

# City of Petersburg: Considerations for the Detailed Phase of the PPEA

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

July 11, 2017

# Agenda

- **Detailed Proposal Stage for the PPEA Phase 2**
  - Scope and Costs
  - Estimated Timeline
- **RBG Presentation and Recommendation**

# Let's Understand Where We Are

- We have made 5 presentations on the Utility System, plus a Community Meeting
- The Utility System is Still In Crisis demonstrated as recently as the June 19<sup>th</sup>-20<sup>th</sup> Main Pump Station Failure.
- The System is Still Failing. If we had not recovered pump station operations, there could have been ~2 million gallons per day of raw sewage flowing into the storm drain on River Road and directly into the Appomattox River.

**We do not know when the next failure will be. These are not scare tactics. This is the scary reality.**

# Let's Understand Where We Are

- The Ad-Hoc Committee's recommendation is to proceed with better management but does not provide any plan for capital funding for critical repairs and incorporates a 74.3% rate hike in the current five year plan
- Council has been provided with a false narrative that stipulates the approval of proceeding with the PPEA Detailed Phase **COMMITTS THE CITY TO SELL ITS SYSTEM – WHICH IS FALSE!**
- As difficult as it is, we must make a decision to go forward and decide how to proceed with solving the critical issue of an unstable utility system

# FOCUS ON THE PPEA

In this presentation, we focus on the work efforts by the City related only to the PPEA Detailed Phase.

Note: All City data and documentation for PPEA is located here: <http://www.petersburg-va.org/index.aspx?NID=562>

# #1. Description of PPEA Phase 2 – Process Overview

1. **Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - **Background: On February 21, 2017 the City Council held a public hearing on the conceptual proposals received.** The City has received PPEA "Phase 1" conceptual proposals from Aqua Virginia, Inc. and Virginia-American Water Company describing their experience in the ownership and operation of municipal water and sewer systems and in general what the terms of an agreement to transfer the ownership and operation of the systems might be.
  - Under the City's PPEA Guidelines, in order to further consider such a proposed transfer and negotiate with the companies, **City Council would need to adopt a resolution to proceed to Phase 2.**

# #1. Description of PPEA Phase 2 – Process Overview

1. **Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - **Proceeding to the Detailed Phase of the PPEA Process allows the City Administration to engage in competitive negotiations with the companies based on the scope, complexity and priority of need for the project, the investments proposed by the companies, and the economic benefits that may be available to the City.**
  - If approved to move forward with the PPEA: the revised phase 2 proposals will be reviewed, the PPEA review committee will meet to discuss the relative merits, and both proposers may be asked to enter into negotiations for development of a comprehensive agreement.

# #1. Description of PPEA Phase 2 – Process Overview

1. **Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - The City Council would hold a public hearing on the results of the negotiations. Following that, further negotiations may occur to produce a proposed agreement.
  - The negotiation process is very similar to the usual competitive negotiation process that the City uses when issuing any request for proposals for goods and services.
  - **These negotiations would produce a proposed agreement. This agreement would come before City Council for review and approval before it would be effective.**

# #1. Description of PPEA Phase 2 – Process Overview

1. **Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - If Council approves a proposal, then the PPEA team will finalize an agreement with the firm that will provide the best value to Petersburg.
  - This Agreement will be presented to the City Council for public comment, review and final approval.
  - **The selected firm will assume ownership and operation of system, employees and assets as detailed in the agreement.**

# #1. Description of PPEA Phase 2 – Items to be Negotiated

1. **Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - The negotiation process would involve requesting additional and more detailed information from the companies including price to be paid (including how much paid up-front and how much over time).
  - It will also include capital improvement requirements, utilization of existing City employees, requirements for proper upkeep and maintenance, requirements to fulfill City commitments to the regional water and sewer authorities that the City is a member of and liabilities to be assumed by the companies.

# #1. Description of PPEA

## Phase 2 – Other Considerations

- 1. Narrative Description of what is involved in proceeding with the detailed proposal stage of the PPEA (“Phase 2”).**
  - Proceeding to Phase 2 does not commit the city to entering into an agreement with either company.**
  - Transfer of water and sewer assets will require consent of regional authority member jurisdictions and the regional authorities, the Virginia Resources Authority and the State Corporation Commission.**

## #2. PPEA Evaluations Costs – Technical, Financial and Legal

2. **Itemization of the estimated \$197,000 of costs referenced in the initial version of Council’s Agenda for June 20, 2017, which stated: “The estimated cost to the City is \$197,000 which will be offset, in part, through the fees paid by the proposers.”**

### **Background:**

- **During the December 13, 2016 Council session,** City Council approved City Administration’s request to review the unsolicited Aqua Virginia proposal and solicit competing proposals through the PPEA process.
- **On January 4, 2017, the City met with prospective offerors. The City Administration asked Timmons, Davenport and Sands Anderson for their estimate for assisting the City through the PPEA process.**
- The \$197,000 figure was developed based on estimates provided to the City by Timmons, Davenport and Sands Anderson (**detailed on next page**).

## #2. PPEA Evaluations Costs – Technical, Financial and Legal

2. Itemization of the estimated \$197,000 of costs referenced in the initial version of Council’s Agenda for June 20, 2017, which stated: “The estimated cost to the City is \$197,000 which will be offset, in part, through the fees paid by the proposers.”

Firm	Description of PPEA Services	Cost Estimate for PPEA Work
Timmons Engineering	Assist with the Review of PPEA Proposals	\$102,818
Davenport Financial, LLC	Financial Advisory Services to evaluate PPEA Proposals	\$50,000
Sands Anderson PC	Legal Services for the evaluation of the PPEA Proposals	\$45,000
<b>Total</b>		<b>\$197,818</b>

## #2. Itemization of Costs - Summary

Firm	Description of PPEA Services	Cost Estimate for PPEA Work
Timmons Engineering	Total paid to date to Timmons represents PPEA only work. This includes the determination and evaluation of the current state of the water and sewer system. Note: This does not include for example the cost to develop the 5 Year Capital Improvement Plan (CIP).	\$19,866.96
Davenport Financial, LLC	Total paid to date to Davenport represents PPEA only work for financial advisory services for the PPEA process from January 2017 to March 2017. Note: This does not include the Rate Study as that was focused on the rate increase proposal.	\$14,660.67
Sands Anderson PC	Legal Services PPEA Water and Wastewater Utility. Note: This does not include the analysis of alternatives (e.g, Franchise/Lease option), work with regional authorities System	\$48,091.17
Dileep Rajan	Develop draft of Utility rates table, matrix of options, business case, Water Utility Transactions Research, create and manage data warehouse for PPEA documents data management. Document all PPEA Weekly Check ins, capture action items and minutes for follow up in Council presentations.	\$1,500.00
	<b>Total</b>	<b>\$84,119</b>

Source: City Administration PPEA Costs Overview, July 11, 2017.

## #2. Itemization of Costs - Summary

- **Based on data provided by Timmons, Davenport and Sands Anderson, the updated estimated cost to complete the PPEA process is approximately \$296,000.**
- **All costs to the city will be 100% reimbursed by the proposers (as explained on the next slide).**

## #3. Itemization of Costs – Technical Analysis in Phase 2

### 3. Cost to the City for the technical analysis required during Phase 2.

**City of Petersburg, Virginia Guidelines Regarding Request Made Pursuant to The Public Private Education and Facilities Infrastructure, Act of 2002 Adopted by Council on January 8th 2008. Page 5 paragraph 1C reads in part**

**“In the event either the initial processing fee of \$5,000 or the additional proposal fee of \$10,000 is determined by the City Manager or designee to be insufficient to cover all of the direct costs incurred or expected to be incurred by the City in reviewing the proposal, the proposer shall pay the additional amount as specified by the City Manager or designee.”**

## #4. City Administration Level of Effort to Proceed with PPEA Phase 2

4. Itemization of all estimated costs to the City if Council were to authorize the City Administration to proceed with the detailed proposal stage of the PPEA, including costs for technical, legal, financial, engineering analyses, other analyses, or other work.

**Based on data provided by Timmons, Davenport and Sands Anderson, the updated estimated cost to complete the PPEA process is approximately \$296,000.**

**The next 4 slides detail the estimated engineering, legal and financial work effort for Timmons, Sands Anderson PC and Davenport Financial LLC to conduct analyses.**

## #4. City Administration Level of Effort to Proceed with PPEA Phase 2

1. A complete inventory of all pipes, valves and appurtenances in the water distribution system from the connection from ARWA to every residential, commercial, industrial and wholesale meter
2. A complete description of all water pumping stations, storage tanks and valve vaults
3. All easements and plats recorded in the courthouse for the assets referenced above in **#1 and #2 (specific to ARWA pipes and pump stations)**
4. All gravity sewer and force main pipes from every customer or locality needed to convey wastewater to SCWWA (South Central Waste Water Authority) for treatment and disposal.

## #4. City Administration Level of Effort to Proceed with PPEA Phase 2

5. A complete description of all sewer pump stations necessary to convey wastewater to SCWWA (South Central Waste Water Authority)
6. All easements and plats recorded in the courthouse for the property and easements to be conveyed as referenced in **#4 and #5 (specific to SCWWA wastewater pipes and pump stations)**
7. A complete description of the billing system office, contents software and hardware needed to take over the billing system
8. A comprehensive description of Return on Investment (“ROI”), taxes and other fees or charges to be payed to city on annual basis (this step will require input from finance and other team members).

## #4. City Administration Level of Effort to Proceed with PPEA Phase 2

9. A complete inventory of equipment, vehicles, tools and spare parts inventory at time of transfer
10. A comprehensive description of limitations, restrictions and ordinances which will impact ownership operation, repair or demolition of assets to be transferred, including any defects in title or assets which are not located on city property or in recorded easements to the best of the ability of the city.
11. Disposition of utility line assets with respect to assets or facilities such as snow removal, use of facilities sharing of staff or equipment
12. All As-Built Plans (“As-Built” drawings show the building or structure exactly as it was constructed, as opposed to a design drawing), computer technologies, SCADA system components, utility equipment and assets and meter reading equipment

## #4. City Administration Level of Effort to Proceed with PPEA Phase 2

13. A clear understanding of how engineering, accounting and finance staff will interact with the PPEA entity
14. Transfer of all wholesale contracts with adjacent localities will need to be assigned to or assumed by the new operator (this step will involve inside and outside legal staff, and city council approval)
15. The City's responsibilities under ARWA and SCWWA contracts will need to be assumed by the new operator. **The City will still be a member of ARWA and SCWWA.**
16. The new Operator will need to assume responsibility for the performance of the backflow prevention program, and assume responsibility for administering the cross connection control

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**Note: There may be more specific work items.**

# #5. Estimated Staff Time for PPEA Phase 2

## 5. Estimate of hours of City staff time per employee for PPEA Phase 2.

		Estimated PPEA Phase 2 Work Hours*				
City PPEA Team Member	Role	August 2017 (5 weeks)	September 2017 (4 weeks)	October 2017 (4 weeks)	November 2017 (4 weeks)	December 2017 (3 weeks)
Aretha Ferrell-Benavides	City Manager	5	4	4	4	3
Jack Berry	Deputy City Manager (Operations)	10	8	8	8	6
Joseph Preston	City Attorney	5	4	4	4	3
Blake Rane	Finance Director	5	4	4	4	3
Tangela Innis	Operations/ Purchasing Manager	10	8	8	8	6
Jerry Byerly	Utilities General Manager	10	8	8	8	6
Daniel Harrison	City Engineer	10	8	8	8	6
<b>TOTALS</b>		<b>55</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>33</b>

\*Source: The City's PPEA Team estimates 100 business days from August 2017 to December 2017.

## #6. Estimated Time for City Administration to Complete PPEA Phase 2

6. Estimate as to how long it will take City Administration to complete the detailed proposal stage if Council were to authorize the City Administration to proceed with PPEA Phase 2.

**Based on input from Timmons and our internal team's review: If authorized to proceed on 7/11/17, we estimate a comprehensive agreement can be completed by the end of 2017.**

# What Approvals Would the City Need?

To finalize any agreement, the City would need approvals or consents from:

- **State Corporation Commission (SCC)**: the SCC would need to approve the new ownership entity, and going forward would set rates ( <https://www.scc.virginia.gov/index.aspx>)
- **Appomattox River Water Authority (ARWA)**: the City is a member of ARWA, and would continue to provide representation to the Authority (<http://arwava.org/>)
- **South Central Wastewater Authority (SCWWA)**: the City is a member of SCWWA, and would continue to provide representation to the Authority. SCWWA and their member jurisdictions would need to provide authority to transfer ownership of assets. ( <http://scwwa.org/>)

# RBG Recommendation

**Recommendation to Proceed to PPEA  
Phase 2 – Detailed Stage**

**You have a choice to make**

**Begin a new chapter in the Future of  
Petersburg**

**or**

**Hold on to an anchor**

# RBG Recommendation to City Council

- 1. Authorize the City Administration** to proceed to the detailed proposal phase, which includes negotiating the terms to obtain the best possible deal with either Aqua Virginia or American Water
- 2. And, bring back a recommendation for Council's review.**

# Reminder from the FY2016 CAFR Report: Need a Positive Fund Balance

CITY	Population	AVERAGE TAX COLLECTIONS RATES FY2009-FY2015	UNASSIGNED FUND BALANCE
Petersburg	32,701	93%	(\$7.7M)
Colonial Heights	17,731	98%	\$7.95M
Danville	42,444	94%	\$36.7M

We compared FY2009 – FY2015 Comprehensive Annual Financial Reports (CAFR) for Petersburg, Colonial Heights and Danville.

Compared to our regional peers, Petersburg has a NEGATIVE Unassigned Fund Balance and the lowest average tax collection rate.

Source for Petersburg: <http://www.petersburgva.gov/DocumentCenter/View/2761>

Source for Colonial Heights: <http://www.colonialheightsva.gov/ArchiveCenter/ViewFile/Item/1048>

Source for Danville: <http://www.danville-va.gov/ArchiveCenter/ViewFile/Item/1994>

# The City's Path Forward = \$19.8 Million

## The City's Path Forward Depends on a \$19.8 Million Fund Balance:

### 1. Collect Receivables to increase Cash (\$5.05M)

- Increase collections and improve timeliness of collections

### 2. Repay Reconciled Overdraft (borrowing from other funds \$7.2M)

- Need One-Time Cash Revenue (aka Liquidity Event)
- Need Continued Budget Surpluses
- By eliminating this, you will help Unassigned Fund Balance by an equivalent amount

### 3. Eliminate deficit Unassigned Fund Balance (\$7.7M)

- Need One-Time Cash Revenue (aka Liquidity Event)
- Need Continued Budget Surpluses

### 4. Require \$7.7M just to get to \$0

- The City needs an additional \$12.1M to meet financial policy requirements, eliminate need for the annual RAN, provide adequate working capital, & regain access to credit markets

**\$7.7 Million + \$12.1 Million  
=  
\$19.8 Million**

# Transparency

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

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