

# City of Petersburg Emergency Financial & Operational Restructuring

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

April 18, 2017

# Agenda

- **City Manager's Report**
- **PPEA – Detailed Evaluation Phase – Ad Hoc Committee**
- **RBG Progress Report**
  1. RBG Plan: March 25, 2017 – September 30, 2017
  2. Financial Crisis Continues
  3. Forensic Audit Update
  4. Executive Search Firm Update
  5. Data Analytics Focus
- **Transparency**

Presentations available on City website:  
<http://www.petersburgva.gov/index.aspx?NID=846>

# City Manager's Report

**City Manager's Report**

# Potential Water Utility Issue

- The 2015 Ordinance Rate for the 1” line was not fully implemented
- We discovered this error when Council approved 13.4% rate increase
- 1,764 customers with 1” rate lines have been impacted
- We have corrected this error on water and will correct on wastewater in the next billing cycle
- We are still researching the correct implementation date to determine any potential retroactive billing

	Current Base Rate	What the Base Rate Should Be	What the 2017 Base Rate Will Be
Water	\$6.82	\$17.06	\$19.35
Sewer	\$15.47	\$38.66	\$43.84

# We Will Enforce Billing

**Numerous Businesses are out of compliance**

- **We discovered other businesses – restaurants and apartment complexes – that are out of compliance with their payment plans**
- **We are creating an audit team to reinforce the Utility Billing team's capacity at finding and communicating non compliance**

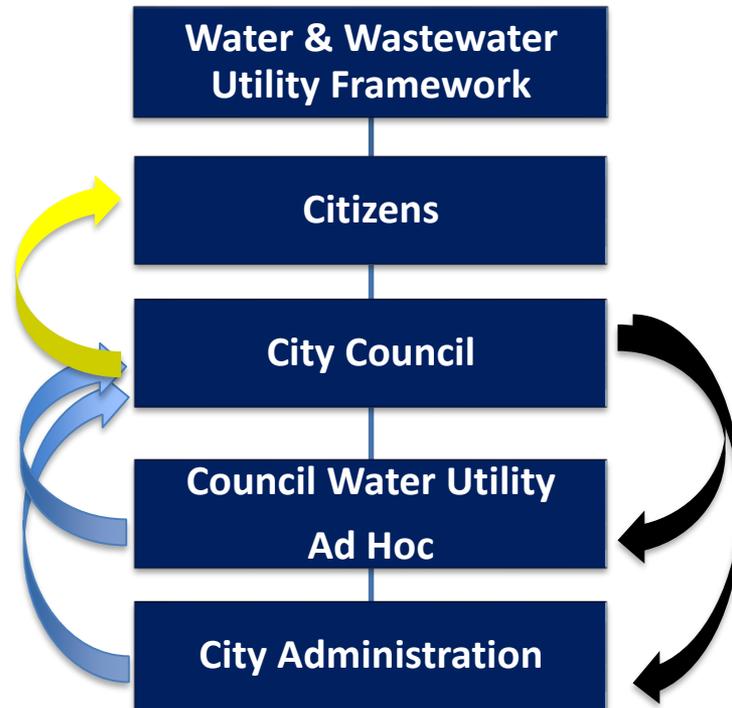
# PPEA

## Detailed Evaluation Phase

**Committee Considerations**

# Integrated Framework for Evaluating All Alternatives

The City has an Integrated Framework in place to evaluate a path forward



# Committee Agrees To

Met with Committee leadership to understand how we support the process, and agreed to:

1. Operate inside PPEA Process for the two existing proposals
2. Administration will negotiate and evaluate all alternatives and present to the Committee

## Cities all over the country are grappling with the cost to maintain and operate their utility systems

### Why are we here this evening?

- ✓ To ask council to reconsider moving into the detailed evaluation phase of the PPEA process
- ✓ To review the expense of doing nothing
- ✓ To preview the other alternatives that will be considered
- ✓ To propose integration of the Ad Hoc committee into the PPEA process

### Key Points to Remember

- Our water and wastewater system is operating safely at the moment but maintenance, repairs and equipment replacement has been neglected for many years
- If we do not act now, the system will experience a major failure at some point in the future.
- We must find a way to provide funds for a 5 year capital improvement plan (\$51m)
- We must find a way to pay our share of the 5 year capital improvement plans for our water and wastewater authorities (\$46m)
- We cannot afford to pay for a stable system by just raising rates!
- **We have to find another alternative (in addition to raising rates)**

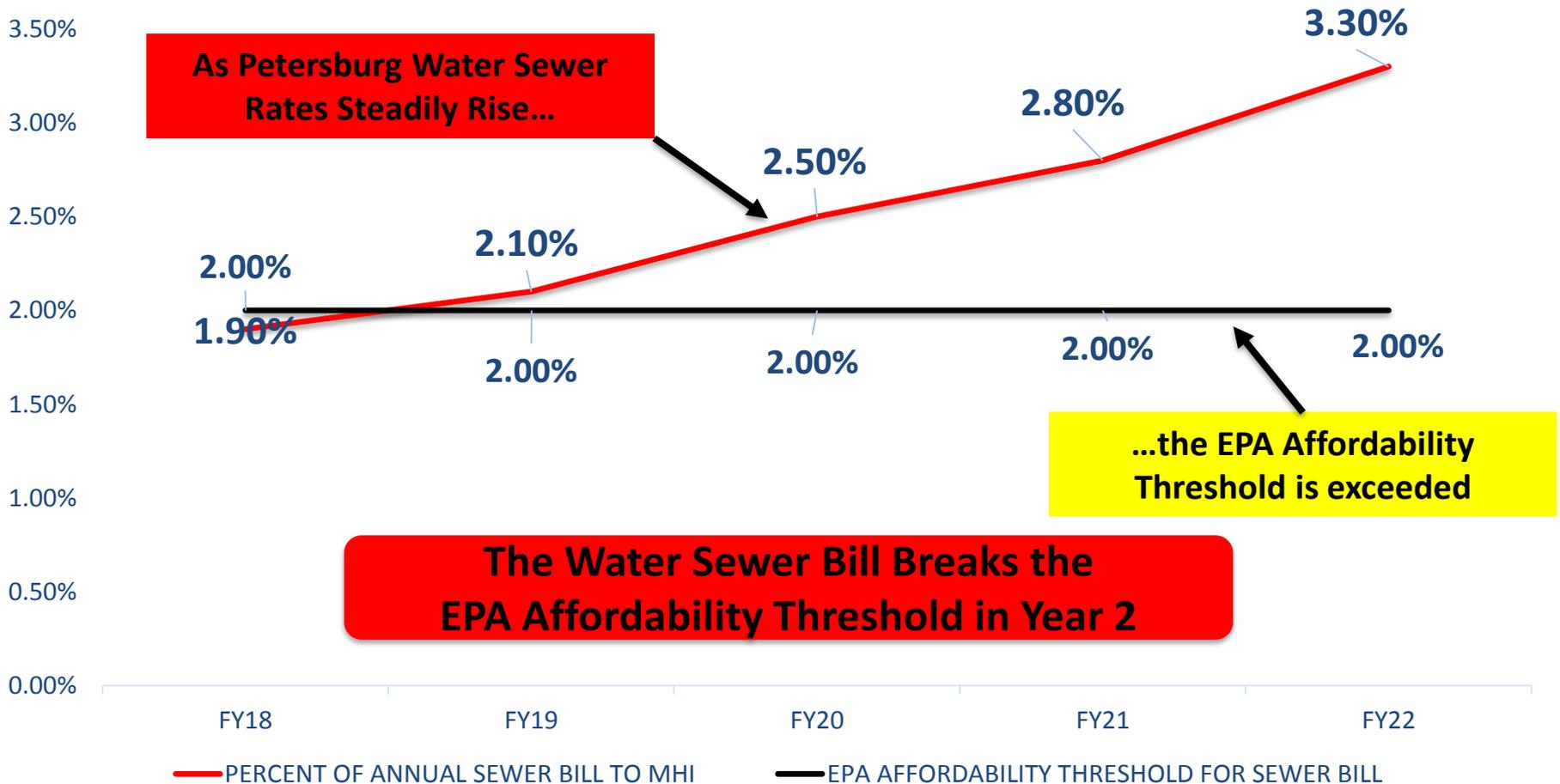
# Our Challenge– How do we pay for it?

**Summary of Major Infrastructure Needs = \$97.2 Million**

Type of Infrastructure	Total Cost	Petersburg Share
ARWA Lake Chesdin Dam Raise	\$23.5 million	\$3.9 million
SCWWA <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>
Petersburg Infrastructure	\$51.3 million	\$51.3 million
<b>Total</b>	<b>\$152.8 million</b>	<b>\$97.2 million</b>

# Affordability Index 2% of MHI

## Water Sewer Rate Hikes Will Break the EPA Threshold



# How Do We Pay for What We Need

**How do we pay the difference between what we need and what we can afford?**

- **We have to do something besides just raising rates**
- **There are 5 alternatives (beside the status quo) we want to look at**
- **ONE alternative requires City Council permission to proceed**
- **We are now back asking for that permission**
- **We will evaluate all alternatives (including variations within alternatives)**
- **We have the right team in place, expenses will be paid out of the Utility Fund – no matter which path we take (RFP or PPEA)**

**NOTHING IN THE EVALUATION PROCESS COMMITS THE CITY TO CHOOSING ONE OF THE OPTIONS**

# WORKING Alternatives for the Utility System

	City Owned	City Owned	City Owned	City (Public Authority)	Private	Private
	Current	Better Management	Private Management (RFP)	Separate Single Member Authority	Franchise/ Lease (RFP)	Private Ownership (RFP)
Performance						
Ability to Borrow for Infrastructure						
Rates						
Regulatory Control						
Exceeds Affordability Index						
Money to General Fund (Annually)						
Money to General Fund (One-Time)						
Reserve Fund & Higher Bond Rating						
Time Frame						
ARWA & SCWWA Approval Required						
Rate of Return to the Owners						
Anticipated Collection Rate						

# Options to be reviewed

## 1. City owns and operates with better management

- Utility System- City owns, operates, maintains and finances improvements
- City Utility Department
- Rate increases set by Council

## 2. Sale of Utility System to Private Business (privatization)

- PPEA process
- Cash purchase price
- City's control limited to negotiated Contract provisions
- Utility System is owned and operated, maintained and improvements are financed by Private Business
- Rate increases must be approved by SCC after hearing
- City Utility Department closes
- Example – City of Alexandria/Manakin Farms-Goochland County

## 3. Franchise / Lease

- Limited to 40 year term – system returns to City after franchise term
- Statutory franchise process
- Cash franchise purchase price
- City's control limited to Franchise Ordinance
- Utility System is operated, maintained and improved by Private Business but only during 40 year term
- Rate increases must be approved by SCC after hearing
- City Utility Department closes
- Example – City of Hopewell

# Options continued

## 4. **City Water and Sewer Authority (single member authority)**

- City creates under State statute and Council appoints all Directors
- Authority directors appointed by Council
- Authority owns, operates, maintains and finances improvements
- Rate increases set by Authority only
- City Utility Department transferred to Authority
- Example – Dinwiddie County Water Authority

## 5. **Service Management Agreement (private management)**

- City hires Private Business through RFP process
- Private Business manages Utility System operations and maintenance through Service/Management Agreement paid by City
- No cash purchase/sale
- Rate increases set by Council
- City Utility Department closes
- Example – Fort Lee

# Our Request to Council

**We are asking reconsideration of our February request to proceed with the detailed evaluation of our two proposals submitted under the PPEA process**

**To review the detailed management and financial plans of each offeror and to ask questions of them.**

**The other alternatives will also be developed and prepared for recommendation but we do not require Council to act for us to undertake that analysis**

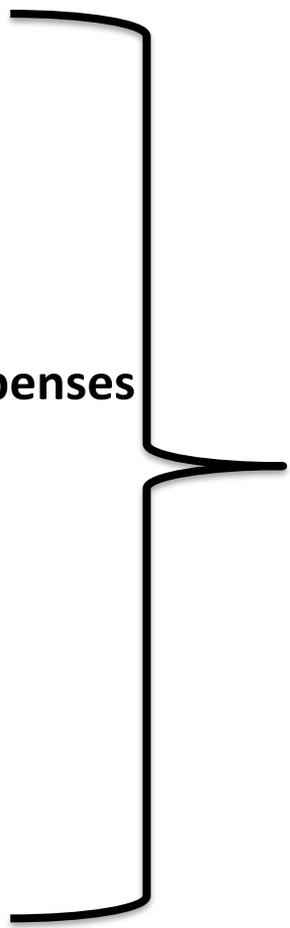
# Where we are now

- **Respecting Council's vote, we have suspended all work on evaluating the proposals submitted under the PPEA process**
- **Phase 1 (conceptual phase) has two volumes**
  - **Volume 1 is open to the public**
  - **Volume 2 is proprietary info**
- **The Ad Hoc committee has met three times**
- **Council has instructed us to show volume 2 (basic offers \$) to the Ad Hoc committee members (with signed confidentiality agreements)**

# PPEA Phase 1 Conceptual Phase

## Key Elements:

- **Purchase Price**
- **Annual Lease for City facilities**
- **Annual Right of Way (Franchise) fee**
- **Annual Property Taxes**
- **Payment for City Advisor costs and legal expenses**
- **Community Benefit Package**
- **Capital Investment**
- **Rates**
- **Employment opportunities for current staff**
- **Customer Assistance Grants**
- **Diversity & Inclusion**



**This is what  
Committee  
members will see  
after signing the  
confidentiality  
agreement.**

# PPEA Phase 2 Detailed Evaluation

## Key Elements:

- Location Map
- Utility Project Crossings
- Plan for Securing Easements
- Life cycle cost, equity, debt, other financing mechanisms
- Schedule of Project Revenues & Project Costs
- Projected Return, useful life, annual operating expenses
- Detailed discussion of user fees, rates, lease payments
- Government support or opposition
- Consistency with comprehensive plans
- Impact on City's development plans
- Identification of executive management team

This is based on the legal statute for PPEA in Virginia.

## What Phase 2 Gets Us

- The Detailed Proposal Review includes the detailed assumptions each offeror makes, their reasoning for their offer, their approach to management and to rate increases
- We can negotiate with the offerors
- This is not binding to the City!
- The proposers contribute to paying for the evaluation cost of the PPEA proposals
- The cost will be paid out of the Utility Fund

# RBG Progress Update

**RBG Progress Update**

# RBG Plan:

IN PROGRESS

## March 25, 2017 – September 30, 2017

City of Petersburg Financial Emergency Turnaround – Key Project Activities

### PHASE 2: MARCH 25, 2017 – JUNE 30, 2017

1. **Implement the Long Term Debt Restructuring Plan**
2. **Develop plan to pay of current RAN**
3. **Complete and Implement FY 18 Budget Proposal**
4. **Develop Water Utility Repair Plan (e.g., PPEA)**
5. **Manage and Report findings for Forensic Audit**
6. **Complete FY16 CAFR by July 2017**
7. **Complete Executive Search Firm hiring by July 2017**
8. **Implement new Real Estate Sale Process & realize revenue**
9. **Implement Workforce Reorganization**
10. **Optimize City Technologies for data and reporting**
11. **Create repeatable data & reporting for Financial Reports**
12. **Develop and Execute Policies for Controls and Reporting**
13. **Develop Standard Operating Procedures (SOPs)**
14. **Manage and Measure Financial and Purchasing Policies**
15. **Improve Billing and Collections Citywide**
16. **Provide Executive Coaching to New Hires**

### PHASE 3: JULY 1, 2017 – SEPTEMBER 30, 2017

1. **Develop the 5-Year Financial Plan**
2. **Develop & Implement the 5-Year Capital Improvement Program**
3. **Implement Financial & Purchasing Policies**
4. **Conduct City wide training for OpenGov**
5. **Conduct City wide training for CityWorks**
6. **Continue to evaluate options for the sale of the Water & Sewer Utility Sale process as needed to address the critical infrastructure issues facing the Water and Sewer system**
7. **Develop Implementation Strategies for Outsourcing execution and implementation**
8. **Develop and Implement Standard Operating Procedures (SOPs) for Finance**
9. **Implement Findings to address issues uncovered during the Forensic Audit**
10. **Assist Management Team to implement Fy16 CAFR findings**
11. **Implement a Budget Transition Plan**
12. **Provide Executive Coaching for New Hires**

# Calendar of Budget Events-Updated

Date	Event
March 27	City Manager Proposed Budget to Council
March 27-April 28	Council Work Sessions on Budget
March 27	General Fund Revenues
March 29	Debt/Budget Policies; Capital Budget; Utilities
April 10	Police, Fire and Emergency Communications
April 12	Social Services Agencies; Health Department; Personnel/Benefits
April 24	Schools Operating & Capital
April 26	Leisure and Cultural Affairs; Planning, Economic Development & Code
May 2	Public Hearing on the FY 18 Budget
May 12	City Council submits recommendations to City Manager
May 16	City Council to discuss changes to the budget
June 6	City Council Meeting to Adopt/Appropriate FY 18 Budget
June	Landbook Finalized
September	FY 18 Landbook Produced/Published
October 17	Public Hearing on the Proposed Tax Rate Adjustment due to Reassessment

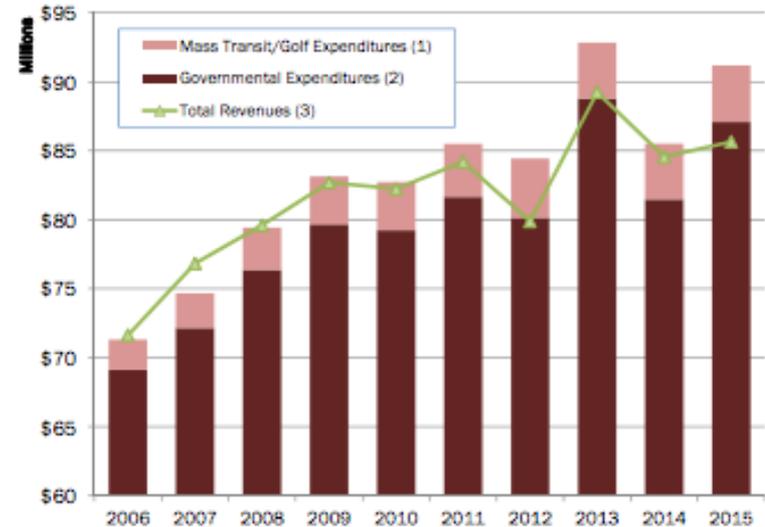
# Background & Reminder

## 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	82,692,841	(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	85,653,891	(5,530,364)

**FY17 was the first year since FY09 the City had a structurally balanced budget.**

### 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

# Forensic Audits Have Begun

- **Forensic Audit Focus:**
  - Purchase Cards
  - Commissioner of Revenue Office
  - Office of the Treasurer
  - Blandford Perpetual Care Fund
  - Special Funds
  - Enterprise Funds
  - Surplus Vehicles

**We will introduce the Forensic Audit team tonight.**

# Executive Search Firm Update Colin Baenziger & Associates



**Community Engagement is Critical! We want to ensure the community is informed and knowledgeable about the candidates recruited to lead the City into the Future.**

**Note: We are also recruiting for Transit GM, Public Works Director, Fire Chief, Economic & Planning Director**

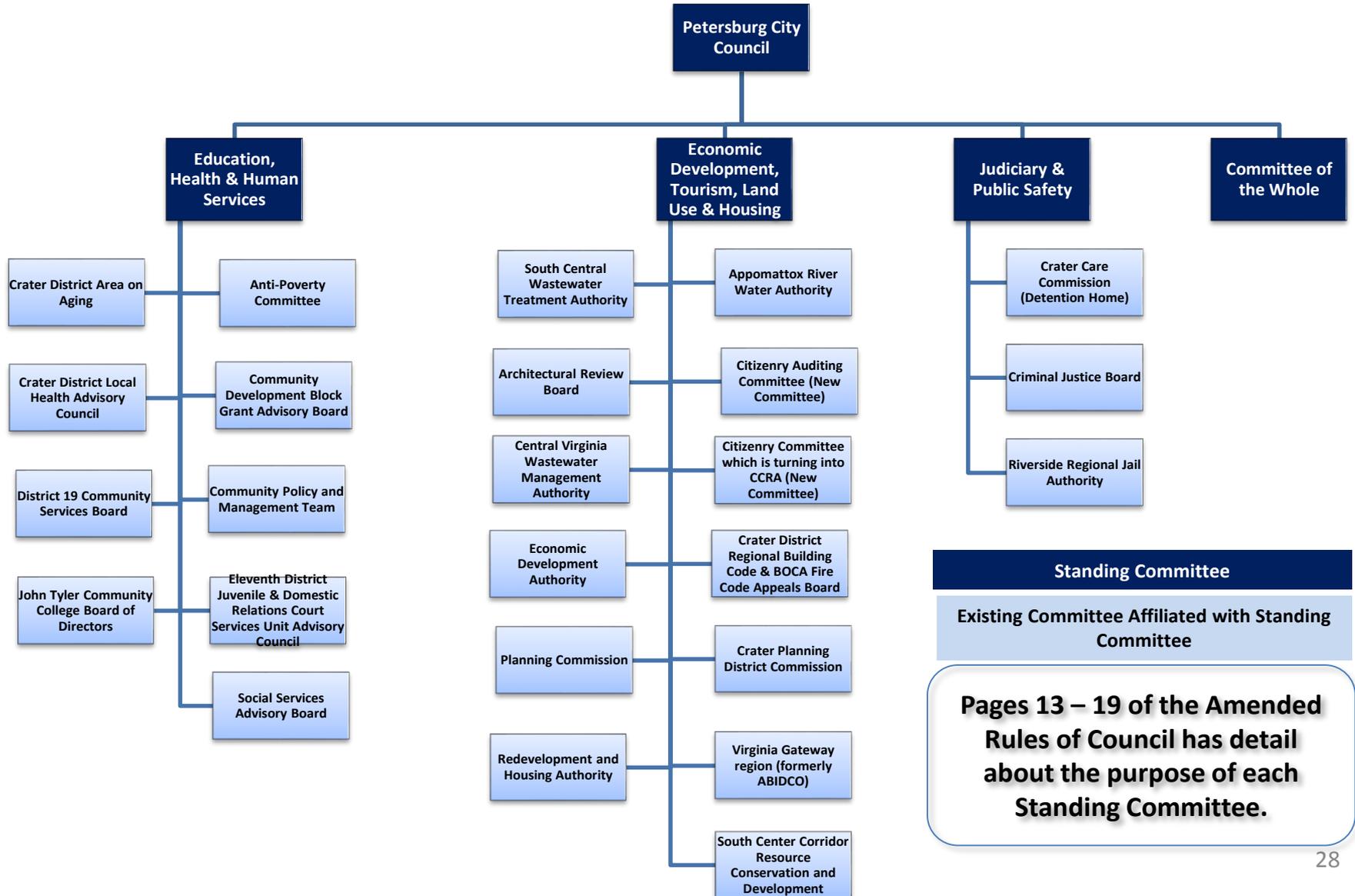
**4/18/17 –  
We Are Here**

# Standing Committees – Structure & Rules

- **Section 2. The Standing Committees.** The following Standing Committees are established:
  - A. **Education, Health and Human Services**
  - B. **Economic Development, Tourism, Land Use and Housing**
  - C. **Judiciary and Public Safety**
  - D. **Committee of the Whole**
  
- **Section 3. Composition; Selection; Vacancies.** Section 3 of Rule VII shall not apply to the Committee of the Whole. At the organizational meeting of Council at the beginning of each Council period, the Mayor shall nominate the Chairperson and Vice Chairperson of each Standing Committee. The Mayor shall also nominate a sufficient number of Council Members to serve on each Standing Committee based on the anticipated needs of the City of Petersburg for the Council period.



## Standing Committees – Structure & Rules



**Standing Committee**

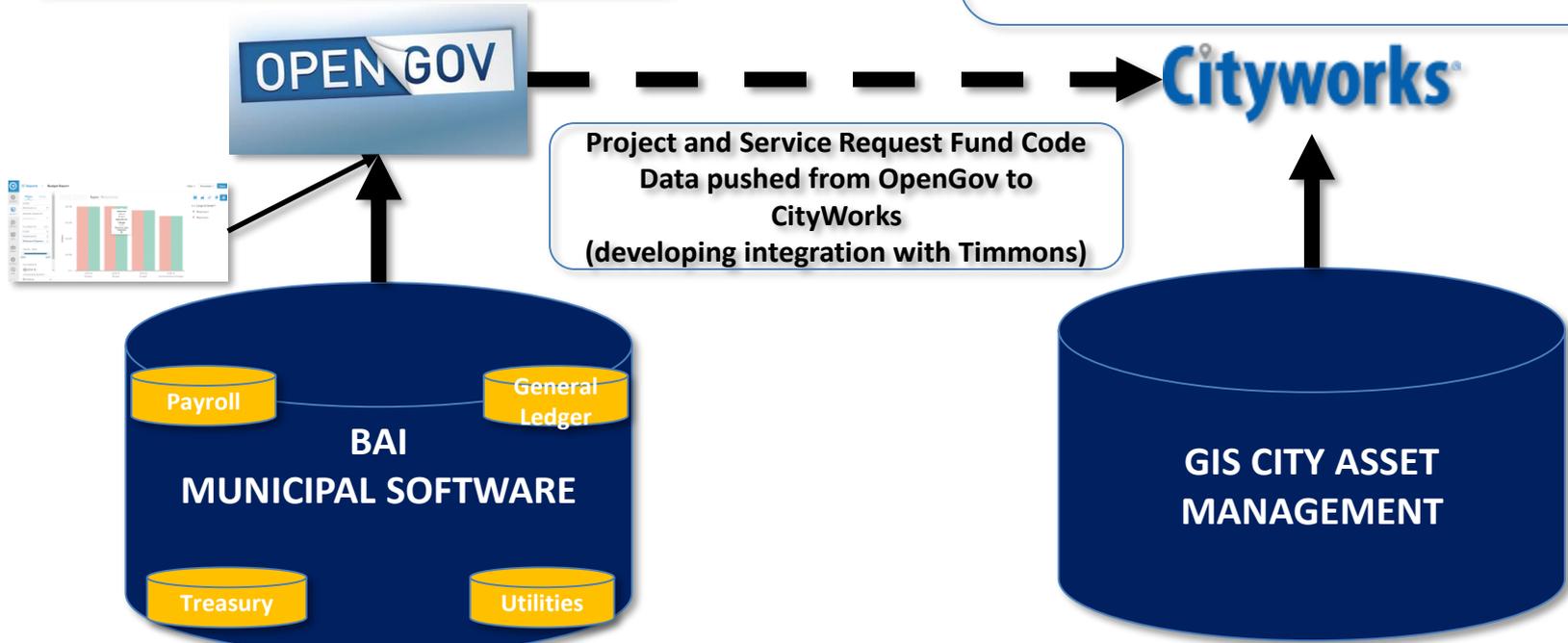
Existing Committee Affiliated with Standing Committee

**Pages 13 – 19 of the Amended Rules of Council has detail about the purpose of each Standing Committee.**

# Technology Architecture – Key Systems

OpenGov provides financial data reporting based on the Chart of Accounts generated in BAI. The City is building its FY18 Budget in OpenGov. It was purchased by the City in 2015.

Cityworks manages public works service request tickets. It was purchased in 2015 to utilize the City's GIS investment built by Timmons since 2014. The scope includes Facilities, Engineering, Utilities & Street.



BAI is the financial system of record for the City and manages all City financial data and reporting. It includes the General Ledger, Payroll, Treasury, Utilities. Bright.net is a BAI web interface employees can use to access paystubs and general financial information.

The City invested in GIS buildout by Timmons since 2014. The GIS system is a valuable data repository that can be used by Facilities, Utilities & Engineering. It can also be used to map Police and Fire incident data.

# Transparency

- All presentations are available on the City's website:

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