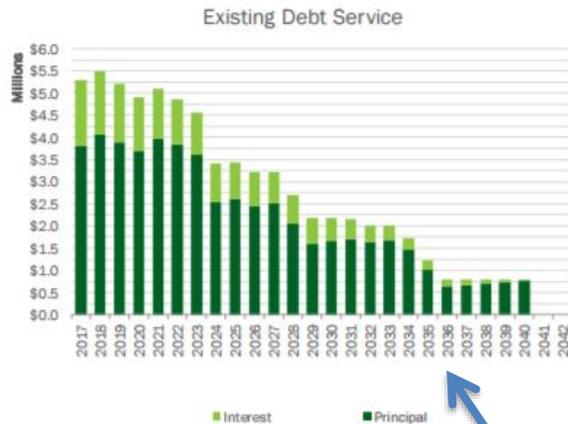
## Create a Sustainable Financial Operating Platform

### Long Term Financial Stability

- Establish a sustainable, and long term financial operating platform that has financial controls to ensure compliance and proactive planning.
- Provide for a long-term financial solution that will potentially repay a significant portion, if not all, of the City's +/- \$18M in outstanding payables.
- Work with our creditors to pay back our invoices.
- In addition to the FY 2017 budget actions, create a cash flow opportunity to establish financial reserves.
- Restore the City's credit ratings and respect in the credit markets. **RBG presented our plan to Standard & Poor on 11/14/16.**
- Developing realistic budgets that incorporates increased debt service requirements, needs for cash reserves, while maintaining essential services.

# Debt Repayment Schedule

## Existing Debt Service – General/Golf Funds



- The City has \$53.3 million in General/Golf Fund Supported G.O. Debt and Lease Obligations outstanding.
- Annual payments are currently in excess of \$5.2 million.

Existing General/Golf Fund Debt Service			
	Principal	Interest	Total
<b>Totals</b>	<b>53,329,406</b>	<b>15,535,555</b>	<b>68,864,961</b>
FY			
2017	3,797,330	1,495,788	5,293,118
2018	4,074,508	1,412,235	5,486,743
2019	3,889,524	1,322,115	5,211,640
2020	3,685,937	1,231,811	4,917,748
2021	3,966,954	1,132,736	5,099,690
2022	3,840,348	1,030,052	4,870,400
2023	3,614,196	940,536	4,554,732
2024	2,546,298	871,870	3,418,168
2025	2,613,477	817,128	3,430,605
2026	2,451,321	759,718	3,211,039
2027	2,514,856	699,463	3,214,319
2028	2,059,109	636,698	2,695,807
2029	1,605,886	576,581	2,182,467
2030	1,651,606	531,403	2,183,008
2031	1,697,347	451,688	2,149,034
2032	1,640,208	367,632	2,007,840
2033	1,687,000	314,364	2,001,364
2034	1,458,500	258,161	1,716,661
2035	1,015,000	205,851	1,220,851
2036	640,000	166,178	806,178
2037	665,000	132,700	797,700
2038	705,000	97,740	802,740
2039	735,000	60,819	795,819
2040	775,000	22,289	797,289
2041	0	0	0
2042	0	0	0

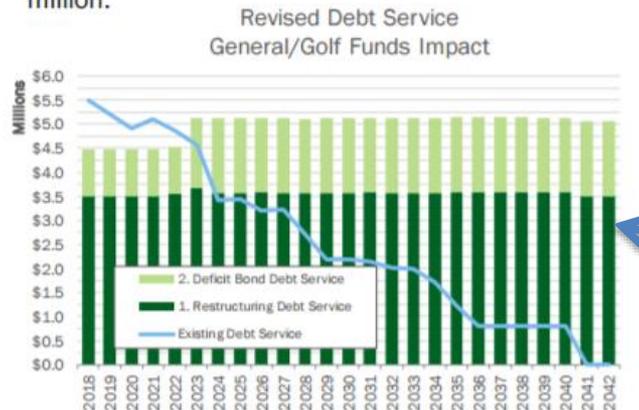
***This shows the City's repayment schedule is high initially for current debt. A key part of the restructuring would be to lower debt service payments in the near term.***

# Long Term Financial Approach



## Potential Long-term Financial Solution

- A potential long-term financial solution may incorporate the following two components:
  1. Restructuring of selected General Fund and/or Utility debt in order to create cash flow relief; and
  2. Permanent Deficit Bond financing of upward of \$18.8 million of outstanding payables.
  
- Preliminary results<sup>(1)</sup> of the Restructuring/Deficit Bonds are shown below:
  - Debt Service cash flow relief (from current budgeted levels) over the next five years; and
  - Sustainable long-term debt service approximating \$5.1 million.



- VRA (currently a bond holder of the City's G.O. and Revenue Bond debt) has indicated that they are willing to discuss a potential long-term financial solution.
  
- Initial feedback from VRA involves first applying any unspent acquisition (i.e. bond) funds toward, capitalized interest reimbursement, FY 2017 projects and future VRA debt service owed by the City.
  - Approximately \$1.3 million of capitalized interest can be reimbursed to the City for operational cash flow needs;
  - An additional \$914,000 can be reserved for FY 2017 projects;
  - The balance of \$5.3 million related to deferred projects is to be direct toward future debt service and/or debt reduction.
  
- After resolution of the unspent acquisition funds above, opportunities for implementing a potential long-term financial solution may be further explored with VRA and/or other alternative funding sources.

(1) Preliminary, subject to change with market conditions.

**This approach creates flexibility to build up the General Fund balance and city cash reserves.**

# Capital Projects & Bond Funding

## RBG reviewed Virginia Resources Authority (VRA) bonds already issued – yet unspent:

- Approximately **\$16.1M** of bonds were issued over 2013, and 2014, and 2015 and only **\$4.8M** was spent
- A review of the remaining **\$11.3M of unspent bond proceeds** occurred and the following is our recommendation:

1. Continuing with the **\$3.7M** worth of already identified projects due to **community engagement, availability of bond funding, and criticality of projects.**
2. Redirecting **\$1.0M** to critical need projects to **support critical city operations and fiscal stability.**

**Note: Budget Actuals in January 2017 may require adjustments to current budget.**

# RBG Recommendation for \$11.3M

1. **\$1.0M from 2015 bonds for utility projects**
2. **\$2.7M from 2014 bonds for:**
  - Hustings Court Tower Repair
  - District Court
  - Circuit Court
  - Farmer's Market
  - Commonwealth Attorney Building Roof
  - Gateway 52
  - Funds for Police Move

1. **RBG recommends redirecting \$1.0M from unspent proceeds to the following:**
  - South Side Depot Restoration
  - New Ambulance
  - Jeb Stuart School Boiler Replacement
  - Technology Assessment for Financial Operating Platform

**\$3.7M funding  
for projects  
already  
identified**



**\$1.0M  
redirected  
funding**

**Spend \$4.7M  
on immediate  
needs**

**Defer \$6.6M  
for critical  
projects and  
services**

# RBG Recommends Deferring \$6.6M

- The \$6.6M deferral of capital project funds is needed to pay for critical projects and services.
- RBG recommends:
  - **Defer \$6.6M of capital projects that include some of the following.**
  - **Sample list of projects includes:**
    - Various utility upgrades, including upgrades to the Poor Creek Main and Lines and Water Tank Upgrades, Museum and Golf Course Upgrades, City Hall Replacement, Other City Facility Upgrades/Maintenance

***The full list of deferred capital projects is in the Transparency section.***

# Action Needed from Council

## **Resolution 1: Request Council to defer \$6.6M of projects currently assigned to VRA bond funds**

- City has not drawn down three series of bonds in 2013, 2014, 2015
- **Request Council to defer \$6.6M of projects currently assigned to VRA bond funds**
- VRA Funds have accumulated \$1.3M interest
- **Request Council to allocate the accruing interest of \$1.3M interest to ensure November 18th and December 2nd payroll**

***Without Council Action on the capitalized interest drawdown from VRA, we cannot ensure payroll on November 18<sup>th</sup> and December 2<sup>nd</sup>.***

# Action Needed from Council

## Resolution 2: Request the \$6.5M RAN to provide short term fund relief

- This enables the City to pay back the SCWA \$1.3M by December 15<sup>th</sup>
- This enables remainder of 2016 Payroll and critical services for FY2017

*Note: this will be paid back in full by Oct. 2017*

***December Payroll will be paid for out of the RAN and real estate tax collections.***

# Key Problems & RBG Action Steps

1. City has been under spending freeze for the last two years – **yet we continue to spend**
2. The City needs a **strong requisition process** to control spending before it happens. Today, we control spending after it happens (e.g., “checks in the drawer”).
3. Financial controls do not consistently exist: **we control spending after disbursement**

## RBG ACTION STEP: Top to Bottom Procurement Process Redesign

1. Provide Project Justification & Estimate
2. Lock In Project Funding Source
3. Determine Procurement Path

# Key Problems & RBG Action Steps

- **Using the Wrong Project Funding Source to Pay for VRA Projects**
  - General Funds have been used as a safety net even when Virginia state funds are available
  - **IMPACT:** inefficient use of funding sources, no true up of costs, General Fund depleted with ad hoc bill paying
- **VDOT Funding**
  - Not properly accounting for Council Action on VDOT funded projects that require City match (we have overcommitted)
  - **IMPACT:** City's General Fund is paying for large ticket projects that are not part of the budget or funding plan

## **RBG ACTION STEP: Recover State Funds**

- 1. Identify projects which were under reimbursed by State**
- 2. Determine feasibility of recovering state funds**
- 3. Petition state to reimburse funds based on revised costs**

# RBG Key Actions (1 of 2)

## 1. Museum Update

- The city negotiated a pilot agreement for the management and operations city owned museums to re-open **Blandford Church and the Center Hill Museum during the 2016 Holiday season.**
- **Recommendation:** Staff recommends that City Council appoint a 7 member Board of Directors consisting of representatives from a defined list of local and regional organizations.

## 2. Budget Appropriation

- Council approved an FY17 budget and then made significant changes based on the 9/6 PFM report that were not put into the system; Department leaders and the general public lack visibility
- **Note: RBG does not consider the budget realistic and that certain savings will not be realized. Furthermore, budget cuts are not connected to basic city needs, e.g., Dept of Social Services, vehicle maintenance**
- **RBG Action:** Request Council to approved and appropriated amended FY17 Budget and publish online

# RBG Key Actions (2 of 2)

## 3. Outsourcing Fiscal Operations

- Stabilize the Finance Department: need a director and team that understand business processes
- RBG is actively exploring outsourcing of finance team operations to a 3<sup>rd</sup> party.

## 4. City vs. State Matching Funding

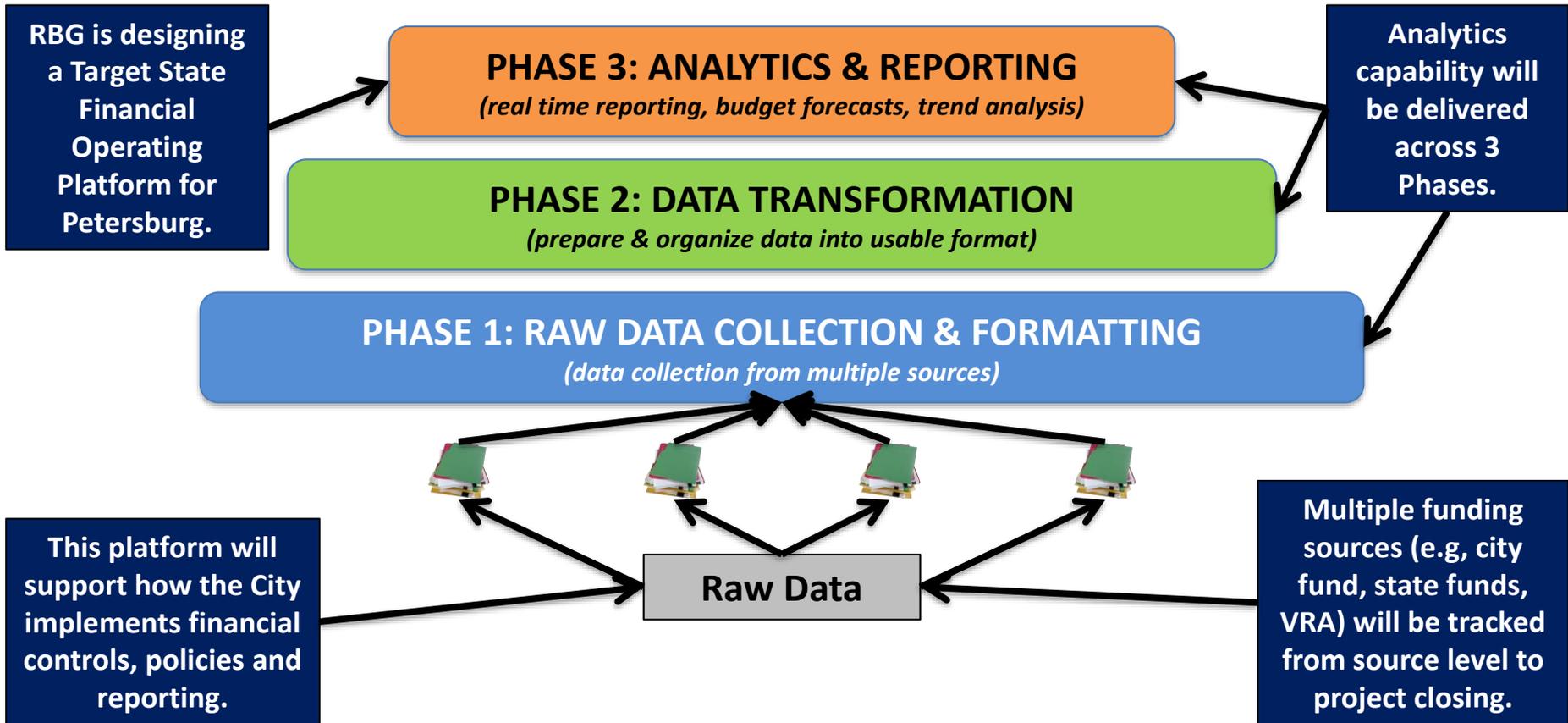
- RBG identified 19 projects, ***however only 8 were identified in the budget. RBG determined which needed city vs. state matching funding.***

## 5. Overhaul purchase process for long term stability

- Map current finance process flows
- Design target state finance process flows

# Technology for Long Term Stability

*The city's transformation toward financial accountability and transparency requires development of a stable operating platform.*



*Our goal is to leave behind a system of checks and balances that will enable city leaders to avoid budget and invoices payment issues that led to this crisis.*

# Transparency

- Full List of Deferred Projects
- 5 Month Plan
- RBG Plan of Entry
- Issues Identified

# 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**

# 5 Month Plan

***#1 Priority for Month One is a laser focus on financial operations.***

## 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.

# 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.