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:
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

<table>
<thead>
<tr>
<th>Current Base Rate</th>
<th>What the Base Rate Should Be</th>
<th>What the 2017 Base Rate Will Be</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>$6.82</td>
<td>$17.06</td>
</tr>
<tr>
<td>Sewer</td>
<td>$15.47</td>
<td>$38.66</td>
</tr>
</tbody>
</table>
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

- Water & Wastewater Utility Framework
- Citizens
- City Council
- Council Water Utility Ad Hoc
- City Administration
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

<table>
<thead>
<tr>
<th>Type of Infrastructure</th>
<th>Total Cost</th>
<th>Petersburg Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARWA Lake Chesdin Dam Raise</td>
<td>$23.5 million</td>
<td>$3.9 million</td>
</tr>
<tr>
<td>SCWWA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Aging infrastructure</td>
<td>$78.0 million</td>
<td>$42.0 million</td>
</tr>
<tr>
<td>• Wet Weather Improvement</td>
<td>$20.3 million</td>
<td>$10.9 million</td>
</tr>
<tr>
<td>• Denitrification</td>
<td>$17.3 million</td>
<td>$9.3 million</td>
</tr>
<tr>
<td>• Denitrification</td>
<td>$40.4 million</td>
<td>$21.8 million</td>
</tr>
<tr>
<td>Petersburg Infrastructure</td>
<td>$51.3 million</td>
<td>$51.3 million</td>
</tr>
<tr>
<td>Total</td>
<td>$152.8 million</td>
<td>$97.2 million</td>
</tr>
</tbody>
</table>
Affordability Index 2% of MHI

Water Sewer Rate Hikes Will Break the EPA Threshold

As Petersburg Water Sewer Rates Steadily Rise...

The Water Sewer Bill Breaks the EPA Affordability Threshold in Year 2

FY18 FY19 FY20 FY21 FY22

PERCENT OF ANNUAL SEWER BILL TO MHI
EPA AFFORDABILITY THRESHOLD FOR SEWER BILL

...the EPA Affordability Threshold is exceeded
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

<table>
<thead>
<tr>
<th>Performance</th>
<th>City Owned</th>
<th>City Owned</th>
<th>City Owned</th>
<th>City (Public Authority)</th>
<th>Private</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>Performance</td>
<td>Better Management</td>
<td>Private Management (RFP)</td>
<td>Separate Single Member Authority</td>
<td>Franchise/Lease (RFP)</td>
<td>Private Ownership (RFP)</td>
</tr>
<tr>
<td>Ability to Borrow for Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceeds Affordability Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money to General Fund (Annually)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money to General Fund (One-Time)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Fund &amp; Higher Bond Rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time Frame</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARWA &amp; SCWWA Approval Required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of Return to the Owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anticipated Collection Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 paid out of the Utility Fund
RBG Progress Update
**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. 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
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 27</td>
<td>City Manager Proposed Budget to Council</td>
</tr>
<tr>
<td>March 27-April 28</td>
<td>Council Work Sessions on Budget</td>
</tr>
<tr>
<td>March 27</td>
<td>General Fund Revenues</td>
</tr>
<tr>
<td>March 29</td>
<td>Debt/Budget Policies; Capital Budget; Utilities</td>
</tr>
<tr>
<td>April 10</td>
<td>Police, Fire and Emergency Communications</td>
</tr>
<tr>
<td>April 12</td>
<td>Social Services Agencies; Health Department; Personnel/Benefits</td>
</tr>
<tr>
<td>April 24</td>
<td>Schools Operating &amp; Capital</td>
</tr>
<tr>
<td>April 26</td>
<td>Leisure and Cultural Affairs; Planning, Economic Development &amp; Code</td>
</tr>
<tr>
<td>May 2</td>
<td>Public Hearing on the FY 18 Budget</td>
</tr>
<tr>
<td>May 12</td>
<td>City Council submits recommendations to City Manager</td>
</tr>
<tr>
<td>May 16</td>
<td>City Council to discuss changes to the budget</td>
</tr>
<tr>
<td>June 6</td>
<td>City Council Meeting to Adopt/Appropriate FY 18 Budget</td>
</tr>
<tr>
<td>June</td>
<td>Landbook Finalized</td>
</tr>
<tr>
<td>September</td>
<td>FY 18 Landbook Produced/Published</td>
</tr>
<tr>
<td>October 17</td>
<td>Public Hearing on the Proposed Tax Rate Adjustment due to Reassessment</td>
</tr>
</tbody>
</table>
**Background & Reminder**

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Expenditures</th>
<th>Surplus/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mass Transit/Golf (1)</td>
<td>Governmental (2)</td>
</tr>
<tr>
<td>2006</td>
<td>2,207,103</td>
<td>69,117,310</td>
</tr>
<tr>
<td>2007</td>
<td>2,500,457</td>
<td>72,158,936</td>
</tr>
<tr>
<td>2008</td>
<td>3,049,122</td>
<td>76,375,348</td>
</tr>
<tr>
<td>2009</td>
<td>3,460,204</td>
<td>79,668,879</td>
</tr>
<tr>
<td>2010</td>
<td>3,505,975</td>
<td>79,214,494</td>
</tr>
<tr>
<td>2011</td>
<td>3,834,946</td>
<td>81,657,871</td>
</tr>
<tr>
<td>2012</td>
<td>4,299,727</td>
<td>80,140,067</td>
</tr>
<tr>
<td>2013</td>
<td>4,032,005</td>
<td>88,798,157</td>
</tr>
<tr>
<td>2014</td>
<td>4,025,971</td>
<td>81,483,802</td>
</tr>
<tr>
<td>2015</td>
<td>4,107,319</td>
<td>87,076,939</td>
</tr>
</tbody>
</table>

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
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

Timeline for Hiring Highly Qualified Candidates

February 7th

Recruit City Manager

Recruit Assistant City Managers

Recruit Finance Director

Recruit Police Chief

June 30th

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
• **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

**Proposed Structure of Committees**

**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.
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.

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.
Transparency

• All presentations are available on the City’s website: