

## The Robert Bobb Group, LLC

### Contract for the City of Petersburg Emergency Financial & Operational Restructuring Effective: October 25, 2016 – March 25, 2017

#### Report on Completion of Contract Deliverables

### Introduction

In October 2016, the City of Petersburg contracted with The Robert Bobb Group, LLC (“RBG”) to conduct an emergency financial and operational turnaround and restructuring effort. The City of Petersburg (the “City”) contracted with RBG effective October 25, 2016 through March 25, 2017, using an emergency procurement process. The emergency procurement was pursuant to Section 2-293 of the Code of Petersburg and Section 2.2-403F “Emergency Procurement” of the Virginia State Code.

When RBG arrived, the staffing challenges that were created by the change in leadership and the institution of the 10% reduction of salaries were unclear to key stakeholders including the City Council and employees themselves. In addition, data analytics were not used to make decisions, internal controls for cash management and accounts payable were lacking, and there was a widespread erosion of basic processes and accounting principles for financial management.

In addition to describing our completion of each contractually required service, this document describes the critical issues that stymied strategic thought and transformation but which were ultimately tackled – creating opportunities for the future success of the City.

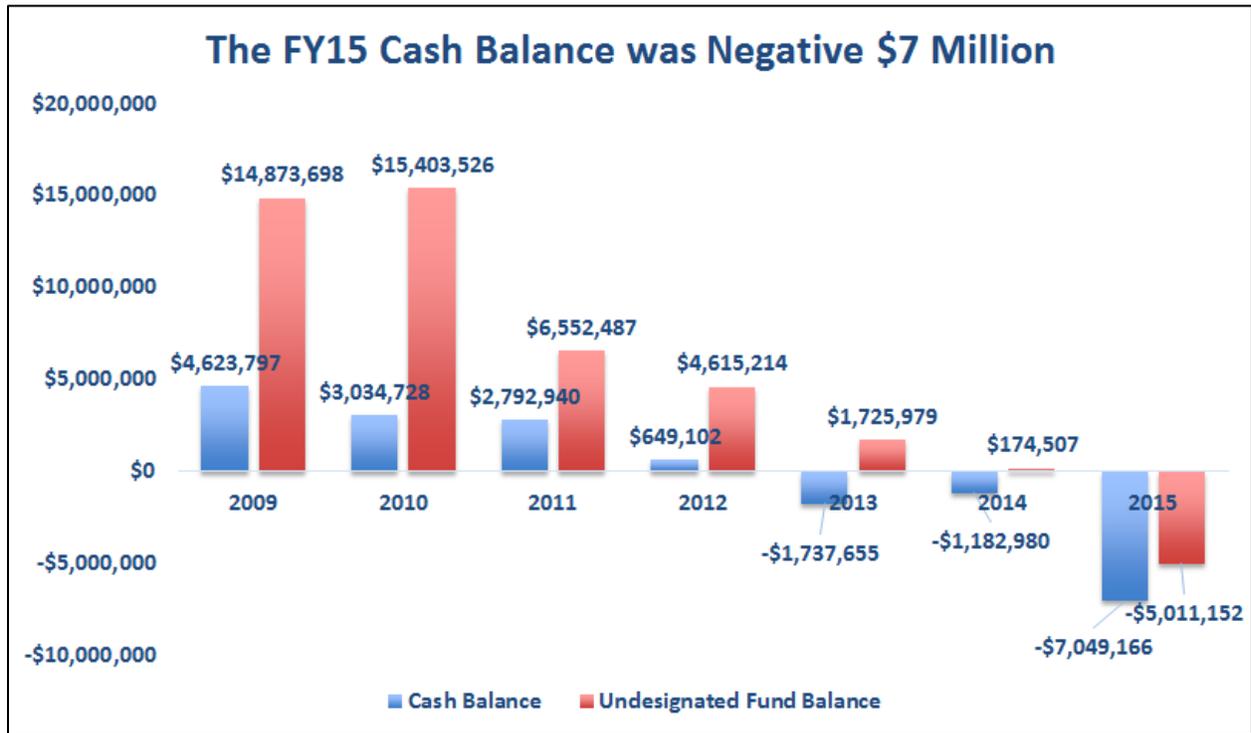
### Background

It is important to understand the emergency nature of the City’s fiscal crisis when RBG started its work.

The FY15 Comprehensive Annual Financial Report (CAFR) was the last year a CAFR was completed for the City. The FY15 CAFR reported the final budget for FY15 was \$81,053,866, but actual expenditures were \$82,936,405. The budget was over spent by \$1,882,539.

In FY15, the City’s general fund had \$34 million: \$13 million in liabilities, \$7.5 million in unavailable revenue, and fund balance amounts of \$13 million. In addition, *the Undesignated fund balance was negative \$5 million*. An “Unassigned Fund Balance” is a safety net for a City to manage emergencies. The City had recognized its own fiscal crisis by using funds from its safety net.

**Chart: Cash and Undesignated Fund Balance based on FY09 – FY15 CAFR data**



In their brief presentation to Council in November 2015, the Auditor had put the City on notice:

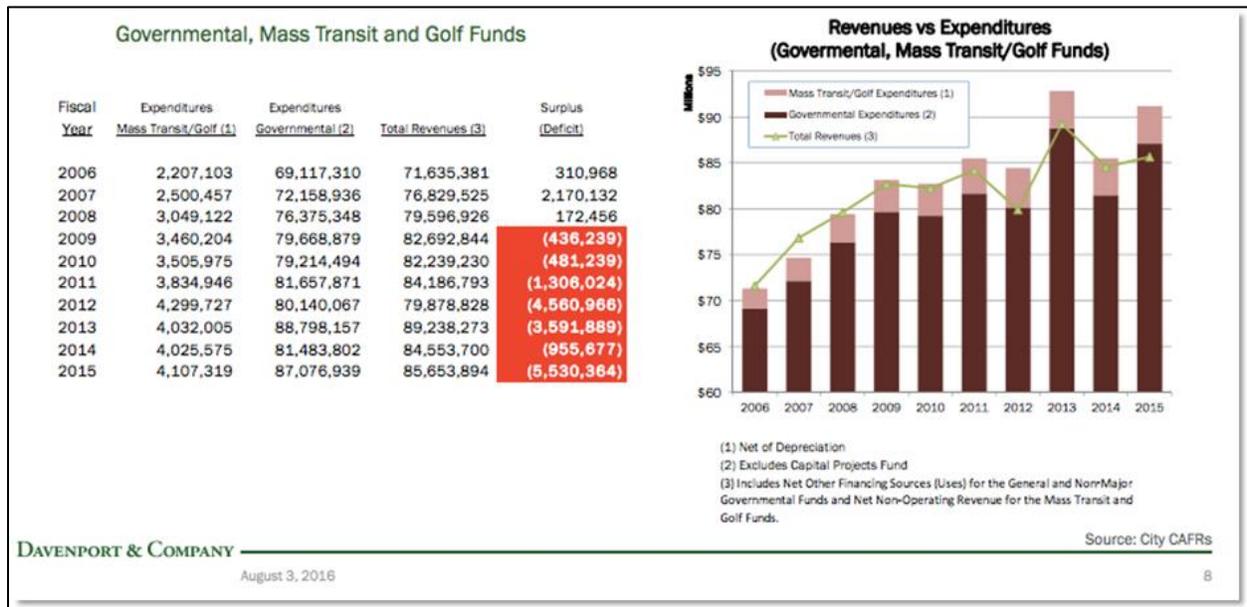
“Within the general fund under the liabilities is what is called a reconciled overdraft. That is a negative cash of \$7 million dollars which is not a good thing. I want you all to pay attention to that. That’s a huge number.” There is another quote worth including: “The reason that I am pointing these things out is that it is an area of concern that we have and I don’t think you all can stand another year like this. This is very, very important that you understand these numbers and look at them and try to improve where you can. This is going to take years to get your financial condition back up to where it should be.”<sup>1</sup>

The City’s budget deficit began in 2009. Eight years of structurally unbalanced budgets forced the City to face its financial crisis in late 2016 because it was unable to receive short term financing from the capital markets. The fiscal crisis was so severe that employee payroll was at risk, payments to the South-Central Waste Water Authority were withheld, and payments to Virginia Retirement Services (VRS) were withheld. The City ended FY16 on June 30, 2016 with over \$18 million in outstanding vendor obligations. The breakdown of the City’s utility billing and collection processes created a significant loss of monthly recurring revenue that worsened the mounting deficits.

<sup>1</sup> Source: Robinson, Farmer Cox Associates, FY 2015 Auditor Report, November 20, 2015.

In the summer of 2016, the City asked the State of Virginia for assistance. At the City’s request, the Commonwealth’s Technical Assistance Team reviewed the City’s financial operations. In August 2016, the Commonwealth, Davenport & Company LLC (the City’s Financial Advisor) and the PFM Group Consulting LLC (PFM) presented their findings to the City Council.

The table below was presented to the City Council on August 3, 2016.<sup>2</sup> The City’s deficit – the gap between revenues and expenditures – had continued for eight years until RBG completed a structurally balanced budget through its 2<sup>nd</sup> Amendment to the FY17 budget, which was approved by City Council in February 2017.



This joint presentation brought together the most current data on outstanding obligations, the City’s deficit, and specific actions to balance the FY17 budget. Specifically:

- The Commonwealth team presented its findings that the City had upwards of \$18.8 million of unpaid obligations as of June 30, 2016.
- The Davenport team explained the impact of the credit ratings agency Standard & Poor’s downgrading the city’s rating from BBB to BB with negative outlook. This rating is below investment grade and is the lowest of any local government in the Commonwealth.
- The PFM Group presented its thirteen recommendations for improvement. This was the basis for the 1<sup>st</sup> Amendment to the FY17 budget.

<sup>2</sup> Source: Background/Summary of Davenport’s 2012 Financial Review & Preliminary Plan(s) of Finance, Presentation to the City of Petersburg, VA City Council, August 3, 2016.

This presentation to the Council formed the rationale for the City to seek expert turnaround assistance. The presentations from August 2016 and the collaboration of the groups mentioned above provided a valuable starting point for RBG’s turnaround efforts.

RBG reviewed each of PFM’s thirteen recommendations that were used to create the 1<sup>st</sup> Amendment to the FY17 budget. A summary of each PFM recommendation’s projected FY17 impact, the realized 1<sup>st</sup> Amendment impact and the expected 2<sup>nd</sup> Amendment impact is included in the table below.<sup>3</sup>

**Table: Summary of Impact of PFM Recommendations and 2<sup>nd</sup> Amendment Impact**

	<b>PFM Recommendation</b>	<b>PFM Projected FY17 Impact</b>	<b>1st Amendment Impact</b>	<b>2nd Amendment Impact</b>
1	Reduce school funding to the level required by State law	\$4,140,000.00	\$3,420,000.00	\$3,420,000.00
2	10% reduction in salaries	\$2,066,666.67	\$2,066,666.67	\$2,066,666.67
3	Close a firehouse and reduce staffing	\$675,000.00	\$887,020.00	-\$50,621.00
4	Freeze police hiring and redeploy detectives to patrol	\$550,000.00	\$1,054,011.00	\$898,944.00
5	Fund code compliance with CDBG funds	\$475,000.00	\$587,699.00	\$392,923.00
6	Eliminate funding for museums and tourism centers	\$300,000.00	\$404,649.00	\$410,461.00
7	Reduce jail population	\$0	\$0.00	\$0.00
8	Reduce agency appropriations	\$230,000.00	\$230,000.00	\$230,000.00
9	Consolidation of planning, economic and community development	\$120,000.00	\$431,000.00	\$449,000.00
10	Reduce library hours and spending by 25%	\$112,500.00	\$69,506.00	\$90,867.00
11	Reduce parks programing	\$0	\$182,306.00	\$162,680.00
12	Eliminate the Office of Hispanic Liaison	\$75,000.00	\$78,711.00	\$58,527.00
13	Increase the cigarette tax to 90 cents per pack	\$900,000.00	\$740,495.00	\$646,993.00
14	Add commercial and industrial properties to the tax base	\$1,000,000.00	\$0.00	\$0.00
15	Increase refuse management fee to \$20/month	\$472,500.00	-\$353,000.00	\$99,728.00
16	Audit tax exempt property	\$585,000.00	\$0.00	\$0.00
17	Increase the meals tax to 7.5%	\$360,000.00	\$9,091.00	\$9,091.00
18	Increase personal property tax to \$4.90	\$352,500.00	\$576,645.00	\$576,645.00
19	Increase the lodging tax to 10%	\$127,500.00	\$137,927.00	\$110,724.00
	<b>TOTAL</b>	<b>\$12,541,666.67</b>	<b>\$10,522,726.67</b>	<b>\$9,572,628.67</b>

By conducting its own budget to actuals analysis, RBG discovered PFM’s recommendations would not be sufficient to address the gap between Revenues and Expenditures. PFM’s recommendations were projected to realize \$12.5M in savings for the City. However, the actual impact of the 1<sup>st</sup> Amendment was \$10.5M. RBG’s analysis of the impact to the 2<sup>nd</sup> Amendment ultimately projected a savings to the City of \$9.5M. This analysis of the PFM

<sup>3</sup> Source: PFM Report, August 22, 2016; RBG Analysis, January 10, 2017.

recommendations was essential to our development of the 2<sup>nd</sup> Amendment proposal. Through our research, RBG presented the following General Fund Synopsis as part of its report to the City Council in January 2017. This was a key data point we used when we proposed the 2<sup>nd</sup> Amendment to balance the FY17 budget in February 2017.

**Table: General Fund Synopsis based on FY16 and FY17 budget data**

	FY16 ADOPTED	FY16 ACTUALS (UNAUDITED)	FY17 APPROVED	FY17 1 <sup>st</sup> AMENDMENT	FY17 2 <sup>nd</sup> AMENDMENT (PROPOSED)
<b>EXPENDITURES</b>	\$73,971,213.00	\$76,745,882.00	\$69,784,841.00	\$61,845,024.00	\$68,411,677.00
		<i>Departments overspent their budgets.</i>			
<b>REVENUES</b>	\$74,150,190.00	\$67,248,804.00	\$70,018,220.00	\$64,834,925.00	\$68,411,677.00
		<i>Revenues did not perform.</i>			
<b>BALANCE</b>	\$178,977.00	-\$9,497,078.00	\$233,379.00	\$2,989,901.00	\$0.00
		<i>FY16 Actuals (Unaudited) revealed a budget deficit of \$9.5M</i>			
		<i>These are PROJECTED budget figures with inaccurate assumptions on revenue and tax collections. They are NOT REALISTIC.</i>			
				<i>The proposed 2<sup>nd</sup> Amendment to the FY17 Budget creates a realistic and balanced budget between Expenditures and Revenues.</i>	

**RBG Team**

As Project Executive Robert Bobb declared to City Council during RBG’s first report on 11/1/16: “The Fiscal House Was on Fire.”

The RBG team consists of Robert Bobb (Project Executive), Patrick Bobb (Quality Control Executive), Tom Tyrrell (Interim City Manager), Nelsie Birch (Interim Deputy City Manager & Finance Director), Sam Arthur, CPA (Accountant Expert), George Arthur, CPA (Accountant Expert), Bill Slover (Real Estate Expert), and Dileep Rajan (Data Analytics). The RBG contract costs the City \$350,000 plus \$25,000 for expenses.<sup>4</sup> The contract duration is from October 25, 2016 to March 25, 2017.

For each turnaround project, RBG creates a “Plan of Entry” that outlines the strategic and operational direction of our team’s focus. In our first presentation to Council on 11/1/16, we

<sup>4</sup> Note: To support the City during its time of fiscal crisis, RBG discounted its usual consulting fees and expenses. RBG has paid for excess expenses out of pocket.

introduced our **Plan of Entry** and our **5 Month Plan** of key activities. For the City of Petersburg, the RBG Plan of Entry was described as follows.

### RBG Plan of Entry

#### Priority #1: Obtain Short Term Financing

- *Phase 1: The City was faced with not making Payroll and a significant legal issue with SCWWA. By working with our partners, we successfully addressed the immediate fiscal crisis by obtaining a \$1.3M Capitalized Interest draw from the Virginia Resources Authority (VRA) and \$6.5M Revenue Anticipation Note (RAN) to make Payroll and pay for critical arrears.*
  - Working with state and local partners, we defined a strategy for short term borrowing and securing funding to restructure the long-term deficit.
  - As a result, we successfully received the \$1.3M capitalized interest from VRA just in time to make the last payroll in November 2016 and first payroll in December 2016.
  - We successfully negotiated an unconventional \$6.5M RAN to assist with cash flow, to make critical payments to Debt Service, to resume contributions to VRS that had previously been put on hold, and reached a \$1.3M settlement with SCWWA.
  - We implemented freezes on hiring, travel and purchasing unless through written approval by the Interim City Manager and the Interim Finance Director.
  
- *Phase 2: Balance the FY17 budget through a 2<sup>nd</sup> Amendment and establish financial data reporting and policies.*
  - We evaluated each of the 13 PFM recommendations that were used to create the 1<sup>st</sup> Amendment to the FY17 Budget and completed a Budget to Actuals analysis. We reported to Council a General Fund Synopsis that showed how the General Fund budgets were structurally imbalanced since FY16.
  - RBG met with each department and conducted a detailed reviewed of each department's budget and spend to date. As a result, RBG created a 2<sup>nd</sup> Amendment to the FY17 Budget that balanced expenditures and revenues. Council approved this 2<sup>nd</sup> Amendment in February 2017 resulting in a significant achievement: the first structurally balanced budget without a deficit since 2009. RBG proposed and Council approved the 2<sup>nd</sup> Amendment.<sup>5</sup>

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<sup>5</sup> The significance of this cannot be overstated. Petersburg faced structurally deficits *since 2009*. Due to RBG's methodical approach, in collaboration with each department, Petersburg finally achieved a structurally balanced deficit in 2017, *eight years after creating a deficit*.

- RBG cut Purchase Cards (“P-Cards”) by 51% (reduced from 276 cards to 140 cards).
  - RBG developed processes to support monthly Financial Reporting, generally accepted Accounting Practices, and Internal Auditing.
  - RBG conducted multiple meetings with the Treasurer and Revenue Commissioner, and weekly with the Treasurer, to identify process gaps and shortcomings in Revenue Collections and billings, and offered recommendations to improve collections and shorten cash payment cycles to streamline monthly revenue collection.
- **Phase 3: Establish a sustainable financial operating platform with leading policies, practices and procedures for each department.**
    - RBG utilized previous City ordered research on staffing to evaluate each department for FY17 and FY18<sup>6</sup>
    - RBG developed a Staffing Plan and developed a Leadership Recruitment Plan
    - RBG established leading policies, practices and procedures for each department with a focus on critical departments such as Finance, Police, Fire, EMS

In each of our ten reports to Council, from 11/1/16 to 3/21/17, we showed an updated 5 Month Plan indicating what was completed and what is in progress. Each activity represents a significant piece of work with a tangible deliverable, work product or outcome designed to address the short term fiscal crisis, balance the FY17 budget and stabilize financial operations, and secure long term financing.

We are pleased to show that we completed each activity that we defined in that first meeting on 11/1/16. From the first activity to the last activity, we have executed our commitment to restructuring the City’s Finances and Operations in specific and measurable ways.

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<sup>6</sup> The City ordered two important studies by the Management Advisory Group, Inc: *Organizational Analysis & Staffing Level Study, June 2014* and *City of Petersburg Compensation Study, December 2015*.

## 5 MONTH PLAN – COMPLETED

City of Petersburg Financial Emergency Turnaround – Key Project Activities		
Short Term Financing: 10/25/16 – 12/2/16	Financial Stabilization: 12/5/16 – 1/27/17	Long Term Financing: 1/30/17 – 3/31/17
<ul style="list-style-type: none"> <li>✓ Finalize list of Outstanding Invoices from FY16 and Prior.</li> <li>✓ Secure Revenue Anticipation Note (RAN).</li> <li>✓ Pay current FY17 obligations with RAN.</li> <li>✓ Develop a long-term financing strategy to deal with the deficit.</li> <li>✓ Validate the FY17 budget, audit cell phone bills and utility bills.</li> <li>✓ Conduct benefits eligibility audit.</li> <li>✓ Conduct document reviews to build on previous work: Report by VA Secretary of Finance, Aug 3, 2016, PFM Report.</li> <li>✓ Identify Capital Funds that can be deferred.</li> <li>✓ Develop Internal/External Communications Plan.</li> <li>✓ Prioritize workforce compensation issues and review salary survey.</li> <li>✓ Appropriate, by Council action, Amended FY 17 budget.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Determine the revenue cycle and what billing cycles should change to help cash flows, including state-shared revenues.</li> <li>✓ Provide a budget to actual assessment of FY 17 to Council.</li> <li>✓ Determine critical positions to hire.</li> <li>✓ Issue RFP for the City's CAFR/Auditing responsibilities.</li> <li>✓ Review the city's economic development plan and individual agency plans.</li> <li>✓ Conduct organizational assessment, and identify resource gaps.</li> <li>✓ Conduct business process reviews for financial operations, create standard operating procedures &amp; policies.</li> <li>✓ Start recruiting critical hires.</li> <li>✓ Conduct technology assessment and define a robust and scalable platform.</li> <li>✓ Map process flows for Accounts Payable.</li> <li>✓ Publish a 2018 Budget Calendar that includes CIP.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Provide recommendations for upgraded systems/procedures to track cash.</li> <li>✓ Implement long-term financing strategy to deal with the deficit.</li> <li>✓ Make recommendations for process improvement, roles &amp; responsibilities.</li> <li>✓ Establish a long term financial operating platform based on Phase 2's technology assessment.</li> <li>✓ Fill key positions and make recommendations for key positions (HR Director has been hired).</li> <li>✓ Identify additional cost savings and lines of revenue.</li> <li>✓ Implement technologies that enhance financial transparency.</li> <li>✓ Recommend a draft FY18 capital and operating budget.</li> <li>✓ Conduct mid year FY17 budget review</li> <li>✓ Hand off knowledge repository to city &amp; submit our Exit Plan.</li> </ul>

Upon arrival, and as we documented within our first week's activities, RBG observed significant lack of financial controls and standard operating procedures.

Specifically, RBG documented the following twelve (12) critical issues, as included in p.13-16 of our 11/1/16 report to Council. All presentations are available on the City's website:

<http://www.petersburgva.gov/index.aspx?NID=846>

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

- Figure Based on Analysis done by the State of Virginia team, not the City. The City has not maintained Records.
- We observed the City has paid invoices from prior years using current year revenues.

### Key Activities:

- RBG updated the analysis to get a final list Outstanding Invoices from FY 16 and Prior.
- RBG developed long-term financing strategy to deal with the deficit.

- RBG communicated to vendors our plan and when they can expect to be paid.

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

- The City has not had a strategic approach to handling the growing list of unpaid vendor invoices.
- The current fiscal year that began July 1, 2016, has not been kept current. There continues to be a cash flow challenge as there is not enough cash to fulfill the current obligations.

#### **Key Activities:**

- RBG led efforts to secure the Revenue Anticipation Note (RAN).
- RBG communicated to the vendor community and developed payment plans.
- RBG established a prioritization methodology that is incorporated into the culture of the Finance Department.
- RBG paid all current and critical 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 employee salaries by 10% and reduction in force was taken over dramatically eliminating services.

#### **Key Activities:**

- RBG mapped the process with the Finance team and Treasurer to optimize how work can be done between the two departments.
- RBG determined the revenue cycle and what billing cycles should change to help cash flows, including state-shared revenues.
- RBG provided recommendations for upgraded systems/ procedures to track cash.
- RBG ensured that the budget is in the system and communicated to departments.

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

- The Revenue Anticipation Note was assumed to be available in November 2016. However, the proceeds may not be available until December (at the earliest). This leaves November vulnerable to ensuring payroll obligations can be met.

- Property Taxes may not be paid until December 2016. However, bills were mailed in the first week of November 2016.
- Much of the information related to cash in the bank is done through email and is not formalized in a central system.

#### **Issue #5: South Central Waste Water Authority Lawsuit (SCWWA)**

- Faced with lack of funds, the City ceased payments to SCWWA forcing legal action by the authority.

#### **Key Activities:**

- RBG attended the November 2016 hearing and shared our good faith commitment.
- RBG worked with VRA, Bond Counsel and Davenport to achieve a settlement of \$1.3M for the City. This was a significant milestone.
- This lawsuit dismissal paves the way for immediate funds access to make payroll and obtain the \$6.5M Revenue Anticipation Note (RAN).

#### **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.

#### **Key Activities:**

- RBG and Department leaders conducted an all day meeting in November 2016 to review all capital funded projects. Because of this thorough and detailed exercise, the City deferred \$6.6M in capital projects to use for critical infrastructure projects.

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

As part of the budget reduction in summer 2016, the City cut 10% pay for employees in departments under the City Manager's purview. Constitutional officers were not included in the administrative order. The 10% pay cut was effective with the 9/9/16 pay check occurring a few short months after employee pay was moved up to the Compensation Study minimums in February 2016. This ultimately resulted in 146 resignations and to date in FY 17 almost \$200K in leave payouts.

### Key Activities:

- RBG researched and created a plan to restore the 10% Pay Cut for Police, Fire and EMS in FY17. All other impacted departments will have pay restored to the Compensation Study minimums in the FY18 budget.
- As early as our November 2016 report to Council, and through our communication with our staff, we reported we would restore the 10% pay cut: to restore more, retain our best people, compete for best people with the surrounding region, and show everyone we are “Open for Business”
- We evaluated all pay scales based using the 2015 MAG Compensation Study, with a specific focus on department heads.<sup>7</sup>
- RBG determined the critical positions to hire and made these the focus of the executive search firm.
- RBG further made an analysis of consolidation of services and positions.

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

RBG recognized early on the City has historically used special revenue funds and enterprise funds to pay General Fund obligations. This loose mixing of project source funds indicates not only a lack of process and controls around project management (from Initiation, to Funding, to Execution, to Closing), but also jeopardizes the City’s ability to receive additional funding in future from state, federal or grants.

### Key Activities:

- RBG met with Department leaders in an all day session in early November to identify the status and funding source of each project funded by VRA bond funds. As a result, we jointly identified \$6.6M in projects to defer. This resulted in funds that to pay for other critical, essential and eligible projects.
- RBG developed a process to ensure project funding does not get mixed in future: from the project initiation stage, identify the funding source (whether General Fund, VRA, etc.), and ensure project manager and finance staff sign off at each funding gate to ensure the correct funding Code in the Chart of Accounts is used.
- RBG reviewed how to handle in future federal and state grant funds management.
- RBG designed into the Finance department, as a requirement for staff, cross training for grant funds draw-down out of Finance.

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

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<sup>7</sup> The City ordered two important studies by the Management Advisory Group, Inc: Organizational Analysis & Staffing Level Study, June 2014 and City of Petersburg Compensation Study, December 2015.

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

#### **Key Activities:**

- RBG developed a plan to get the FY 16 CAFR done. The current plan in place has the FY16 CAFR completed by June 2017.
- RBG reviewed the management letter from the past audits to ensure that all identified issues followed up on.
- RBG hired a new pre-audit accounting team to provide fresh eyes and to incorporate lessons learned into the Finance Department’s activities.

#### **Issue 10: No full-time Finance Staff and Lack of Financial Policies**

- The Finance Director was fired last spring along with the City Manager. The Assistant Finance Director became Acting Finance Director and resigned effective Oct. 22, 2016. 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 were 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:**

- RBG has maintained a clear policy from Day 1: if RBG, or our forensic audits when they begin in April 2017, uncover evidence of wrongdoing that appears to go beyond the right to terminate an employee, we will immediately share with Council and with the appropriate authorities.
- RBG has reviewed 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. Note these are elected positions and not within the City Manager's scope of management

### Key Activities:

- RBG conducted detailed and lengthy meeting with the Treasurer and Commissioner of Revenue to understand their individual processes, where they connect, and their dependencies.
- RBG made recommendations for process improvement and clear division and/or consolidation of responsibilities.

### Completion of RBG Contract and Description of Deliverables

The effective duration of the contract between the City and RBG is October 25, 2016 through March 25, 2017. The **Scope of Services** from p. 1-3 are included verbatim below along with detailed descriptions of the completion of each service.

#### 1.RBG Contractual Items - General Duties of Interim City Manager:

**i.Responsible for the operations of the City; provided, however, that the interim City Manager has no responsibilities with respect to the City Clerk's Department, the City Assessor's Department, the Legal Department, or the Municipal Court, all of whom are direct reports to the Mayor and City Council.**

The Interim City Manager has lived 24/7 in the City of Petersburg since November 2016. Not only as he fulfilled responsibilities for the operations of the City as defined in **Exhibit B ("Job Descriptions")**, but he has also led significant restructuring operations within major departments such as Finance, Police and Fire. He has represented the City in meetings with regional authorities such as the Appomattox River Water Authority (ARWA), South Central Waste Water Authority (SCWWA), with companies interested in purchasing Petersburg's water and wastewater utility systems (i.e., American Water Association, Aqua Inc).

The Interim City Manager has created a culture of Transparency: data and information sharing, openness and accessibility. RBG's consistent focus on Transparency has created an expectation of Transparency in future City Council meetings. The Interim City Manager has reinforced communication and openness with department leaders through his "Workplace Matters" meetings.

In addition, we list the following activities to support completion of this service:

- Resolved issues around purchase of fire trucks and breathing apparatus
  - The Interim City Manager completed the acquisition of new fire trucks and negotiated successfully for City firemen to receive underwater breathing equipment that had been repossessed.
- Prepared plan to purchase police vehicles:

- Recognizing that many police cruises were aging and that maintenance costs were higher compared to a purchase, the Interim City Manager negotiated the purchase of new police vehicles.
- Led completion of the surplus vehicle and equipment sale.
  - The City sold 96 items and netted over \$63K.
- Conduct Utility Presentations and Tour and demonstrate data and information with transparency to Council and the public:
  - The Interim City Manager was alerted to issues with the water and wastewater utility systems early on by the public infrastructure leads, including the potential for Virginia state Department of Environmental Quality (DEQ) violations due to wastewater overflow. The Interim City Manager conducted utility presentations, tours and during Council meetings in February 2017 and March 2017 presented data and information regarding the troubled state of the utility.
- Conduct a Comprehensive evaluation of Utility System leveraging existing and knowledgeable partners Timmons Engineering and Davenport
  - The Interim City Manager worked with Timmons Engineering and with Davenport Financial Advisors to define the cost of capital improvements at \$51M for the City and a total of \$97M including the regional authority commitments. The table below summarizes the capital improvement projects and costs developed through data collection and assessments between Public Utilities staff and Timmons.

**Table: Overall Petersburg Utilities Major Infrastructure Needs**

Type of Infrastructure	Total Cost	Petersburg Share	Rationale for Improvement
<b>ARWA</b> <i>Lake Chesdin Dam Raise</i>	\$23.5 million	\$3.9 million	<b>Capacity</b>
<b>SCWWA</b> <ul style="list-style-type: none"> <li>• Aging infrastructure</li> <li>• Wet Weather Improvement</li> <li>• Denitrification</li> </ul>	\$78.0 million <ul style="list-style-type: none"> <li>• \$20.3 million</li> <li>• \$17.3 million</li> <li>• \$40.4 million</li> </ul>	\$42.0 million <ul style="list-style-type: none"> <li>• \$10.9 million</li> <li>• \$ 9.3 million</li> <li>• \$21.8 million</li> </ul>	<b>Regulatory</b>
<b>Petersburg Utility</b>	\$51.3 million	\$51.3 million	<b>Neglect</b>
<b>Total</b>	<b>\$152.8 million</b>	<b>\$97.2 million</b>	

- The Interim City Manager hired an Assistant City Manager and Transit Director.

## **ii. Perform all duties and assume all powers granted to the City Manager under the City of Petersburg Charter and Code of Ordinances.**

We reviewed the City of Petersburg Charter and Code of Ordinances available online and confirmed with the City's Purchasing Officer.

### **City of Petersburg Charter:**

[https://www.municode.com/library/va/petersburg/codes/code\\_of\\_ordinances?nodetid=PTICH](https://www.municode.com/library/va/petersburg/codes/code_of_ordinances?nodetid=PTICH)

### **Code of Ordinances:**

[https://www.municode.com/library/va/petersburg/codes/code\\_of\\_ordinances?nodetid=COPEVI](https://www.municode.com/library/va/petersburg/codes/code_of_ordinances?nodetid=COPEVI)

The Interim City Manager has performed all duties and assumed all powers granted to the City Manager under the City Charter and Code of Ordinances. Given that the City's structural deficit began in 2009, and financial controls were nonexistent, the Interim City Manager interacted with a bureaucracy and culture that had not faced real accountability in many years. The Interim City Manager made critical decisions to terminate and remove several employees from the City's workforce at minimal cost.

The Interim City Manager led the development of the Real Estate Showcase in February 2017. This showcase convened over forty developers and highlighted over 20 City owned properties while introducing a new property sale process designed to streamline transactions. The previous process had resulted in delays or non-communication between the City and developers resulting in lost deals and lost revenue to the City. The new process the Interim City Manager introduced is designed to "Quit It or Close It" and includes check points for action or a decision.

## **iii. Facilitate discussions with the Mayor, City Council and City Administration in connection with organizational goals, service levels and future directions.**

The Interim City Manager has consistently facilitated discussions with the Mayor (with the previous Mayor before the November 2016 election, and the new Mayor following the election), City Council and Administration communicating organizational goals, service levels and how following RBG turnaround activities there will be processes and controls combined with the right use of technology to monitor performance. The Interim City Manager has focused on "Transparency" in information that he and the RBG team learn during the day to day activities. He has created a culture of "Transparency" that has led Council and the public to *expect* transparency in each Council reporting session.

The Interim City Manager regularly speaks with by phone or in person, whether weekday or weekend, with the Mayor, members of the Council, City Administration and members of the public on urgent matters and day to day matters. By living 24/7 one block from City Hall, the Interim City Manager has embedded himself in the City's Management and knows the strengths and weaknesses of its organization.

#### **iv. Review of the existing organizational structure**

RBG recognized early on that data and information needed to be sourced and used carefully to create a valid analysis of the organization. During the development of the 2<sup>nd</sup> Amendment to the FY17 Budget, the Interim City Manager led the review of the existing organizational structure. Specifically, utilizing payroll data from July 2016 – November 2016, the Interim City Manager led development of a new staff organization model that supports paying Police, Fire and EMS staff competitive pay compared to the region (based on the December 2015 Compensation Study ordered by the City) and that right sizes key departments based on the 2014 MAG Organizational Study ordered by the City. The new organizational structure includes two highly qualified Assistant City Managers that during an interim transition period brings heavy “brainpower” to sustainably managing the City's transition.

#### **v. Analyze existing organizational relationships and position descriptions**

The Interim City Manager led the development of all critical organizational relationships and was instrumental to guiding the recruitment of highly qualified candidates. He completed the hiring of a new Human Resources Director. Recognizing the need for a Public Information Officers, he brought on board a public relations expert. This was a position that had existed previously but had been eliminated by the previous City Manager. In addition, he led development of the RFP for an executive search firm. Because of this RFP, the firm of Colin Baenziger & Associates was selected for the recruitment of the following positions:

- Recruit City Manager
- Recruit Assistant City Managers
- Recruit Police Chief
- Recruit Fire Chief
- Recruit Public Works Director
- Recruit Finance Director
- Recruit Transit Director
- Recruit Economic Development/Planning Director

The timeline for completing hiring of these positions is July 1, 2017.

#### **vi. Assist the General Manager of Petersburg Area Transit with recent triennial audit findings to ensure Federal Transit Authority (FTA) compliance by the recommended deadlines.**

The Interim City Manager worked with the audit team to ensure FTA compliance and guided the completion of the Triennial Audit.

**vii. Assist and perform with the General Manager of P.A.T. the Single Audit, also known as the OMB A -133 audit. The objective of the Single Audit is to provide assurance, as to the management and use of such funds by recipients such as states, cities universities, and non-profit organizations.**

The item for OMB Circular A-133 is a component of the annual Financial Audit and will become a part of the FY16 CAFR completed in June 2017.

**viii. Assist the GM of P.A.T in providing the Interim City Manager, City Council, MPO, governmental agencies, regulatory boards and various public groups on proposed transit projects and improvements through data gathering, analyses, and presentation of technical information.**

The Interim City Manager hired an Interim Transit Director. The Interim Transit Director is working with current personnel to gather data on transit projects and support improvements. This is on going.

**ix. Perform duties detailed in the General Job Description attached hereto as Exhibit B.**

These duties were completed based on the job description for the City Manager in Exhibit B of the contract.

## **2.RBG Contractual Items – Interim Deputy City Manager/Finance Director**

**i. Provide oversight of all City of Petersburg financial operations.**

The Interim Deputy City Manager/Finance Director has provided oversight over all City of Petersburg financial operations, and successfully redesigned the entire Finance Department. The Finance Department was in complete disorganization when RBG arrived. There was no leadership and critical functions such as Payroll and financial data reporting utilizing the Bright Municipal System (“BAI”). The Interim Deputy City Manager/Finance Director was, in effect, a one person department. Since October 2016, the Interim Deputy City Manager/Finance Director methodically organized staff resources (either City staff or contractors) and BAI reporting to create a “picture of the truth” in terms of cash balances, cash flows, budget to actuals, ensuring critical “must do” payments to Debt Service, VRA and importantly, VRS. Payments to the Virginia Retirement System (VRS) on behalf of City employees had not been made for most of 2016 and Interim Finance Manager ensured these began in November 2016.

Specific activities we include in this section to support the completion of this service:

- Successfully Made Payroll in November 2016 and December 2016
- South Central Waste Water Authority (SCWWA) – provide 5 month and 12-month repayment
- Central Virginia Waste Management Authority – completed payment in February 2017
- Developed a plan to restructure the long-term debt based on a strategy like “refinancing one’s home mortgage” resulting in a reduced interest rate to the City, which translates to a reduced Debt Service payment monthly, freeing up cash that can bolster the General Fund balance
- Led the development of a **Balanced FY18 Budget** across all departments and presented to Council for acceptance on 3/21/17
- Conduct research, gather data, meet with department heads, compare to the development of the PFM report based 1st Amendment to the FY17 Budget to create a 2nd Amendment that realistically balances the FY17 Budget
- Develop a Plan to Complete the FY 2016 CAFR (***on track for completion by June 2017***)
- Identified all outstanding accounts payable invoices and developed plan to pay each
- Developed a revised and streamlined Accounts Payable process
- Implemented OpenGov and trained all departments leaders and budget staff for financial transparency reporting and FY18 budget builder
- Developed & Implemented Process for Grants Administration
- Ensure Payment to Schools in November 2016 and December 2016
- Completed first Budget to Actuals Assessment for FY17 in December 2016
- Paid on Time Debt Service payments since November 2016
- Positioned the City to secure the \$6.5 Revenue Anticipation Note (RAN) in Nov 2016
- Developed and Gained Acceptance for Long Term Strategy for Financing
- Led completion of the surplus vehicle and equipment sale. The City sold 96 items and netted over \$63K.
- Established a prioritization methodology for Accounts Payable ensuring that Payroll, debt service, schools transfer, Authorities, VRS, and utilities were prioritized over all other bills.
- Negotiated with Riverside Regional Jail Authority Board to remove penalties being charged for the arrearage (overdue bills), along with ensuring that payment plans were established that would bring all overdue bills to Authorities are made whole by the end of FY 17 (June 30).
- Negotiated to repay all the arrearage to VRS by the end of December 2017 and built into the FY 18 Budget.

The Interim Deputy City Manager/Finance Director led the City to successfully address the +/- \$18.8M in outstanding obligations. The Interim Deputy City Manager/Finance Director and her team reduced the FY16 outstanding obligations of \$18.8M to \$5.8M prioritizing and paying off critical payments (including payments to authorities).

While the City had purchased OpenGov financial reporting software in 2015, RBG implemented the roll out and training of OpenGov to use with the development of the FY18 Budget. Each Department leader and their budget staff was required to train on the OpenGov Budget Builder module and create their entire FY18 budget, from Personnel, Salaries, Equipment, etc. and defend their budget to the Interim City Manager and the Interim Deputy City Manager/Finance Director.

### **Key Issue Impacting Finance: Depleted Staffing**

As recent as FY2015, there were seven full-time employees in Finance. By the time RBG was hired, there was one full-time, two part-time, and a borrowed full-time employee [included: Payroll Manager, Part-Time General Ledger Account Clerk, Part-Time Payroll Clerk, and a “borrowed from another department” Payroll Clerk]. The Purchasing Manager was assuming the function of Finance Director and Assistant Finance Director.

### **Actions Taken:**

- 1) Brought back provisionally the Assistant Finance Director to help put the pieces together and assist with Cash Flow development and basic accounting duties.
- 2) Moved Payroll Manager to HR, and increased pay, due to lack of proper back up and the fact that she had another job offer.
- 3) Hired a retired City Administrator/Director of Finance from nearby jurisdiction to help develop policies and procedures and conduct high level analysis.
- 4) Brought on VML/VACO Finance with two CPAs and an accountant to help with pre-audit work and general financial operations; after one CPA left after a month and we brought in an additional CPA and an accountant to surge for pre-audit work.
- 5) Borrowed the Assistant Streets Superintendent and detailed her to Finance to conduct budget analysis, work on vendor payment plans, and shore up the Accounts Payable process.
- 6) Hired two temporary Accounts Payable Clerks.
- 7) Interviewed and offered the positions to two Accountants, both turned down the job.
- 8) Currently seeking to hire: Finance Director, Asst. Finance Director, Budget Analyst, Grant Accountant, Accountant, and Accounts Payable Clerk.

### **FY 2017 2nd Amendment Budget Development and FY 2018 Budget**

As RBG began to understand the FY 17 Amended Budget after talking with each department, it became apparent that during our engagement we would not just have to prepare a FY 18 Budget, but also conduct a 2nd Amendment to the FY 17 Budget.

### **Actions Taken:**

- 1) Instituted a firm Hiring, Travel/Training and Spending freeze unless approved by the Interim DCM/Finance Director or City Manager.
- 2) Completed deep-dive into the FY 17 1st Amendment budget and preparation of a new one that is realistic and incorporates budget to actuals.
- 3) Complete spending freeze for February 2017, unless emergency, due to lack of controls, and low cash month.
- 4) Mandatory requisition to accompany every invoice after February 1, 2017.
- 5) Reduction and analysis on p-card and t-card holders. Took the number from 274 cards held by 192 people to 137 cards and 100 people. We will continue to decrease this number.
- 6) Fleet analysis to determine the number of vehicles in fleet, reconcile what is insured, etc.
- 7) Engaged OpenGov to finish a Transparency website (initiated in summer 2015) and procured their budget builder system to eliminate the excel spreadsheets and version control challenges.
- 8) Conducted a training for all departments on the use of OpenGov.
- 9) Received a 4-day a week analyst from the Governor's Office to assist with analytics.
- 10) Instituted a formal revenue assumption process whereby the City Assessor, Treasurer, and Commissioner of Revenue must develop and sign off on their assumptions to be incorporated into the budget.
- 11) Developing a tax/fee compendium that covers all the tax and fee rates in the City and will help guide opportunities.
- 12) Developing formal financial and debt policies to be incorporated as part of the budget proposal.
- 13) Hired an additional consultant to help develop the budget document and set it up for ease of use for future budgets.

### **ii. Recommend enforcement actions to the Interim City Manager to induce payment in accordance with the City's laws, policy and procedures.**

The Interim Deputy City Manager/Finance Director successfully resolved issues regarding the purchase of fire trucks and breathing apparatus that had been left over from the previous fire chief who retired in December 2016.

Recognizing that Purchase Cards (“P-Cards”) were not managed with finance administrator oversight, the Interim Deputy City Manager/Finance Director created a new policy for P-Card usage including authorization for purchases and reconciliation for account spending.

The Interim Deputy City Manager/Finance Director realized a 51% reduction in P-Cards (reduced from 276 cards to 140 cards).

To prepare the 2<sup>nd</sup> Amendment to the FY17 Budget, the Interim Deputy City Manager/Finance Director led the Finance Department to conduct the following activities:

- Conducted a Top to Bottom Review of FY17 Budget
- Reviewed all 19 PFM Recommendations to examine what materialized, what has not, and if performance is consistent with what has worked
- Met with all department heads as a group and privately on an on going basis
- Conducted Budget Deep Dive sessions with all department Heads – looking at spend rates, available budget, where they can prioritize contracts, reduce fleet and cell phones
- RBG assigned a dedicated City staff member to do a deep dive scrub on fleet assets based on what current system records show for fleet management
- Conducted 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
- Validated revenue assumptions for the FY17 budget
- RBG analyzed the Top 20 delinquent utility accounts. RBG observed 1,483 accounts over 90 days old with a total balance of \$775,391. These represent immediate opportunities for targeted delinquent account payment enforcement.
- Conducted a detailed financial workshop in December 2016 with the City Treasurer and the Commissioner of Revenue to identify process improvements and create a workplan

**The Interim Deputy City Manager/Finance Director created the following schedule for RBG and led the Finance Department toward its on time execution:**

<b>Special Work Session on the FY 17 budget</b>	<b>January 10, 2017</b>
<b>Distribute Budget Instructions and Guidance</b>	<b>January 17, 2017</b>
<b>Distribute FY 18 Budget Calendar at Council</b>	<b>January 17, 2017</b>
<b>Staff Training on New Budget Building Module</b>	<b>January 24, 2017</b>

<b>FY 17 Budget 2<sup>nd</sup> Amendment Public Hearing Advertised</b>	<b>Jan. 25 and Feb. 1</b>
<b>FY 17 Budget 2<sup>nd</sup> Amendment Public Hearing / Appropriation</b>	<b>February 7, 2017</b>
<b>FY 18 Proposed Department Operating Budgets Due</b>	<b>February 10, 2017</b>
<b>Capital Budget and CIP Plan Due to CIP Committee</b>	<b>February 10, 2017</b>
<b>FY 17 Budget to Actual Report to Council</b>	<b>February 21, 2017</b>
<b>Departmental Meetings with City Leadership</b>	<b>Feb. 13 – March 3</b>
<b>Preliminary FY 18 Real Estate Figures Available</b>	<b>March 1, 2017</b>
<b>Advertise CIP for Planning Commission</b>	<b>March 8, 2017</b>
<b>Review Long Term Debt Restructuring</b>	<b>March 14, 2017</b>
<b>City Manager Proposed Budget to City Council</b>	<b>March 21, 2017</b>
<b>Capital Budget and CIP Presented at Planning Commission</b>	<b>March 22, 2017</b>
<b>Council Vision Session</b>	<b>To Be Determined</b>

**iii. Prepare monthly financial reports showing revenues and expenses to date in comparison with budget projections and submit report to the Interim City Manager**

The Interim Deputy City Manager/Finance Director created a consistent and repeatable process within the Finance Department to organize data and resources and create monthly financial reporting for:

- Estimated Monthly Cash Flows & Accounts Payable
- Budget to Actuals
- General Fund Revenue
- General Fund Expenditures

**Figure: Summary of Estimated Cash Flows & Accounts Payable – March 3, 2017**

Point In Time Cash Flow from 3/3/2017					
Cash Per Bank: 3/3/2017		\$4,203,890.99			
Less Outstanding Checks:		\$ 1,964,396			
Estimated Available Pooled Cash:		\$ 2,239,495	\$ 5,491,012	\$ 535,441	\$ (1,410,815)
		Mar	Apr	May	June
Revenue Estimates		\$ 11,392,528	\$ 5,161,847	\$ 6,262,246	\$ 18,208,659
Expenditure Estimates		\$ 8,141,011	\$ 10,117,419	\$ 8,208,502	\$ 8,569,529
Estimated Available Pooled Cash:		\$ 5,491,012	\$ 535,441	\$ (1,410,815)	\$ 8,228,316
Figures above include \$2M per month for ordinary expenses and paying down miscellaneous AP					
	Feb				
Revenue Shortfall	\$ 598,145				
Expenditure-Unpaid Priority	\$ 687,777				
<b>Summary of Monthly Priority Obligations</b>					
Row Labels	Sum of Feb	Sum of Mar	Sum of Apr	Sum of May	Sum of June
Arrears	\$ 131,603.00	\$ 758,934.82	\$ 940,518.44	\$ 646,591.50	\$ 646,461.47
Authority	\$ 574,839.78	\$ 1,070,752.20	\$ 652,543.20	\$ 652,543.20	\$ 652,543.20
Debt	\$ 509,198.33	\$ 1,636,432.86	\$ 814,316.91	\$ 1,175,109.95	\$ 1,175,109.95
Interest	\$ 11,051.61	\$ 24,709.17	\$ 24,709.17	\$ 24,709.17	\$ 24,709.17
Other	\$ -	\$ 186,459.87	\$ 309,209.87	\$ 75,459.87	\$ 75,459.87
Payroll	\$ -	\$ 3,112,000.00	\$ 3,112,000.00	\$ 3,112,000.00	\$ 3,112,000.00
Transfer out	\$ 427,500.00	\$ 801,322.00	\$ 846,781.00	\$ 706,230.00	\$ 706,230.00
Utility	\$ 128,671.00	\$ 187,322.23	\$ 439,046.23	\$ 132,048.23	\$ 177,048.23
Grand Total	\$ 687,777.00	\$ 6,141,043.78	\$ 8,117,451.77	\$ 6,208,898.88	\$ 6,569,561.89
Arrears Above: VRS; Crater Yth Detention; Dist 19; GRTC; SCWMA; CVWMA; Health Dept; Riverside R. Jail; SCBA Vendor;					
<b>Accounts Payable Update</b>					
Total Outstanding Payables = \$7.2M					
Total Outstanding AP under Payment Plan: \$5.4M					
Total Outstanding AP Not Accounted for in Payment Plans Above: \$1.8M/313 Vendors					

**\$600,000 Revenue Shortfall**

**Debt Service includes payments for the 2016 RAN**

**Over \$6M+ in Monthly Priority Obligations**

**iv. Develop a Capital Improvement plan that incorporates the capital needs of the City. Provide or develop a strategy to fund the projects identified.**

The Five-Year Capital Improvement Plan was completed on 3/15/17 and will be presented to the Planning Commission and the City Council as part of the FY18 Proposed Budget. This will be incorporated in the FY 18 budget proposal delivered on March 21, 2017.

**v. Recommend to Mayor and City Council funding opportunities to include obtaining new forms of funding and take the necessary steps to obtain short term and long term funding.**

**A. PPEA:** RBG received an unsolicited proposal from Aqua Virginia, Inc to purchase the City's Water and Waste Water Utility systems. RBG updated the Council during the December 2016 Council meeting that this proposal was received and successfully received approval to move forward with the PPEA process to review the Aqua proposal and to receive other proposals in strict accordance with the PPEA process.

Under the Public-Private Educational Facilities Infrastructure Act of 2002 (PPEA), the City can consider the sale of its water and wastewater systems. On January 8, 2008, the City adopted PPEA guidelines. During the December 13, 2016 Council session, RBG proposed action by Council to kick off a competitive bid process to evaluate proposals. Council approved during this meeting. RBG consistently emphasized and practiced transparency regarding the PPEA process to Council and the Public. Advertising the process was as follows:

Advertised on EVA process national procurement channel. The result was two responses – Aqua Virginia, Inc and American Water Works Virginia.

The City advertised the solicitation for competing PPEA proposal on the following venues. EVA notifications for Solicitation PPEA L190 17-0008 1:

- Progress Index
- Richmond Times Dispatch
- Virginia Business Opportunity publication
- Commonwealth's Electronic Procurement Website (eVa)
- City of Petersburg website – Purchasing Department Page
- City of Petersburg's public bid board located in the City Hall Annex

Solicitation Notification Summary: 5736 Individual Vendors Notified

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4548 non-SWaM  
1188 SWaM  
    685 Micro Businesses  
    490 Small Businesses  
    10 Minority Owned Businesses  
    3 Women Owned Businesses

SWaM Vendors with multiple certifications counted once with precedence going to Micro Business, then to Small Business, then to Minority Owned Business, then to Women Owned Business.

**B. Sale of Excess Water:** The City received a proposal to sell the City's excess water capacity to Appomattox River Water Authority (ARWA). This represents a multimillion dollar opportunity to sell water the City of Petersburg does not need and build a strong positive cash balance in the General Fund.

**C. Sale of City Owned Real Estate:** RBG developed a new surplus property disposal process to streamline the sale of city owned real estate.

**D. Restructuring long term debt:** As presented during the special Council session on March 14, 2017, RBG proposed a plan to restructure the City's long term debt. Analogous to refinancing a home mortgage, the City can negotiate a reduced interest rate on its debt thereby reducing its monthly debt service resulting in more cash to strengthen the City's fund balance.

**E. Sale of Surplus Vehicles:** RBG conducted an inventory of surplus vehicles and sold off 92 vehicles netting the City over \$63K.

**vi. Perform duties detailed in the General Job Description attached hereto as Exhibit B.**

**All the duties per Exhibit B in the contract were completed.**

### **3. RBG Contractual Items - Additional Duties**

**1. Perform a financial review of the City, including but not limited to a review and assessment of financial information that has been, and that will be, provided by the City to its creditors, including without limitation its short and long-term projected cash flows and operating performance.**

#### **Cash Flow**

The City had not historically been required to produce an annual cash flow to secure short-term financings conducted through SunTrust. Upon SunTrust pulling out of providing short-term notes, the City was forced to produce a cash flow during the summer of 2016. Upon RBG's arrival, we learned that there were many issues with the cash flow, including increases in tax fees/rates were not incorporated into the revenue projections and there was not a link between priority payments and ability to pay.

The City is approximately ~\$10M in arrears on all its payments to Authorities, Vendors, VRS, and Internal Fund Payback (e.g., Storm water).

#### **Actions Taken:**

- 1) Identified a cashflow issue based on the original cash flow in November 2016. RBG worked with Davenport and VRA to draw down capitalized interest of \$1.3M in order to meet payroll in late November.

- 2) First official cashflow that incorporates our priority payments and revenue projections developed 2/15/17.
- 3) Presented first cashflow to Council on 2/21/17 and special work session on 3/7/17.
- 4) Developed repeatable process to present cash flow analysis to Council monthly.

**Accounts Payable/Vendor Payments/Checks in the Drawer**

When RBG arrived, we took a picture of the number of checks that had been issued but not released to the vendor due to lack of sufficient cash.

**Figure: This is a picture of real “checks in the drawer” for unpaid bills going back to January 2016. Checks were issued but not released to the vendor due to lack of sufficient cash balance.**



This was done because it was understood that unless a check was issued, the funds would not be drawn down from departmental budgets. While working towards a full accounting of unpaid vendor obligations, RBG realized that the Interim DCM/Director of Finance could not verify how much we owed to each vendor due to the erosion of using the AP system and the lack of controls. Oftentimes, invoices were input into the system (or sat for a while on desks) without any research on them to ensure they were not duplicative. Additionally, vendors had been paid twice when departments would put the payment (that was already invoiced and sent to Finance), on their P-Card to be paid.

#### **Actions Taken:**

- 1) Fixed the financial system (and process), whereby you can post/publish invoices so it reduces departmental budgets but NOT release a check.
- 2) Directed Department Heads to ensure they provide the approved invoices to Finance timely.
- 3) A weekly edit process, and check run, was instituted so we review the batches of invoices created and determine what checks are to be paid, while validating the availability of cash. This must be signed off by Interim DCM/Finance Director.
- 4) Researching vendor payment status and what we have paid versus owed was extremely time consuming because the City filed by check number and NOT by vendor. We have now refiled hundreds of vendors and thousands of invoices so that we can research and ensure that we are paying the correct amount, this included hiring two temporary AP clerks.
- 5) Created a priority vendor list that ensured that Debt Service, Payroll, VRS, Regional Partners/Authorities, Utilities and the Schools Transfers are made timely and first.
- 6) Developed a payment schedule to repay amount owed to authorities by the end of FY 2017 and for utilities and VRS by the end of the calendar year.
- 7) Developed a vendor repayment plan to repay over the next 12 months (starting in March 2017).
- 8) Commenced a weekly meeting with Treasury and Finance to ensure all were on the same page about the cashflow and expectations of revenue and expenditures.
- 9) Working with the Treasurer's Office to fully understand and ensure that the bank reconciliation process can be maximized to include the appropriate level of accounting for restricted funds to not hold up the payment to vendors for funds that are designated for a specific use.
- 10) Developed SOP's and created a process for AP to research, key, and coordinate with cashflow management.
- 11) All requisitions for the P-Card purchase must come to the Director of Finance to ensure priorities are being met and structure is followed.
- 12) The Finance Department's Budget Analyst, and manager of cashflow, will do a quality control check monthly on the P-Card invoice.

Figure: RBG developed a vendor repayment plan to repay outstanding obligations over the next 12 months (starting in March 2017) – to avoid future “checks in the drawer.”



### 1099 Issuance/Overtime Settlement

Historically the City would provide 1099s based on what the City showed in the system and would wait for complaints. Given the large number of “checks in the drawer,” if we were to provide 1099s based on what the system showed, many vendors would have received a report that the City had paid them, when we never mailed the check.

Fall 2016 and prior to RBG coming onboard, the City settled an overtime FLSA lawsuit with the Police. The City’s responsibility for FY 17 was \$350,000 with our insurance providing \$500,000. This effort had to be coordinated closely as 1099s had to be issued and wages had to be separate from all other figures (taxes, etc.). This process was made possible by the coordination VML/VACO Finance working with IT, with little assistance from Risk Management or Payroll.

### **Actions Taken:**

- 1) Deadline was met by 1/31/17.
- 2) All the vendor “checks in the drawer” that totaled more than \$4M had to be voided and re-input into the system to ensure that budget authority was not restored inadvertently.
- 3) This effort required the special assistance of our BAI vendor.

### Pre-Audit/Audit Work

There was considerable concern with the lack of reporting by the Audit process that did not cause greater alarm, sooner, with the Council, Administration, and Public. We had to decide how we wanted to fix the speculated oversight of both the pre-audit and audit process.

Historically, the City has used Mary Earhart's Company to prepare the City for the audit. This morphed over time to include very little management of the General Ledger across all funds until one time of year—causing severe challenges when trying to analyze data. Upon review of the contract with Mary Earhart, it was discovered that the contract was not executed properly.

The City's Auditor, Robinson, Farmer, & Cox was chosen from a competitive procurement in early calendar 2016 but has been the City's auditor for well-over 5 years.

#### **Actions Taken:**

- 1) We made the decision to issue a competitive proposal for Pre-Audit work. This action occurred in November the same month that audits are supposed to be reported to the state. In December, we interviewed two proposals. We negotiated and went forward with a proposal to hire VML/VACO Finance.
- 2) Transitioning away from what has always been done while also trying to fix all the areas that we know are not acceptable operationally and should have been addressed previously (see 1099 and AP/Checks in the Drawer processes above for more detail), has caused tremendous delays in the pre-audit process. Therefore, we are working on a surge capacity for this work.
- 3) Brought in two additional resources from VML/VACO to focus on pre-audit work, which is to be complete by end of March 2017.

#### **2. Assist in the identification (and implementation) of cost reduction and operations improvement opportunities.**

- RBG led the inventory and the completion of the surplus vehicle and equipment sale. The City sold 96 items and netted over \$63K.
- RBG analyzed the Top 20 delinquent utility accounts. RBG observed 1,483 accounts over 90 days old with a total balance of \$775,391. These represent immediate opportunities for targeted delinquent account payment enforcement.

#### **3. Assist the Mayor and City Council and other City authorized professionals in developing for the City Council's review possible restructuring plans or strategic alternatives for maximizing the enterprise value of the City's various economic development opportunities.**

### RAN/Debt Restructuring/Compliance

When RBG was engaged, on the second day on the job we met with the Governor's Office and VRA to discuss debt and a path forward. At that meeting, it was determined that the City needed to go through the task of deferring projects that were part of the outstanding VRA funding (bonds 2013, 2014, 2015-Utilities).

Additionally, a plan needed to be developed to restructure outstanding debt to reduce debt service costs in the near term and from VRA's perspective, eliminating Petersburg's risk in the pool.

#### **Actions Taken:**

- 1) Deferred ~\$7.2M in capital projects funded through VRA funds. Identified \$900K additional capital needs and diverted a portion of the deferred projects for this.
- 2) Settled lawsuit with SCWMA by using the capitalized interest to help pay a large portion of outstanding payable, this also cleared the path to issue the RANs.
- 3) Settled First Vehicles Services lawsuit to further clear the path for issuing the RANs.
- 4) Identified \$900K additional capital needs and diverted a portion of the deferred projects for this.
- 5) Provided considerable reporting for the bond investor.
- 6) Drafted a Fact Sheet for the RAN available at <http://www.petersburg-va.org/index.aspx?NID=849>.
- 7) Working to refinance existing debt and issue new money/RAN.
  - a. Schedule a meeting with Standard & Poor's and possibly invite them to Petersburg.
  - b. Ask VRA for their administrative approval to refund Non-VRA debt or Non-VRA Debt + 2014 bonds.
- 8) Pursue the use of Non-VRA funds to help with the utility that incorporates the \$5.3M in unused funds.

#### **4. The Project Executive, Interim City Manager and Interim Finance Director shall serve as the principal contact with the City's creditors with respect to the City's financial and operational matters.**

RBG has emphasized from Day 1 that consistent and transparent communication with the City's credit ratings is essential to improving the overall credit rating. In their December 2016 report, S&P made clear what they expect the City to improve upon to improve the ratings. RBG is laser focused on restoring the City's credit ratings and respect in the credit markets. RBG presented its plan to Standard & Poor on 11/14/16. The key themes for long term financial sustainability are these:

- 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 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 (e.g., sale of excess water capacity, PPEA sale of utility, etc.)
- Developing realistic budgets that incorporates increased debt service requirements, needs for cash reserves, while maintaining essential services.

In addition, RBG met with Dominion Virginia Power, DPW (Facilities, Streets, and Utilities), and Finance to work their invoices so they are appropriately directed and reflect the City's actual spend. RBG worked on mapping streetlights to GIS to better control for outages and working on credits from Dominion. In addition, RBG worked to upgrade traffic signals to LED to decrease costs.

**5.The Contractor shall perform such other services as requested or directed in an order by the City Council. However, any such services that would increase the Contract Price may only be undertaken following the execution of a Change Order which must be approved by written order of the City Council.**

RBG conducted additional activities to strengthen and improve the City's financial and operational standing. Key activities are listed in the next section. None required an increase in the Contract Price.

**6.Report, at least monthly, to the Mayor, the City Council, Joseph Preston and Tangelia Innis or other authorized personnel as mutually agreed upon between the City and the Contractor, to make recommendations to and consult with the City Council.**

In addition to numerous ad hoc meetings and conversations, RBG provided over ten (10) formal detailed and researched presentations to the City Council. All RBG presentations are located on the City's public website: <http://www.petersburgva.gov/index.aspx?NID=846>

### **RBG Additional Activities that were not Contractual Items**

#### **1.RBG successfully realized \$625K in State reimbursements back to the City's Department of Social Services.**

Council cut the Department of Social Services (DSS) budget by \$89K without accounting for DSS formula based funding. DSS receives 84.5% reimbursement from the State. Due to DSS formula based funding, DSS ended up with a \$625K reduction in state reimbursement because of cutting just \$89K. Underestimating actual costs leads to state under billing which results in lower than needed state payment. RBG successfully worked with DSS and the State to get reimbursement for the \$625K. Thus, RBG developed financial controls so that finance leaders can identify any impacts to state reimbursements before Council budgetary action.

## **2.RBG ensured continuing operations for the Dogwood Trace Golf Course.**

Dogwood Trace provided 20,000 rounds of golf last year and pays for its own operating costs. City youth under age 18 play for free. RBG recognized keeping Dogwood Trace Open lets the State and surrounding region know Petersburg is “Open for Business.” RBG worked with Dogwood Trace to stabilize their financial operations and reviewed a stable financial operating plan for their capital costs.

## **3.RBG ensured City Museums Opening on 12/1/16.**

City Museums are significant to Petersburg’s Tourism industry. The Interim City Manager was directed by the City Council to develop a plan to keep the City Museums open in time for the Holidays which was successfully done. RBG believed this effort improved morale and reinforced the message the “City is open for business.” RBG worked with Council and Museum leaders to implement a plan to reopen the Museums in time for the Holidays. RBG will continue to work with Council and Museum leaders to ensure a long-term plan to keep the Museums open.

## **4.RBG managed the sale of the Petersburg Generals baseball team for \$100K.**

**5.RBG was directed by City Council to revise the Rules of Council and recommend the Standing Committees to tackle key issues. RBG successfully revised the Rules of Council and devised a system of standing committees. Our recommendation is before the City Council for its final consideration.**

The proposed Standing Committees are:

- A. Education, Health and Human Services
- B. Economic Development, Tourism, Land Use and Housing
- C. Judiciary and Public Safety
- D. Committee of the Whole

## **6.RBG implemented new technologies that the City purchased prior to our arrival:**

- **OpenGov for Finance (Developing the FY18 Budget 100% in OpenGov)**
- **CityWorks for Facilities, Utilities, Engineering**

**7.RBG reviewed current Rules of Council in response to Council’s request and created an Amended Rules of Council document including listing of standing committees along with their rules of formation and structure.**

**8.RBG analyzed the Top 20 delinquent utility accounts. RBG observed 1,483 accounts over 90 days old with a total balance of \$775,391. These represent immediate opportunities for targeted delinquent account payment enforcement.**

**9.RBG appeared before the House Appropriations Committee on Early Warning Systems for Fiscal Stress on January 25, 2017.**

Project Executive Robert Bobb was interviewed for a recent Richmond Times-Dispatch article dated March 5, 2017, on early warning systems for fiscal stress. The recently adopted Virginia state budget would create a joint subcommittee to consider fiscal stress in localities.<sup>8</sup> The City of Petersburg was ranked third highest in experiencing “high stress” in FY2013-14, behind much smaller cities such as Emporia (pop. 5,588) and Buena Vista (pop. 6,680). Petersburg is five times larger with a population of 32,538.

**10.RBG has maintained consistent communications with the Governor of Virginia’s Office and the Commonwealth Secretary of Finance regarding the fiscal conditions of the City of Petersburg.**

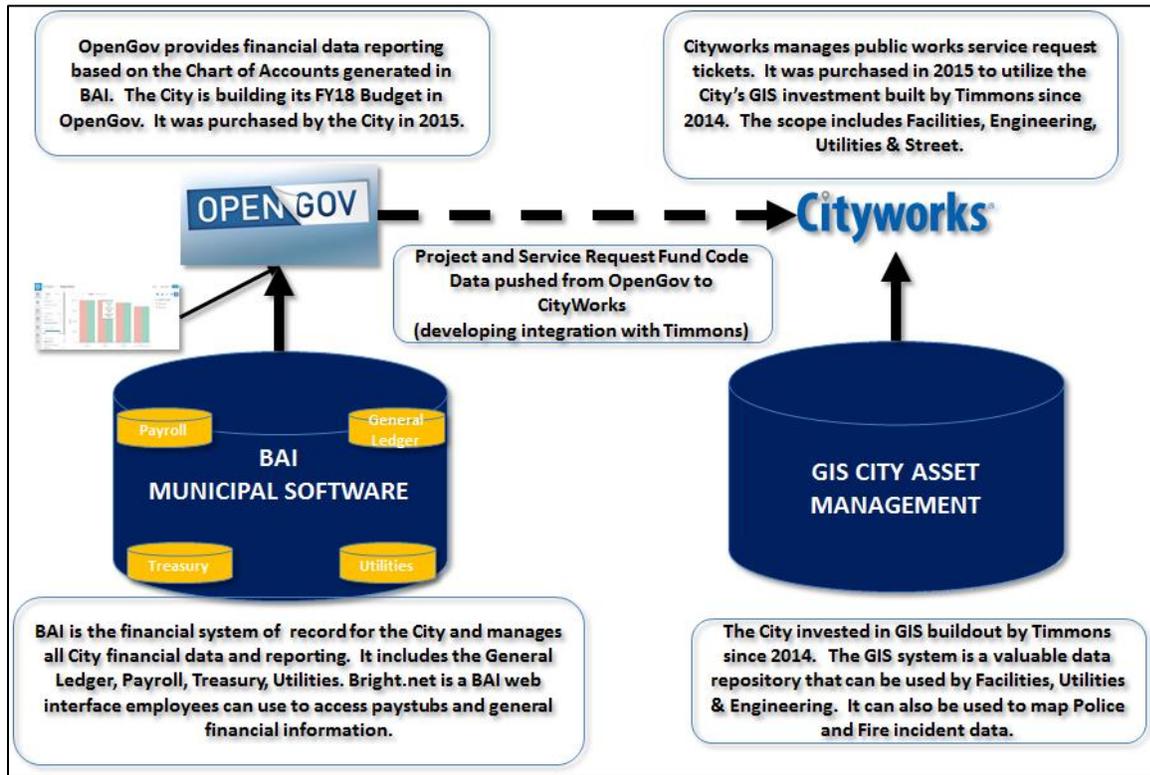
**11.RBG conducted renegotiations of previously approved real estate transactions to realize greater revenue for the City.**

**12.RBG conducted a Technology Current State Assessment to understand which technologies are in use by the City today, and the business case for making changes to the way data and information flow across the City.**

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<sup>8</sup> Source: [http://www.richmond.com/news/local/central-virginia/tri-cities/petersburg/new-va-system-would-focus-on-fiscal-distress-its-causes/article\\_6630bc5f-180f-5486-8a78-a68595be7370.html](http://www.richmond.com/news/local/central-virginia/tri-cities/petersburg/new-va-system-would-focus-on-fiscal-distress-its-causes/article_6630bc5f-180f-5486-8a78-a68595be7370.html)

**Figure: Current State Technology Architecture with Key Systems**



**Future State Focus**

A return to past financial practices and management is a guaranteed road back to another fiscal crisis for the City. While the initial focus of this emergency turnaround project addressed the painful short term fiscal crisis, RBG emphasizes the need for a paradigm shift towards data based accountability and decision making. Cities in the 21<sup>st</sup> century are turning towards services based technologies that make transparency and reporting easier. The focus for City’s leaders should be on strategic decisions grounded in data produced by reliable systems – not process reorganization or data clean up which is the current state today.

A City wide paradigm shift towards repeatable processes and data based decision making requires formal and structured change management. This cultural transition involves training based on standard operating procedures, business processes, and financial controls that can be measured and managed. This transition is also grounded in a robust data analytics capability built on a reliable technology architecture that is cost effective for the City.

If the City agrees on a contract extension with RBG to implement financial processes and controls, and implement the findings of the Audit and the CAFR, RBG will also take a deep dive into the City’s technology landscape. By utilizing data analytics for financial trend forecasting and for process monitoring, the City will be able to assess in real time how the City’s financials are being managed. RBG can assist the City’s transition to a new cultural mindset focused on accountability and performance.