

City of Petersburg Emergency Financial & Operational Restructuring

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

September 5, 2017

Agenda

- **RBG Progress Report**

1. RBG Project Plan Phase 3: July 1 – September 30, 2017
2. The City received \$420,210 in State funding

- **Process Review of City Collector Functions**

- **Utility Billing & Collections Update**

- **Transparency**

Presentations available on City website:

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

RBG Progress Update

RBG Progress Update

RBG Plan: 7/1/17 – 9/30/17

1. Develop the 5-Year Financial Plan

2. Develop the 5-Year Capital Improvement Program

Plan is complete; we are working on funding side strategy completed in September

3. Develop Financial Policies (completed in FY18 Budget process & adopted by Council)
4. Develop and Implement Purchasing, Requisition and Invoicing Process
5. Conduct City wide training for OpenGov (planned for September)
6. Conduct City wide training for CityWorks (Utilities completed training on 6/20-6/21)
7. Continue to evaluate options for the sustainable management of the Water & Sewer Utility
8. Address the critical infrastructure issues facing the Water and Sewer system
9. Develop Strategies for Outsourcing execution:
 - a. Risk Management: contract awarded
 - b. Integrated Multi-Function Devices/Copiers/Printers: contract awarded
 - c. Time & Attendance: contract awarded
 - d. Facilities Maintenance: RFP issued
 - e. Janitorial Services: RFP issued
 - f. Payroll Processing & HR Management: RFP issued
 - g. Utility Billing & Collection: RFP issued
 - h. Internal Auditor: RFP issued

RBG Plan: 7/1/17 – 9/30/17

1. **Develop and Implement Standard Operating Procedures (SOPs) for Finance**
2. **Address & report to City Administration findings uncovered during the Forensic Audit**
3. **Assist Management Team to implement FY16 CAFR findings**
4. **Implement a Budget Transition Plan**
5. **Research and Design the Collector of City Taxes functions and present to City Council**
6. **Provide Executive Coaching for New Hires**
7. **Conduct Process Redesign and Reorganization for the City Collector's Office & consolidating functions of the City Treasurer**
8. **Improve the Utility Billing Collections to greater than 80%**
9. **Develop Policies, Practices & Procedures for Utility Billing functions based on Severn Trent report**
10. **Advise the City Manager in the final organization redesign of the City Administration**

The City's Fiscal House is not yet on solid ground / REALITY

The City's Auditor reported the City has a NEGATIVE \$7.7M Unassigned Fund Balance

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

1. Eliminate deficit Unassigned Fund Balance (\$7.7M)
 - Need One-Time Cash Revenue
 - Need Continued Budget Surpluses
2. Require \$7.7M to Balance the City's Account
 - 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

The City needs a major liquidity event. No amount of improved collections or taxes or sale of real estate will generate a comparable fund balance to what is actually needed.

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>

What is our Target Fund Balance Level?

- **We need to restate this because this point is very important: We need ~\$7.7M to get the General Fund to \$0, and another ~\$12.1M to be at appropriate fund balance level**
- Based on the “Financial Policies for Unassigned Fund Balances” in the FY18 Operating Budget that Council approved:
 - “The City shall adopt a plan to increase the Unassigned Fund Balance to a balance that is not less than **10%** of the combined budgeted expenditures of the City General Fund and the City of Petersburg Public Schools Operating Fund, net of the City’s local contribution (the “Policy Goal”).”
 - Since Schools is \$42.9M (excludes transfer from City) + \$78.2M General Fund = \$121.1M, resulting in a **\$12.1M fund balance level**.

Why We Need a Strong Unassigned Fund Balance / To Fundamentally Change the Image of the City of Petersburg

- 1. To Reduce the Need for Short Term Borrowing (e.g., Revenue Anticipation Notes) which are very expensive to the City and are comparable to “payday” loans**
- 2. To Increase the City’s Bond Rating to “Investment Grade” to enable lower interest rate borrowing to fix schools, roads, buildings and focus poverty and economic development**
- 3. To Provide a reserve in case of emergencies such as a major water or sewer main break, or flood, tornado, or economic recession**
- 4. To Improve Cash Flow which will ensure Payroll is met every pay period vendors are paid on time**

A Major Liquidity Event achieves the Unassigned Fund Balance

The Water Utility System is the only viable pathway to a significant liquidity event that will give the City the Fund Balance it needs.

The Liquidity Event generates a one time large payment to allow the City to:

- 1. Pay off all utility debt**
- 2. Immediately re-pay all creditors (VRS, SCWWA, etc)**
- 3. Immediately establish a 15% unassigned fund balance reserve**
- 4. Obtain Bond Rating upgrade to “investment grade”**
- 5. Borrow for long overdue capital projects, including school needs**

RBG recognizes the PPEA process represents a difficult series of decisions the City must make to secure its financial future.

Goals & Benefits of the Water Utility Sale

- 1. Protect Customers from large rate increases as a result of new state legislation the blends rates for private utilities state wide**
- 2. Create a new Public Private Partnership (“P3”) to remove the burden of operating a troubled utility, allow staff to focus on core functions like education, poverty, neighborhoods and economic development**

The Water Utility System is the only viable pathway to a significant liquidity event that will give the City the Fund Balance it needs.

Goals & Benefits of the Water Utility Sale

- 3. Bring experienced, industry leading professional management to operate the utility and immediately correct billing and collection problems and improve customer service**
- 4. Transfer 100% of the financial and operational risk for the entire utility from the City to the P3**
- 5. Require the P3 to utilize tools that provide real time transparency into the current state of the system and individual accounts**

The Water Utility System is the only viable pathway to a significant liquidity event that will give the City the Fund Balance it needs.

Goals & Benefits of the Water Utility Sale

- 6. The new P3 would be more agile in terms of staffing and more likely to keep project costs on time and under budget (compared to government)**
- 7. Gives Petersburg a fresh start with a large financial reserve**
- 8. Require the new P3 to present to City Council and the public any rate adjustments, to seek the City's input, before presenting to the State Corporation Commission (SCC)**

The Water Utility System is the only viable pathway to a significant liquidity event that will give the City the Fund Balance it needs.

City Will Receive \$420,210 from the State

- We are very excited to share that the State has provided \$420,210 in funding to offset past and future costs incurred by the City in setting the path forward for fiscal solvency.
- We worked closely with the City's delegation in the General Assembly, the Governor's Office, and Secretary Ric Brown. **This is a huge win for the City and demonstrates the State's strong support.**
- The City received the funds by wire transfer. The funds will be accounted for as revenues associated with the following: FY 2017 General Fund of \$85,535; FY 2017 of \$100,000; and FY 2018 of \$234,675.

The State Provided \$420,210 in funding

1	To Be Completed/Appropriated: April 2018 Performance Review by the Robert Bobb Group (FY 2018)	\$50,000.00
2	To Be Completed/Appropriated: Executive Training for City Council (FY 2018)	\$25,000.00
3	Executive Coaching, SOP development, technology infrastructure policy and procedure improvements performed by the Robert Bobb Group (FY 2018)	\$50,000.00
4	Water and Wastewater Infrastructure Development Plan/Rate Study by the Robert Bobb Group, Davenport and CH2M (FY 2017)	\$100,000.00
5	VML/VACO Finance Pre-Audit Work for FY 2017 (FY 2018)	\$90,000.00

Total Received \$420,210.00

The State Provided \$420,210 in funding

6	Finance Policy and Procedure Review/Chart of Accounts Revamp by Anne Seward Consulting via Davenport (FY 2017)	\$46,025.00
7	VML/VACO Finance Pre-Audit Work for FY 2016 (FY 2017)	\$20,000.00
8	City Works Implementation (FY 2018)	\$19,675.00
9	FY 2018 Budget Development by Alineo Group via Davenport (FY 2017)	\$15,000.00
10	Budget Analyst/Rating Agency Preparation/Cash Flow/Budget Projections by the Robert Bobb Group (FY 2017)	\$4,510.00

Total Received \$420,210.00

RBG Savings and Cost Avoidance Activities

- 1. Balanced the FY17 Budget for the first time since 2009**
- 2. Restored the 10% Pay Cut in FY17**
- 3. DSS State Reimbursement**
 - a. RBG requested and received \$625,000 back to the City's Department of Social Services.
- 4. Settled SCWA Lawsuit**
 - a. \$1.3M settlement with South Central Wastewater Authority
- 5. Positioned the City to secure \$6.5 Revenue Anticipation Note (RAN)**
- 6. Ensured City Payroll in November – December 2016**
- 7. Council approved reducing the rehab tax credit from 10 years to 5 years.**

RBG Savings and Cost Avoidance Activities

- 8. Sold 70+ Surplus Physical Assets for Auction (e.g., unused police and fire vehicles)**
- 9. Conducted Real Estate Showcase to streamline sale of eligible city owned real estate properties**
- 10. Completed a nationwide Executive Search to find permanent City Manager, Deputy City Manager, Police Chief, Fire Chief**
- 11. Forensic Audit completed report due by end September 2017 (RFP received 6 proposals from nationwide)**
- 12. Implemented OpenGov to build the FY18 Budget, and establish monthly financial reporting**

RBG Savings and Cost Avoidance Activities

13. Sold the Petersburg Generals baseball team for \$100K

14. Created Standing Committees to tackle key issues

- a. Public Safety
- b. Fiscal Policy
- c. Education

15. Implemented CityWorks for Utilities Department to track work orders, repairs, cost of repairs, staffing

16. All authorities were made whole by the end of June 2017.

VRS and SCWWA will be paid off December 2017 and FY 2019, respectively. The remaining two have been appropriated in the FY 18 budget.

RBG Savings and Cost Avoidance Activities

- 17. \$8M for funding for parking garage. The City did not have to come up with a previously required \$3M match.**

- 18. DEQ Grant for Water Utility funding: DEQ waived \$200,000, and turned into zero interest grant. Balance of \$550K DEQ grant is a zero interest loan.**

- 19. Validated \$350K in Fire Programs Money**

- 20. Utility Collections Rate improved to an average of 86% increased revenues from \$6.5M to \$9M revenue**

RBG Savings and Cost Avoidance Activities

- 21. Landfill revenues increased by an additional \$30K**
- 22. Created a new Contract for Internal Audit Services with a nationally recognized firm CliftonLarsenAllen**
- 23. Utility Rate Increases have now put the City on sound footing for revenue stream to meet current needs**
- 24. Established a \$500K reserve for unforeseen repairs**
- 25. Successfully enabled funding for Public Safety Vehicles**

RBG Savings and Cost Avoidance Activities

- 26. VDOT 2040 Transportation Plan initially had no projects for Petersburg. Two (2) projects are now included: VSU Gateway and Collier Yard Access.**

- 27. Reduced Employee head count within the City Manager's scope to enable a balanced FY18 Budget**

- 28. Reduced Health Care Savings \$300K by implementing new health care plans in FY17**

Forensic Audits Report Due Sept 30th

- **Completing in person interviews this week**
- **Reminder of the Scope:**
 - **Commissioner of Revenue Office**
 - **Office of the Treasurer**
 - **Special Funds**
 - **Enterprise Funds**
 - **Surplus Vehicles**
 - **Perpetual Care Fund**
 - **Purchase Cards**
 - **Johnson Controls Contract**

**Report will be
available by end of
September 2017.**

Process Review of City Collector Functions by October 1

**RBG will conduct a deep dive
into the Treasurer's collection processes**

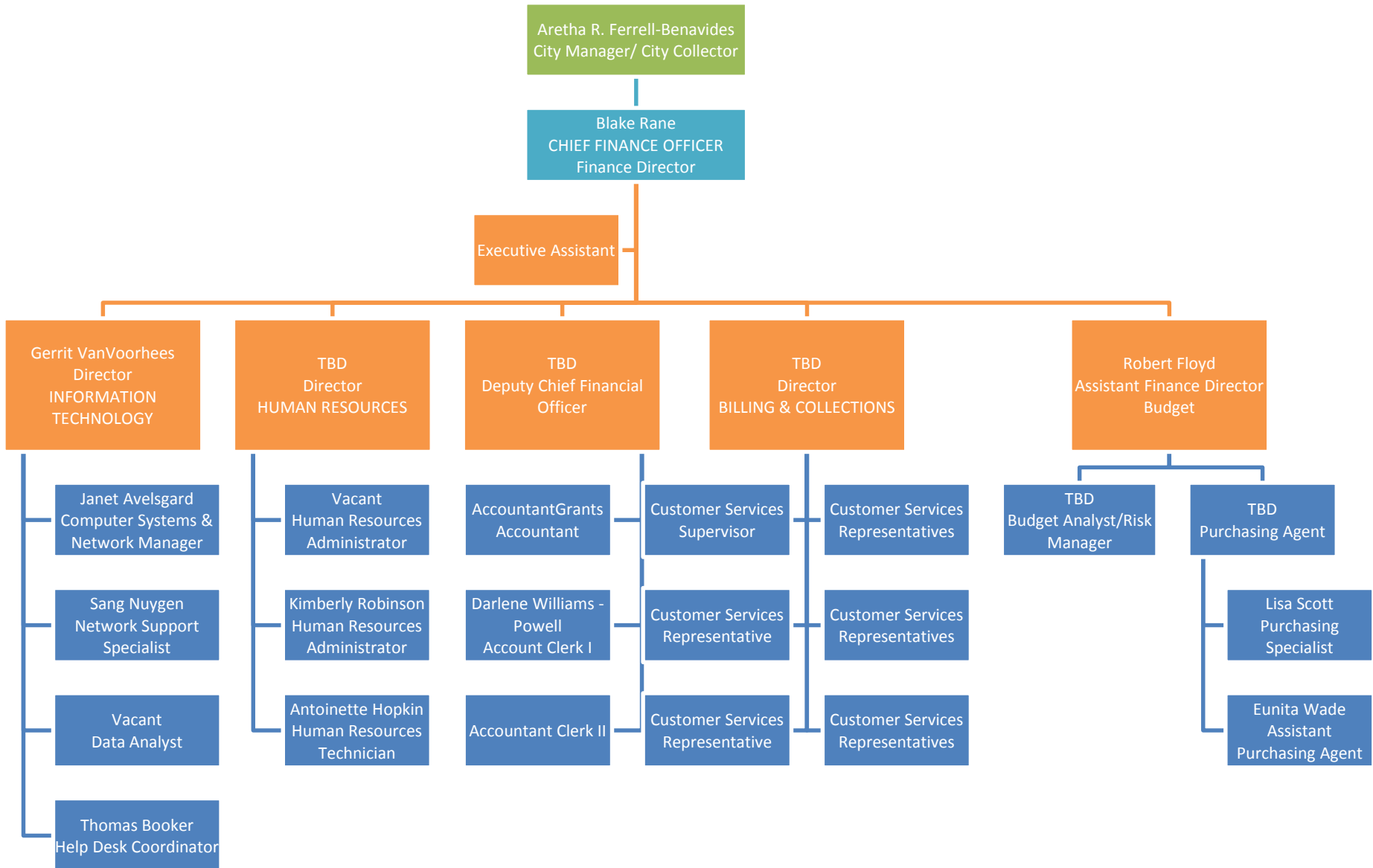
- **The redesigned Collector functions and processes will be implemented by October 1, 2017**
- **RBG will review current state processes and staffing, propose the target state processes, staffing model**
- **Guiding Principles: State Requirements, “Clean Hands”**

Process Focus Areas

RBG will conduct a process redesign for key process areas and recommend new processes

- **Staffing**
- **Payment Methods**
- **Cash Flow Collection Methods**
- **Bank Transfers**
- **Financial Data Security**
- **Ethics & Compliance**

City of Petersburg Organization – CFO’s Office



RBG Phase 4 Work Description

RBG proposes this extension of our services to complete these major initiatives:

- Review FY19 Budget Process and Audit to ensure continued progress
- Develop Reports to the City Council and to the State
- Review Financial Reports for Data Accuracy
- Examine and Report on Utilization of OpenGov & CityWorks for data analytics and quality control
- Review Financial processes for implementation
- Conduct in person meetings with leadership team & provide Executive Coaching

RBG Phase 4 Work Description

Finance/Budget

- Balanced FY 19 Budget - Any red flags with proposed
- School Funding
- CIP - Financing incorporated into the CIP
- FY 18 Budget Performance (reporting to City Council; results)
- FY 17 CAFR—what did it say?
- FY 16 Audit Findings —Progress in Correcting
- Movement towards Fund Balance—status
- Outstanding AP
- Internal Audit Process—How is it going? What movements is made to correct findings
- Forensic Audit Findings—How is implementation going to correct for these
- Chart of Accounts Status in Implementation and Performance
- Payment to Schools
- OpenGov Use - being updated
- Grant Performance (pull report for grants received and amount spent)

RBG Phase 4 Work Description

Billing/Collection

- Transition to City Collector — how is it performing
- Billing/collections activity for all bills
- Utility billing status
- operational enhancements?
- movement to sell
- major breaks
- Personnel

City-Wide Operational Issues

- Personnel Updates
- Status of Operational issues (fleet management, facilities/janitorial services updates)
- CityWorks performance and update

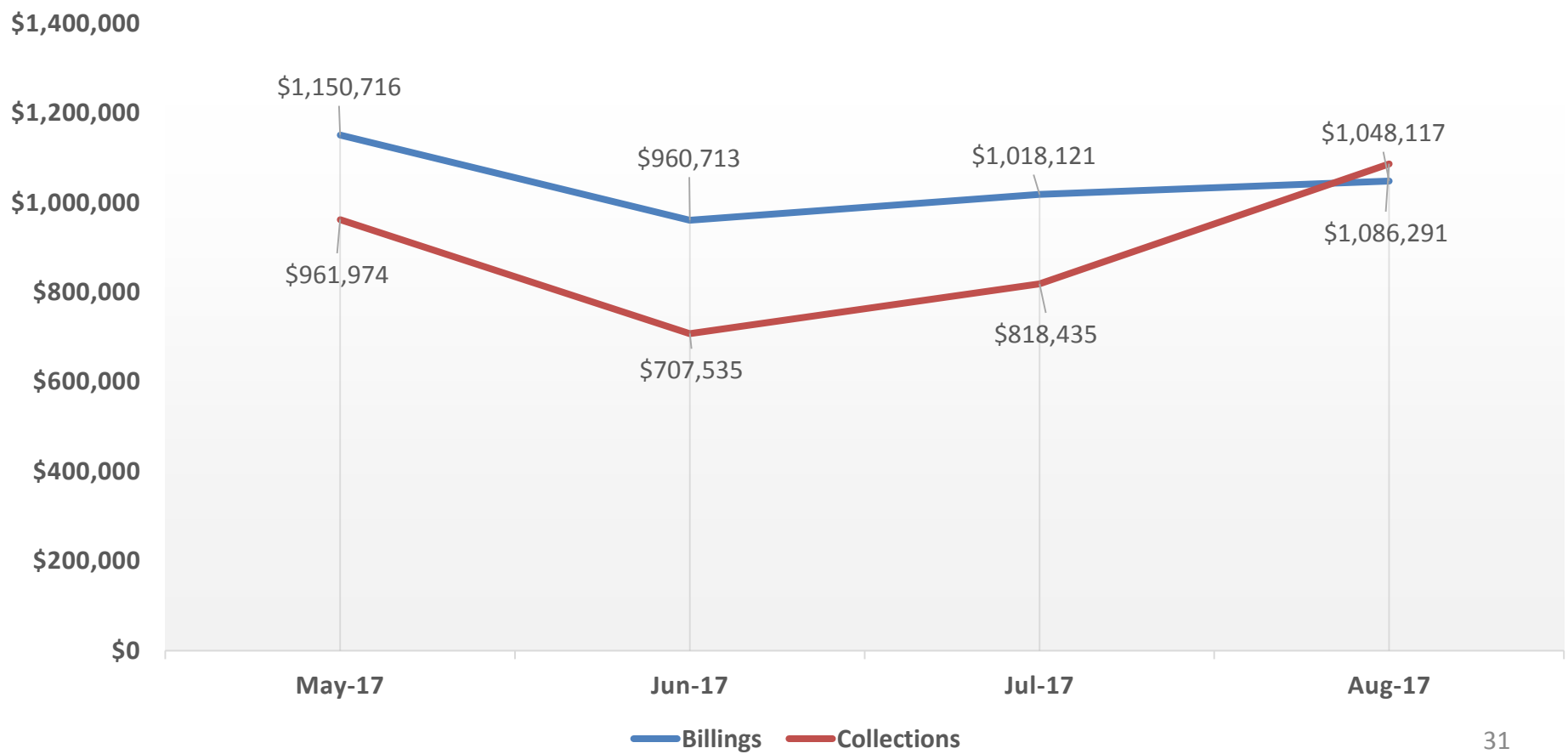
Utility Progress Report

Utility Collections Update

Utility Collections Improved Since May 2017

Utility Collections Improved Since May 2017 due to the "Surge" in Apartment collections

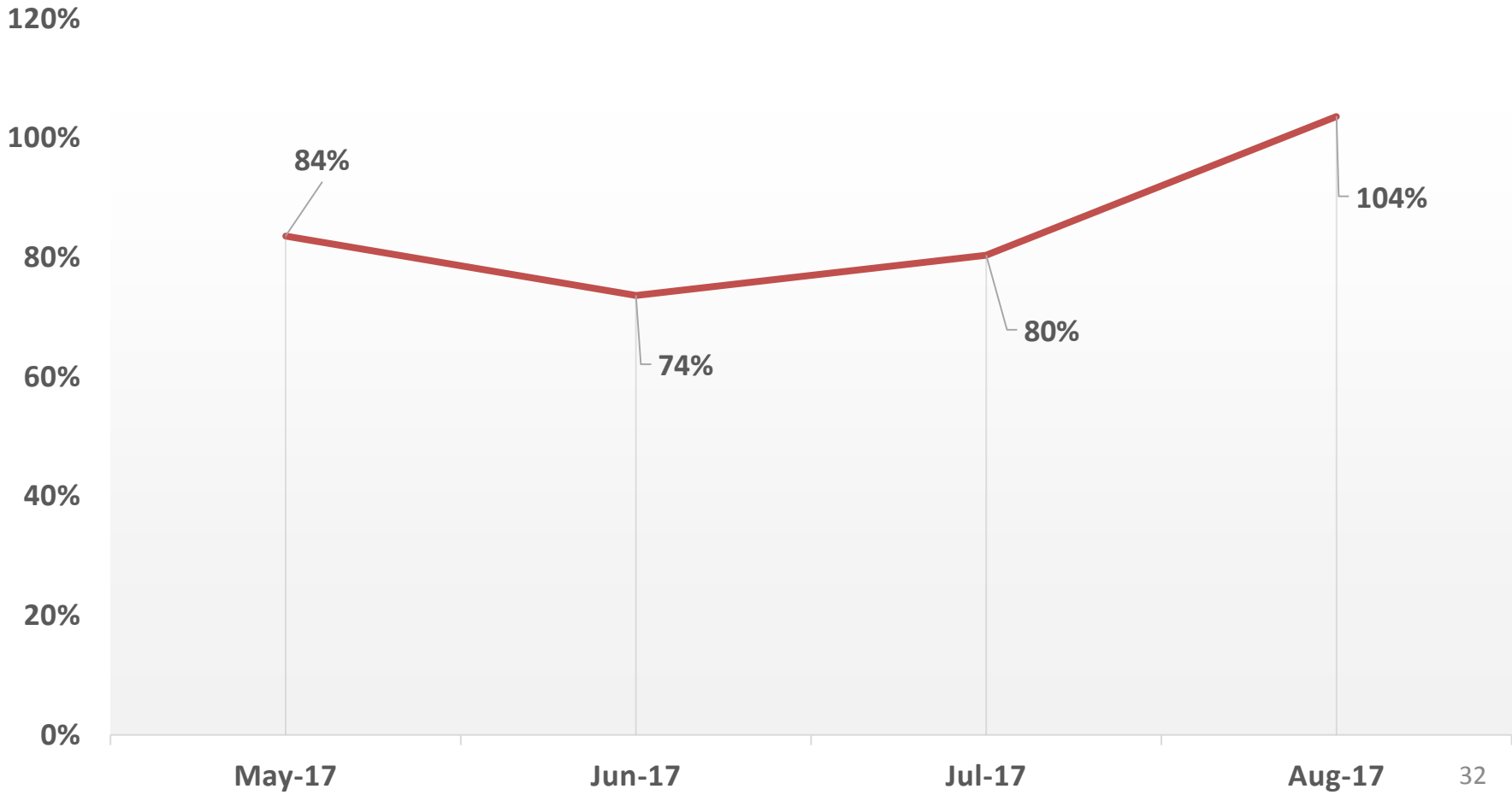
Billing and Collections May 2017 - August 2017



Utility Collections Increased Since May 2017

Average Utility Collections Rate since May 2017 is 86%

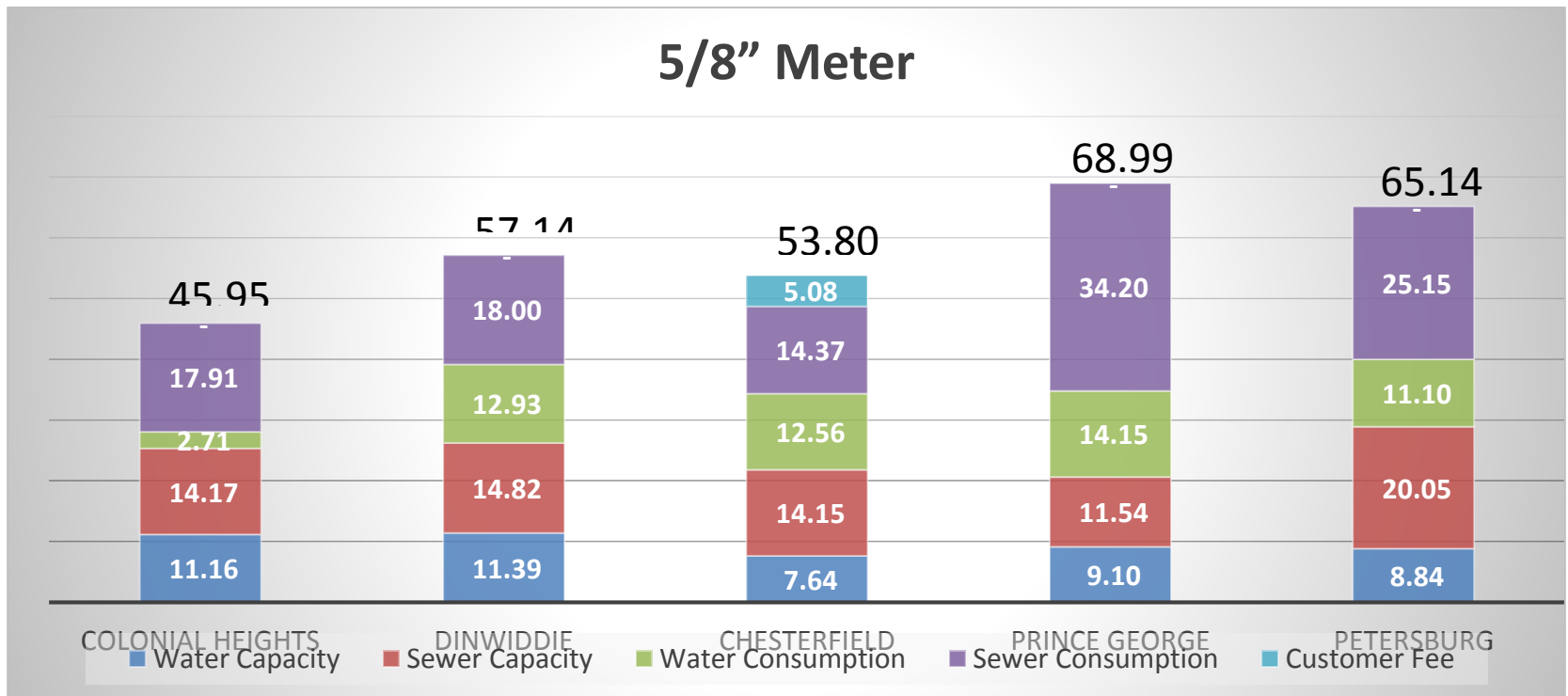
Collections Rate May 2017 - August 2017



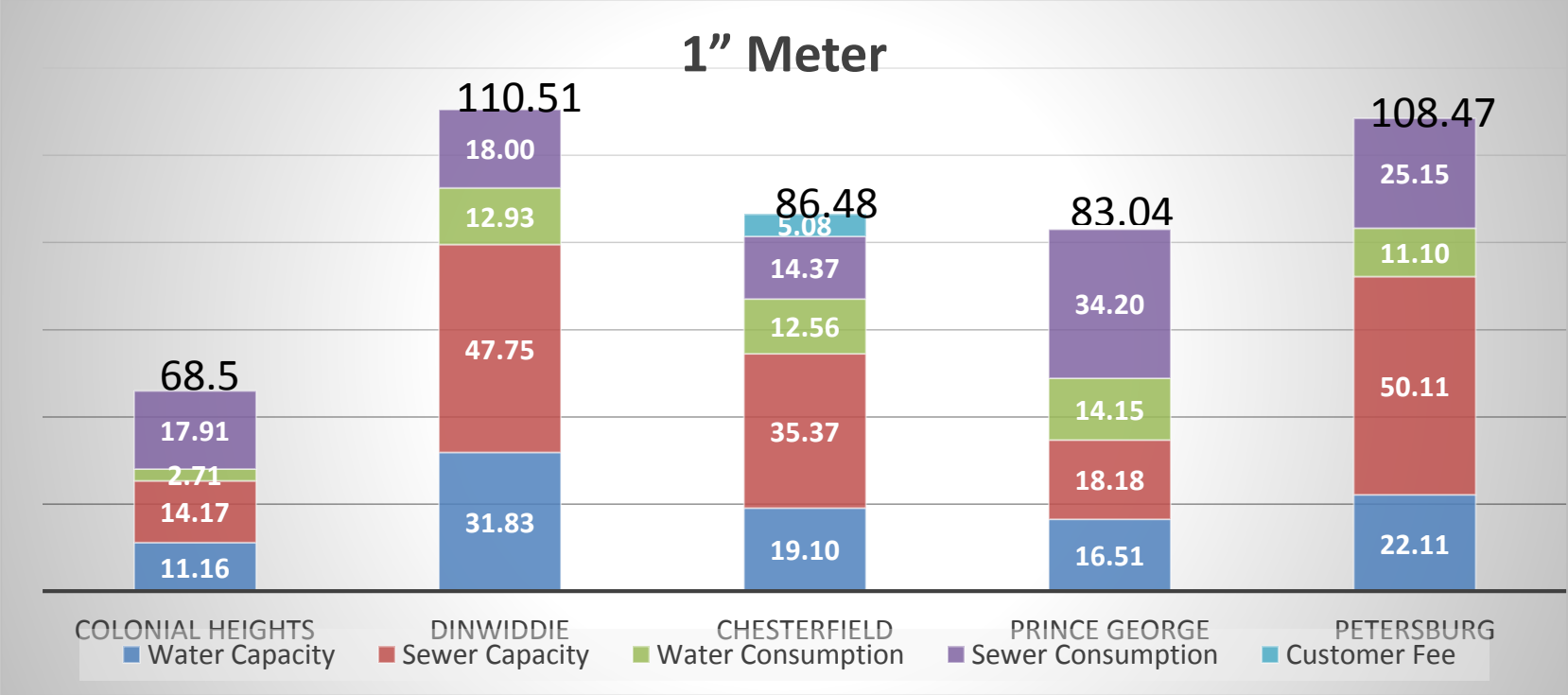
Utility Rate Analysis

- Comparison of Petersburg Rates to Other ARWA/SCWWA Jurisdictions
- Impact of 5/8" meters to 1" meters

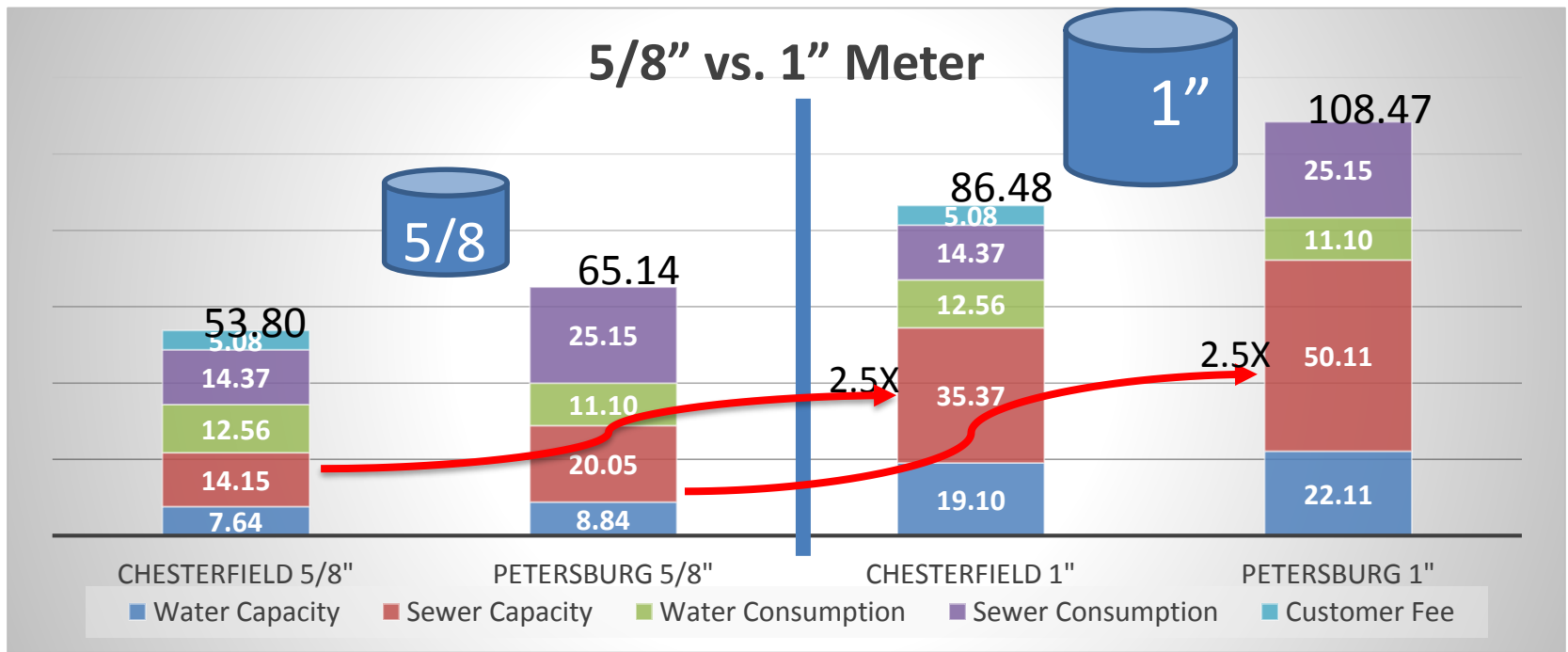
Comparison of Rates (5,000 gallons)



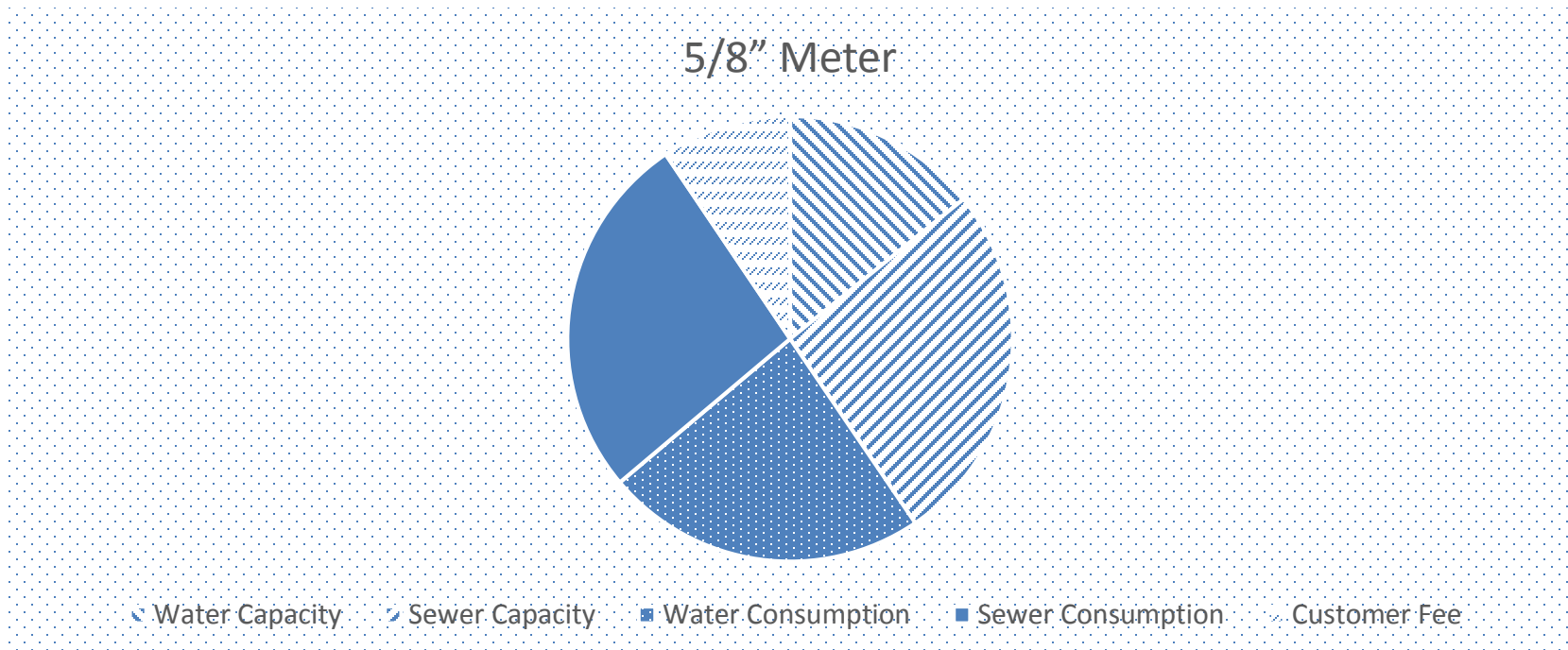
Comparison of Rates (5,000 gallons)



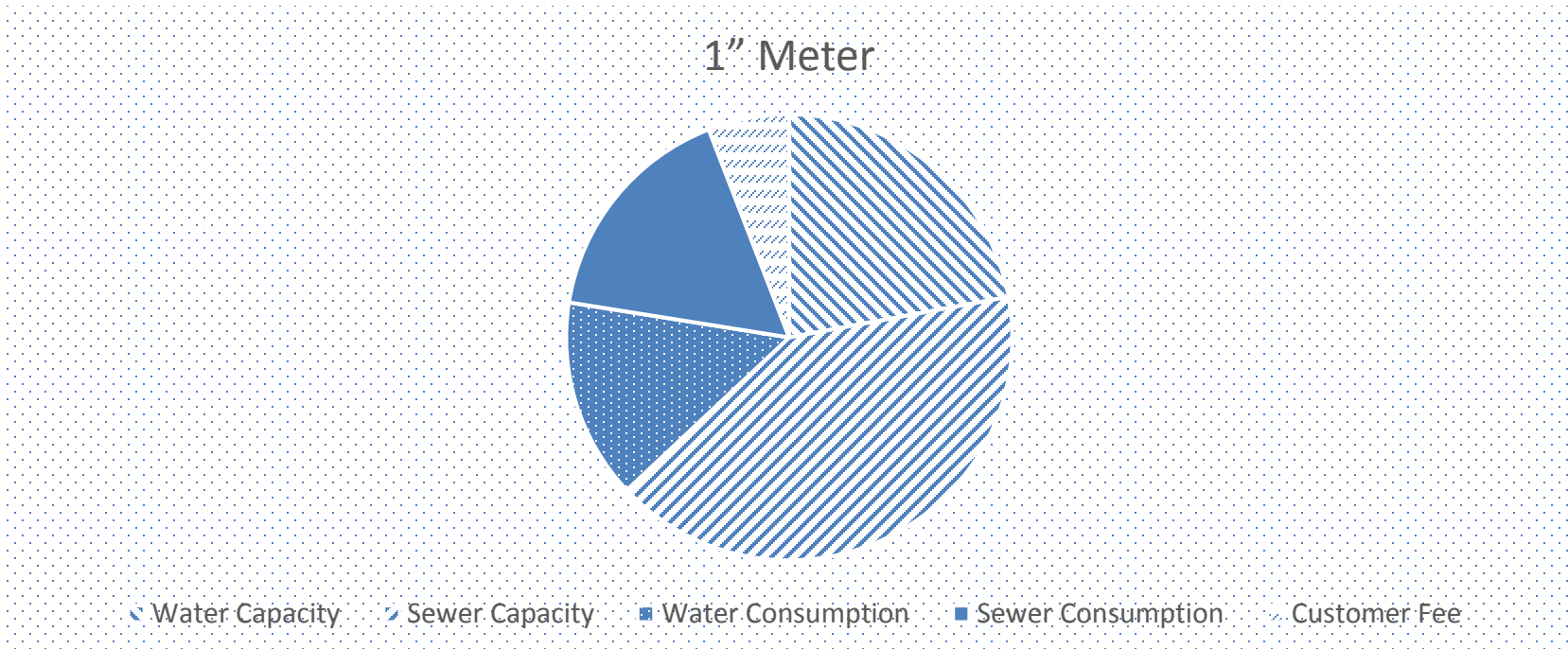
Comparison of Chesterfield and Petersburg Monthly Rates (5,000 gallons)



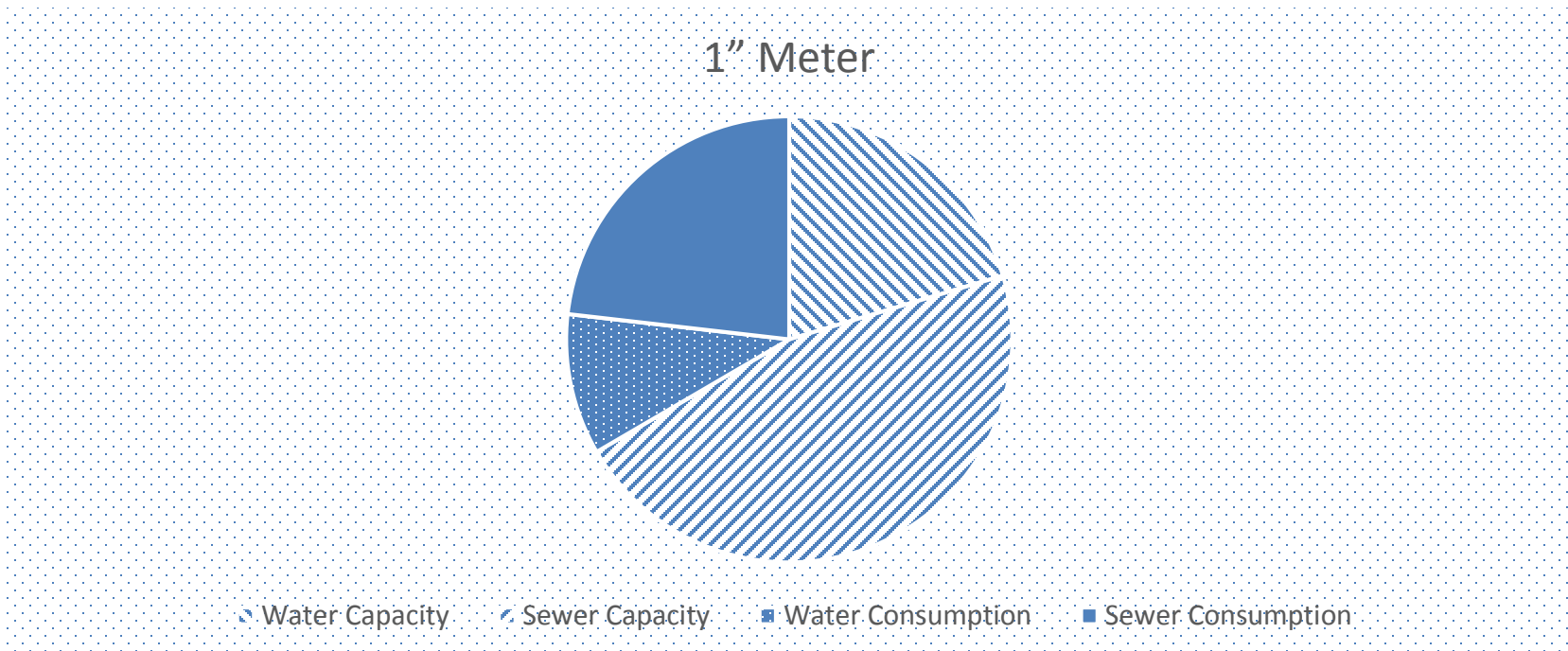
Chesterfield Capacity Charge vs. Consumption



Chesterfield Capacity Charge vs. Consumption



Petersburg Capacity Charge vs. Consumption



Comparison of Water and Wastewater Rates

(5,000 Gallons / 6.68 ccf)

	Colonial Heights *		Dinwiddie		Chesterfield*		Prince George		Petersburg	
	5/8	1"	5/8	1"	5/8	1"	5/8	1"	5/8	1"
Capacity Water	11.16	11.16	11.39	31.83	7.64	19.10	8.27	15.01	8.84	22.11
Capacity Wastewater	14.17	14.17	0.00	0.00	14.15	35.37	11.54	18.18	20.05	50.11
Consumption Water (5,000 gallons)	2.71	2.71	21.55	21.55	12.56	12.56	14.15	14.15	11.09	11.09
Consumption Wastewater (5,000 gallons)	17.90	17.90	30.00	30.00	14.37	14.37	34.20	34.20	25.15	25.15
Customer Fee					5.08	5.08				
TOTAL BILL	45.94	45.94	62.94	83.38	53.80	86.48	68.16	81.54	65.13	108.46
* converted to monthly										
Water Consumption Rate	1.615/ccf over 5 ccf		4.31/1,000 gallons		1.88/ccf		2.83/1,000 gallons		.000798/gal. up to 2,244 gal. .003378/gallon over 2,244 gal.	
Wastewater Consumption Rate	2.68/ ccf		6.00/1,000 gallons		2.15/ccf		6.84/1,000 gallons		.001785/gal. up to 2,244 gal. .007676/gal. over 2,244 gal.	

Summary

- There are approx. 1,766 residential customers with 1" meters
- There are approx. 8,389 residential customers with 5/8" meters
- Impact of charging 1" meter customers at the 5/8" rate is lost revenue of approx. \$900,000
- Shifting this cost to 5/8" customers would equate to approx. 10% rate hike for 8,389 residential customers
- 5/8" customers would be subsidizing 1" customers (who benefit from a higher level of service, as their 1" meters can deliver more water per minute)

Transparency

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

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