

City of Petersburg Emergency Financial & Operational Restructuring

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

April 4, 2017

Agenda

- **City Manager's Report**

1. See Handout for written responses
2. Update on Fire Hydrants
3. Museum Update

- **Rate Increase Presentation**

- **PPEA Reconsideration of Detailed Evaluation Phase**

- **RBG Progress Report**

1. RBG Plan: March 25, 2017 – September 30, 2017
2. Financial Crisis Continues
3. Executive Search Firm Update
4. Forensic Audit Update
5. Data Analytics Focus

- **Transparency**

Presentations available on City website: <http://www.petersburgva.gov/index.aspx?NID=8462>

City Manager's Report

- 1. See Handout for written responses**
- 2. Update on Fire Hydrants**
- 3. Museum Update**

Rate Increase Presentation

Rate Increase Presentation

Petersburg Rate Increase History

	Approved Plan (4/21/15)	Rate Ord. Adopted	Rate Increase Implemented
• FY13		14.3%	14.3%
• FY14		11.9%	11.9%
• FY15		-0-*	-0-*
• FY16	14.1%	-0-	14.1% _(3/16)
• FY17	13.4%	-0-**	-0-**
• FY18	3.2%	TBD	
• FY19	4.9%	TBD	
• FY20	5.0%	TBD	

New Plan {

* 9.7% increase tabled by City Council 5/20/14

** 13.4% increase tabled by City Council on rec. of City Mgr. 7/19/16

3/1/17 VRA Letter



Stephanie L. Hamlett
Executive Director

March 1, 2017

The Honorable Samuel Parham
Mayor, City of Petersburg
135 N. Union St.
Petersburg, VA 23803

Dear Mayor Parham:

A major provision of the terms and conditions of the Virginia Resources Authority's ("VRA") Series 2015A loan to the City of Petersburg ("the City") is the requirement that the City adopt a five-year water and sewer system rate plan for the Public Utilities Fund, covering fiscal years 2016 through 2020. The City is further required to update and re-adopt the five-year rate plan annually as part of its annual Public Utility Fund budgets.

These terms and conditions can be found in the Local Bond Sale and Financing Agreement ("Financing Agreement"), dated April 10, 2015, between VRA and the City of Petersburg. Sections 3.4(a)(14), 5.2 and 5.3 of the Financing Agreement specifically address the requirements of the City to review, adjust and increase its rates and to submit a preliminary annual budget that includes an updated five-year plan that addresses the expected rates for use of the system for the next five fiscal years.

Information received by VRA along with ongoing news coverage of the City's economic crisis appears to indicate that the required five-year rate plan was adopted by the City in 2015 and, as of this date, has yet to be implemented. Further, VRA's review of the FY2015 audited financials indicate that the City did not meet the required rate covenant. VRA has received no information from the City that would explain its decision not to implement the required rate plan. This delay in implementation is a violation of the City's Financing Agreement with VRA and further frustrates any attempts by VRA to work with the City in addressing the City's financial challenges.

VRA would appreciate a written communication from the City explaining its reasons for not implementing the adopted five-year rate plan and advising VRA when these rates will be implemented. Early receipt of the City's response to this inquiry is appreciated.

Sincerely,



Stephanie L. Hamlett

cc: Tom Tyrrell, Interim City Manager, Petersburg
The Honorable Richard D. Brown, Secretary of Finance
Gina Burgin, Deputy Secretary of Finance

This letter from the Virginia Resources Authority (VRA) states the City is required to adopt a 5 year water and sewer system rate plan for the Public Utilities Fund for FY16 – FY20.

VRA requests written communication from the City explaining its reasons for not implementing the adopted five-year rate plan and advising VRA when these rates will be implemented.

Absolute Necessity of Rate Increases

- VRA Bond Covenants required enactment and implementation of a 5-year rate increase plan (approved by Council 4/21/2015)
- Failure to follow the plan will create bond covenant default, causing outstanding bonds to become immediately due and payable (\$7M)
- Default will cause loss of access to credit markets
- Legal consequences including criminal penalties
- Inability to correct environmental violations (sewer overflows)
- Potential catastrophic system failure if infrastructure is not renewed

FY17 & FY18 Rate Increase Impact

Typical Residential Customers use 7.4ccf or 5,559 gallons

FY17 and FY18

	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
• Water	16.78	21.75	4.97
• Wastewater	<u>38.05</u>	<u>49.32</u>	<u>11.27</u>
• TOTAL	54.83	71.07	16.24

This is your new bill.

Rate Comparison (2017)

Current Monthly Charge (6CCF)

	Water	WW	TOTAL
Chesterfield	20.40	28.06	48.46
Colonial Hgts	22.33	43.31	65.64
Henrico	18.33	25.69	44.02
Dinwiddie	25.16	33.15	58.31
Prince George	18.46	40.32	58.78
Petersburg	14.05	31.85	45.90
Hopewell	36.79	45.84	82.74
Richmond	36.69	56.76	93.45

After Both FY 17 and FY 18 rate increases Penalty for 20 years of Neglected Maintenance

Regional Comparison

- 3rd lowest water rate
- 2nd highest wastewater rate
- 3rd highest overall rate

PPEA Reconsideration of Detailed Evaluation Phase

PPEA Reconsideration of Detailed Evaluation Phase

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"> • Aging infrastructure • Wet Weather Improvement • Denitrification 	\$78.0 million <ul style="list-style-type: none"> • \$20.3 million • \$17.3 million • \$40.4 million 	\$42.0 million <ul style="list-style-type: none"> • \$10.9 million • \$ 9.3 million • \$21.8 million
Petersburg Infrastructure	\$51.3 million	\$51.3 million
Total	\$152.8 million	\$97.2 million

New Rate Study = 74.3%

Today we have a 70% Utility billings collection rate. This rate scenario assumes 70% collections ramping up to 80% collections over 3 years and a debt coverage rate of 1.5x

- FY2018 14.3%
- FY2019 15.0%
- FY2020 15.0%
- FY2021 15.0%
- FY2022 15.0%

Petersburg Poverty Level

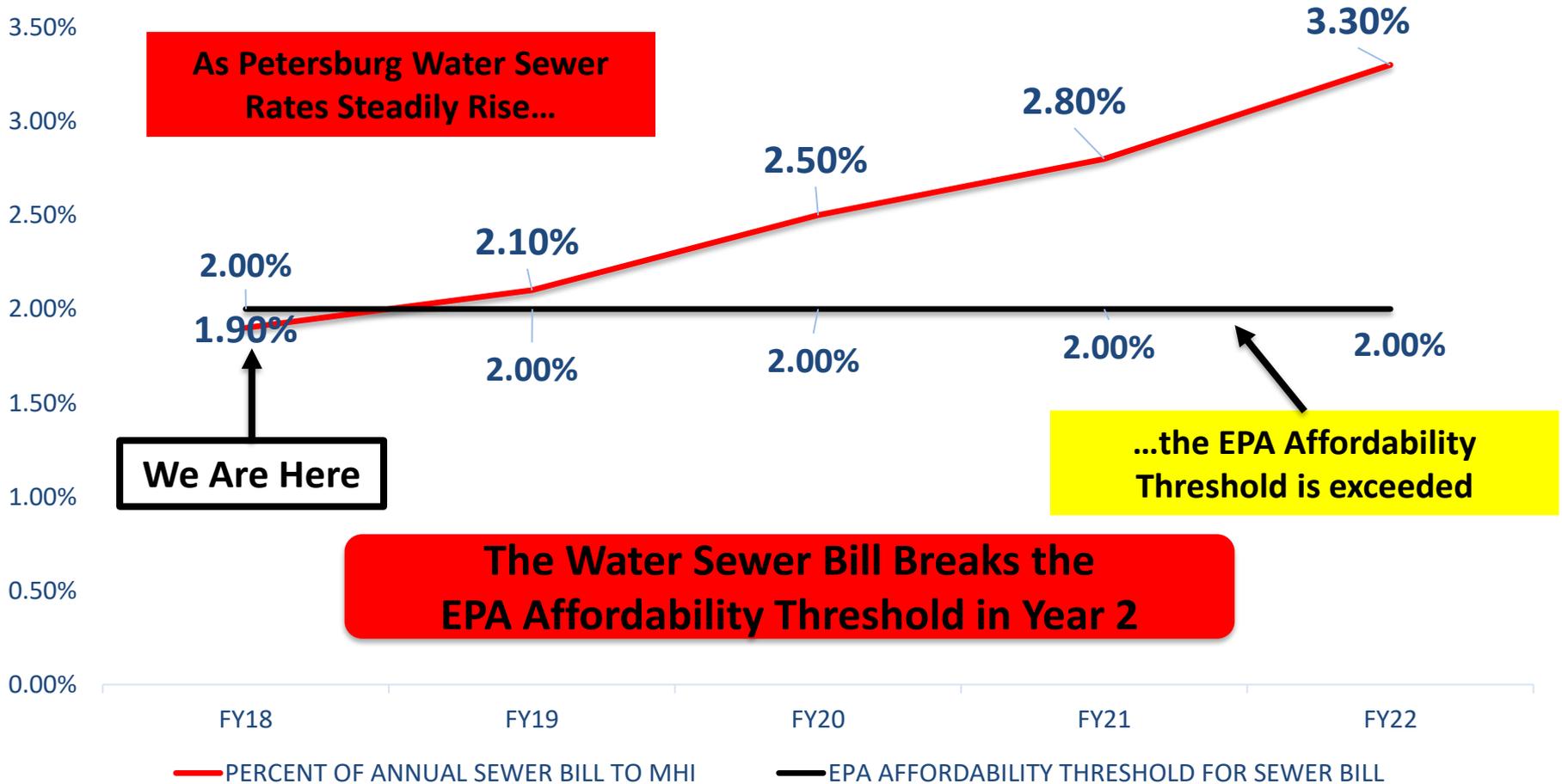
Census Category	Colonial Heights	Hopewell	Petersburg
Median Household Income (2015)	\$50,304	\$39,064	\$31,798
% of Persons in Poverty*	11.4%	19%	28%

Petersburg Residents Cannot Afford a 74.3% Rate Increase.

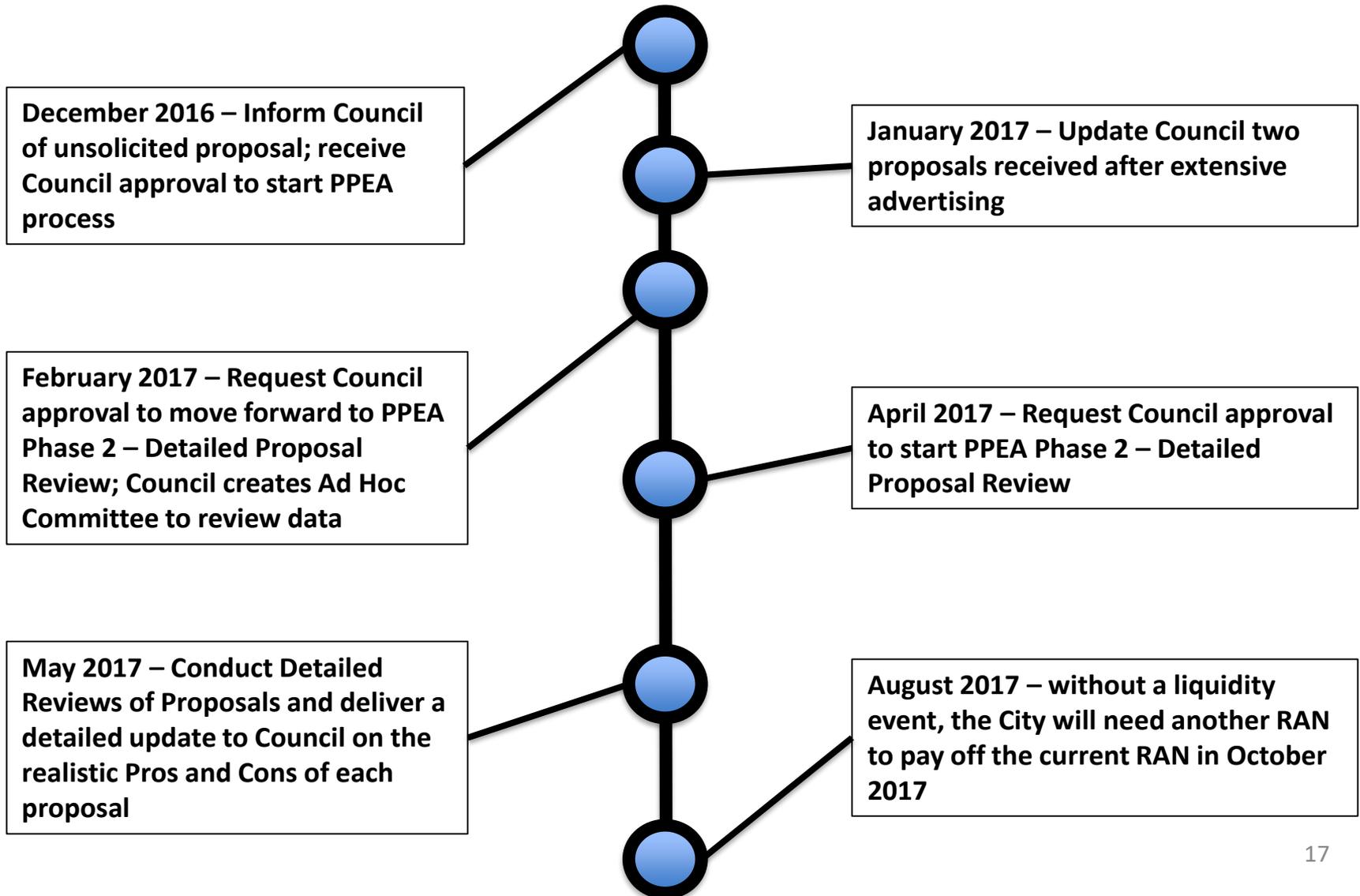
**Note on the Census Bureau poverty definition: The official poverty definition uses income before taxes and does not include benefits such as public housing, Medicaid, or food stamps. It is updated for inflation using the Consumer Price Index.*

Affordability Index 2% of MHI

Water Sewer Rate Hikes Will Break the EPA Threshold



Critical Timeline of Events



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 4 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



Alternatives for the Utility System

	City	Private			
	Current	Private Ownership	Separate Single Member Authority	Private Management	Franchise
Performance	Low	High	High	High	High
Infrastructure Investment	No	Difficult	Yes	Difficult	Yes
Rates	Low	Higher	Higher	Higher	Higher
Regulatory Control	City	City	Directors	SCC	SCC
Money to General Fund (Annually)	No	Maybe	Maybe	Maybe	Yes
Money to General Fund (One-Time)	No	No	No	No	Yes
Eliminate Deficit	No	No	No	No	Yes
Reserve Fund Higher Bond Rating	No	No	No	No	Yes
Time Frame	Current	2018	2018	2018	2018

Legal Options in the Commonwealth

Option	Key Impacts	Who Sets the Rates?	What Happens to the Utility Department?	Example
1. City owns and operates (current situation)	<ul style="list-style-type: none"> -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	<ul style="list-style-type: none"> -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	City of Alexandria, Manakin Farms, Goochland County
3. Franchise	<ul style="list-style-type: none"> -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	City of Hopewell
4. City Water and Sewer Authority	<ul style="list-style-type: none"> -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	Dinwiddie County Water Authority
5. Service/Management Agreement	<ul style="list-style-type: none"> -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	Fort Lee

Options to be reviewed

1. City owns and operates (current situation)

- 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

- 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

- 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**

- 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**

- 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

The PPEA Process was designed to streamline procurement for large time sensitive Infrastructure projects.

- The City advertised on the EVA process national procurement channel – end result was only 2 responses: Virginia American Water and Aqua Virginia, Inc.
- The City advertised the solicitation for competing PPEA proposal on the following venues
 - Progress Index
 - Richmond Times Dispatch
 - Virginia Business Opportunity publication
 - Commonwealth’s Electronic Procurement Website (eVa)
 - City of Petersburg website – Purchasing Department Page (Public-Private Education link)
 - City of Petersburg’s public bid board located in the City Hall Annex

Summary of EVA notifications for Solicitation PPEA L190 17-0008 1: 5736 Individual Vendors Notified

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

Where we are now

- Respecting Council's vote, we have suspended all work on evaluating the proposals
- The Ad Hoc committee has met twice
- Phase 2 (detailed evaluation) of the proposals gets us the numbers required to compare the proposals to other alternatives.
- Detailed evaluation will show us how the offering companies view their capital investment and how they view rate increases.
- It also lets us negotiate all the financial aspects so we can compare real numbers to other alternatives.

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 ask questions of the offerors
- This is not binding to the City!
- There is a Cost of Evaluation AND we would have to pay the same evaluation cost even if we did an RFP
- The cost will be paid out of the Utility Fund
- Is in the PPEA process, and it is in the Utility Fund
- Ad Hoc committee has an open end timeline and deliverables are not clear

Integrated Framework for Evaluating All Alternatives

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

Water & Wastewater Utility Framework

Citizens

City Council

Council Water Utility Ad Hoc

Standing Committee



Information sharing between these committees

	City	Private			
	Current	Private Ownership	Separate Single Member Authority	Private Management	Franchise
Performance	Low	High	High	High	High
Infrastructure Investment	No	Difficult	Yes	Difficult	Yes
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Money to General Fund (Annually)	No	Maybe	Maybe	Maybe	No
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Eliminate Deficit	No	No	No	No	Yes
Reserve Fund Higher Bond Rating	No	No	No	No	Yes
Time Frame	Current	2018	2018	2018	2018

Council appoints these committees

Utility Options Matrix

	City	Private			
	Current	Private Ownership	Separate Single Member Authority	Private Management	Franchise
Performance	Low	High	High	High	High
Infrastructure Investment	No	Difficult	Yes	Difficult	Yes
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Time Frame	Current	2018	2018	2018	2018

We have the framework between the Citizens and Committees to evaluate all options in the Utility Options Matrix.

RBG Progress Update

RBG Progress Update

Complete

5 Month Plan – COMPLETED

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

Financial Emergency Turnaround – Key Activities

Phase 1: 10/25/16 – 12/2/16

Phase 2: 12/5/16 – 1/27/17

Phase 3: 1/30/17 – 3/31/17

Strategic Theme 1: Short Term Financing

Strategic Theme 2: Long Term Financing and Fiscal Plan

Strategic Theme 3: Technology, Data and Process Platform

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

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

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

RBG Plan:

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. Provide Executive Coaching to New Hires

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

1. Develop the 5-Year Financial Plan
2. Develop and Implement the 5-Year Capital Improvement Program
3. Develop and Implement Financial and 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. Implement a Budget Transition Plan
11. Provide structured Executive Coaching for New Hires

Calendar of Budget Events-Updated

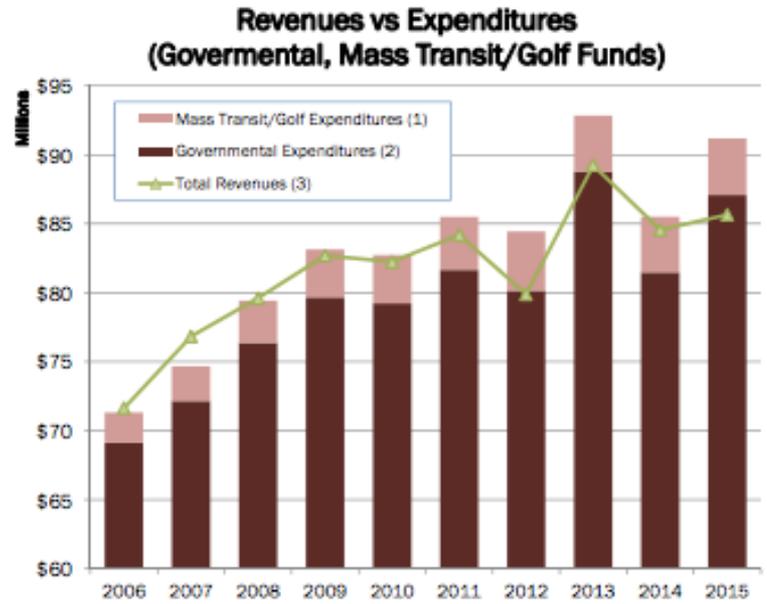
Date	Event
March 27	City Manager Proposed Budget to Council
March 27-April 28	Council Work Sessions on Budget
March 27	General Fund Revenues
March 29	Debt/Budget Policies; Capital Budget; Utilities
April 10	Police, Fire and Emergency Communications
April 12	Social Services Agencies; Health Department; 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.



(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

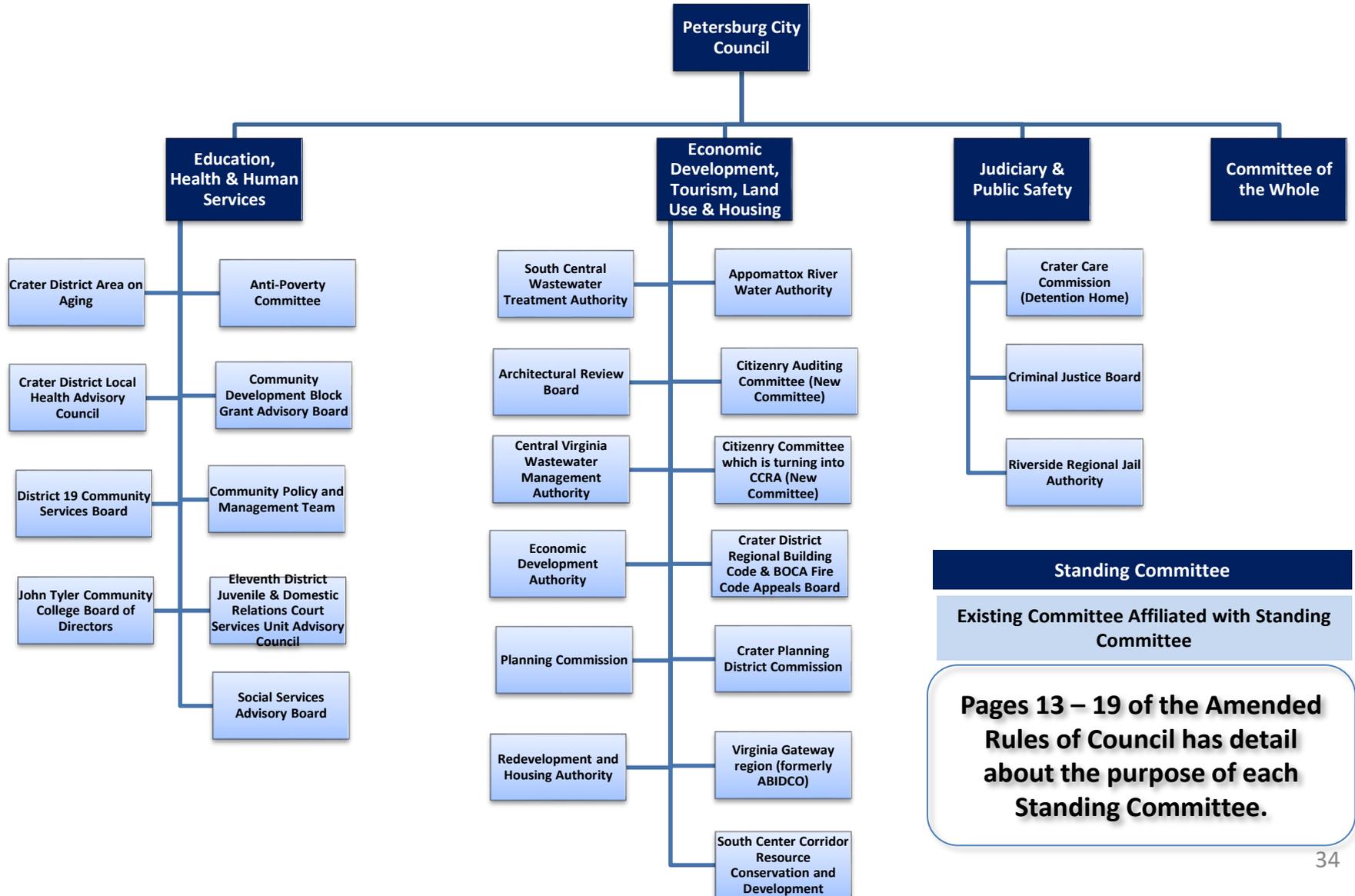
Standing Committees – Structure & Rules

- **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.

Executive Search Firm Update Colin Baenziger & Associates

February 7th Timeline for Hiring Highly Qualified Candidates **June 30th**

Recruit City Manager

Recruit Assistant City Managers

Recruit Finance Director

Recruit Police Chief

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

4/4/17 – We Are Here

Forensic Audits Update

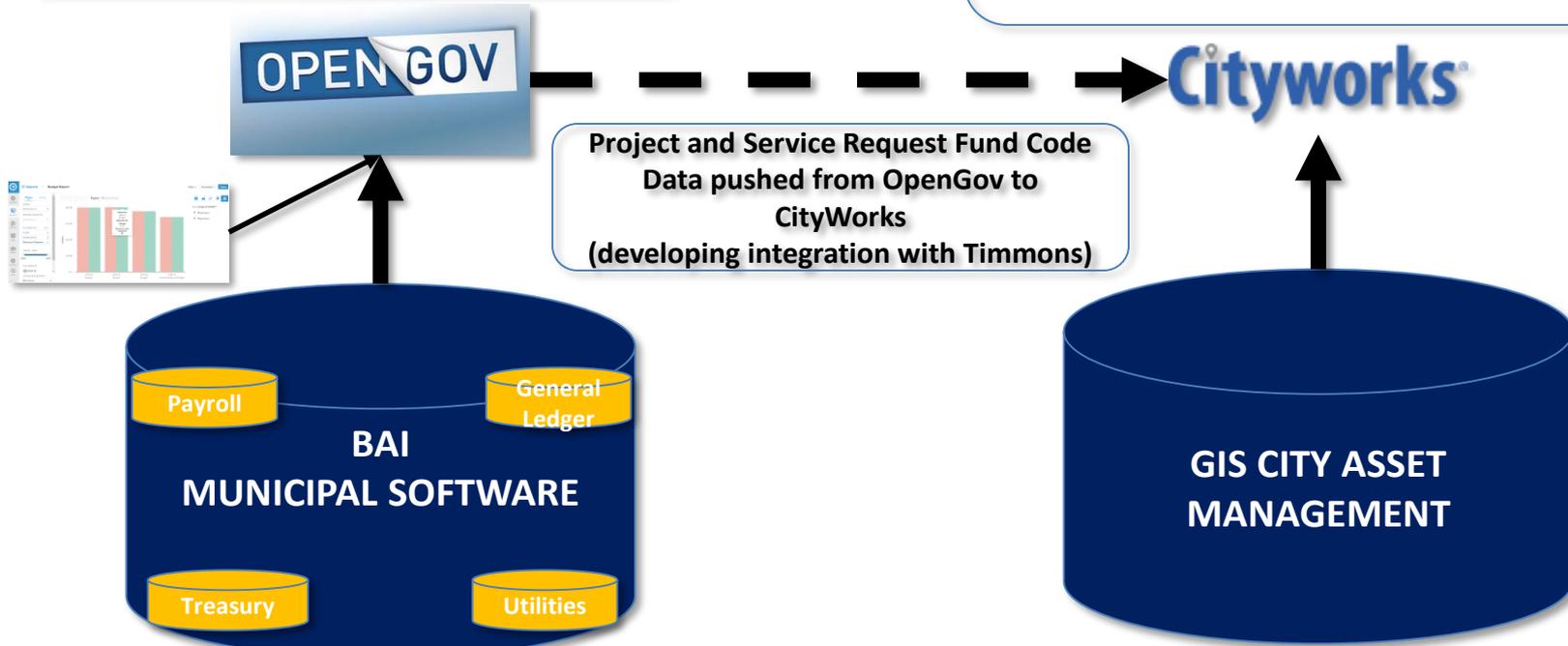
- **6 Proposals Received from local and national firms**
- **Forensic Audit Focus:**
 - Purchase Cards
 - Commissioner of Revenue Office
 - Office of the Treasurer
 - Special Funds
 - Enterprise Funds
 - Surplus Vehicles

**The panel made an award
decision on 4/4/17.**

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>