

Fiscal Distress Monitoring Update

City of Petersburg VIRGINIA

Current Financial Assessment
Aretha R. Ferrell-Benavides, City Manager
October 23, 2018



Topics for Discussion



1. New City Management Executive Team
 - a. City Leadership & Key Management Team
 - b. City Management Structure-Overall Organizational Chart
 - c. City Manager's Strategic Priorities
2. Balanced Budget
 - a. FY17-18 Amendment
 - b. FY18-19 Budget
3. Robert Bobb Financial Performance Review Observations
4. Management Responses (*reference excel spreadsheets*)
5. Challenges



Introduction to the New Management Team

EXECUTIVE TEAM

- ❑ **Ms. Aretha R. Ferrell-Benavides City Manager** appointed as on June 21, 2017 and started on July 10, 2017. Previously the City Manager of Glenn Heights, Texas
- ❑ **Michael C. Rogers, Chief Operating Officers** selected in April 2018 to oversee Budget, Finance, Human Resources and Information Technology. Former City Administrator for the District of Columbia, Vice President of MedStar, Executive Director of the Metropolitan Washington Council of Governments.
- ❑ **Lionel D. Lyons, Deputy City Manager**, selected in April 2018 to oversee Development responsible for public works, utilities, planning and community development, transit and golf. Retired from City of Phoenix after nearly 29 years served as Former Director of Development, Human Resources, and EEOC
- ❑ **Darnetta Tyus, Deputy City Manager**, selected in September 2018 as Deputy City Manager for community affairs in September 2017 and oversees social services community corrections, recreation and community engagement. 30 years of government experience previously serving in executive positions in the City of Chicago and District of Columbia
- ❑ **Kenneth Miller, Managing Director for Public Safety**, selected in July 2018 as Chief of Police - a veteran of the Virginia Beach Police Department, brings over 35 years of nationally recognized law enforcement experience to the City.

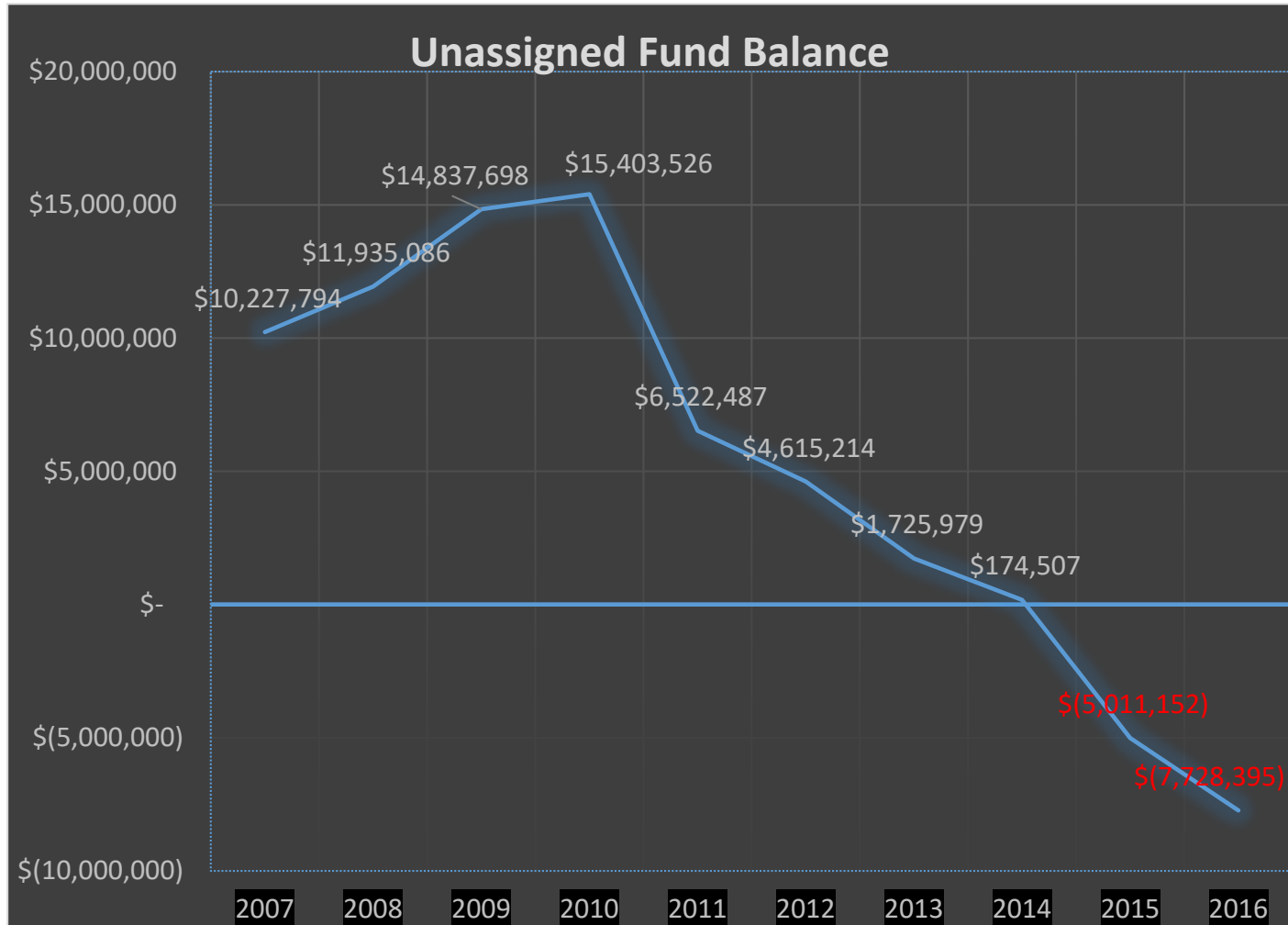
FINANCE TEAM

- ❑ **Maisha Beasley, Director of Finance**, joined in August 2017, comes to the City with 20 years of accounting and auditing experience.
- ❑ **Robert A. Floyd, Director of Budget and Procurement**, joined in August 2017 as Assistant Finance Director, later assumed the role of Director of Budget and Procurement. Mr. Floyd was the lead individual in the amending of the FY 2018 Budget and development of the FY 2019 Budget.
- ❑ **Jason Baxter, Manager of Billing and Collections**, transitioned from a financial management and budgeting consultant with the City to a permanent role overseeing billing, collections, customer services and financial management

6 YEAR DECLINE IN FUND BALANCE



Year	Fund Balance
2007	\$10,227,794
2008	\$11,935,086
2009	\$14,837,698
2010	\$15,403,526
2011	\$6,522,487
2012	\$4,615,214
2013	\$1,725,979
2014	\$174,507
2015	(\$5,011,152)
2016	(\$7,728,395)



\$23M decline in Fund Balance over a 9 year period

Overview of the Bobb's Group FY 17-18 Budget

STABILIZATION



❑ **Attract and Attain High Quality Talent:**

- The FY 2018 Operating Budget restores employees' salaries to their levels before the across the board 10% cuts with attention and investments in critical departments such as Finance, IT/Data Analytics and Public Safety.

❑ **Invest in Public Safety:**

- The FY 2018 Operating Budget invests in police, fire and emergency communications to ensure the safety of Petersburg's residents. The investment will provide for competitive salaries, fill vacancies and replace vehicles and equipment.

❑ **Invest in Public Education:**

- The FY 2018 Budget keeps flat the City's investment in its public school system and funds at their requested level. Going forward, however, this level of funding will not be adequate. In the School District's 5-year plan through FY 2022, requested contributions will increase by 45 percent in FY 19 and then 1.5 percent annually thereafter.

Source: Interim City Manager June 30, 2017 Budget Transmission Letter



FY17-18 Adopted Budget Assumption Overview of City Manager's Observations

Revenue Assumptions

- Debt Restructure (\$24M bond refunding)
 - RAN for Cash Flow (\$6.5 Million)
 - Debt Refund for Capital Expenditures
- Improved Billing & Collections
 - Increased Collection Rates
- Major Cash Event (Proposed \$6 Million Liquidly)
 - Sale of Water System
 - Sale of Property
- Outsourcing
 - Facility Management
 - Payroll
 - Parks & Receptions
 - Risk Management

Expenditures

- Personnel
 - Restoration of 10 % Funding
 - Projected Reduction in Force
 - Positions not included in budget
 - Raises not budgeted, but committed to
 - Inadequate Health Care Calculation
- Non-Personnel
 - Extended Contractual Services
 - Issue of Equipment Debt (\$3M short-term financing for public safety vehicles)
- Unanticipated Expenditures
 - Water Main Leak
 - Fires
 - Settlements
 - Previous Year Debt



BALANCED BUDGET

Overview of FY 17-18 Approved

Identify Cost Efficiencies:

- To ensure a structurally balanced budget, the City must find cost efficiencies. Approaches are illustrated (a) outsourcing municipal services; (b) streamlining the organization; and (c) reducing healthcare costs in the workforce.

Restructuring with Innovation and Creativity

Budget Amendment Process

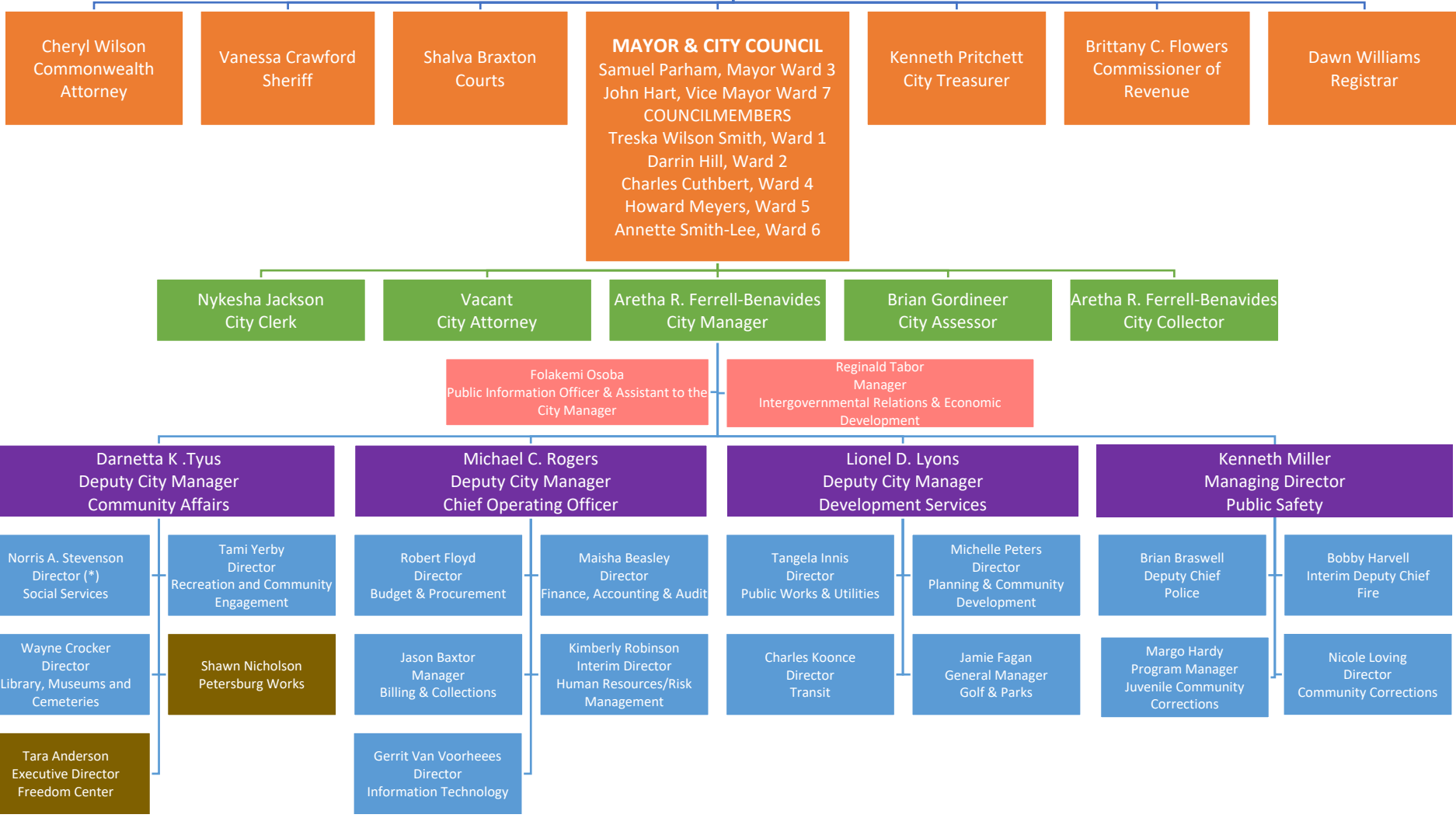
- Analyzed every Revenue Source
- Analyzed every Expenditure Line Item
- Analyzed budget to actual variances by department
- Analyzed trends
- Identified errors and omissions

Source: Interim City Manager June 30, 2017 Budget Transmission Letter

City of Petersburg - Organizational Chart



RESIDENTS OF PETERSBURG





City Manager's Identified Strategic Priorities

Operations and Administrative Services

- **ACCOUNTABILITY:** Establish Petersburg as a structurally stable organization with a greater focus on customer service, efficiency, accountability, and transparency

Budget and Fiscal Management

- **STABILIZATION:** Strengthen our fundamental fiscal policy and process to achieve long-term fiscal stabilization

Economic Development

- **GROWTH:** Develop a comprehensive plan and program to facilitate and become a catalyst for economic development to create jobs, retain current businesses, attract new businesses, and encourage investment in the community.

Neighborhood Revitalization

- **REVITALIZATION:** Establish a high-quality standard to promote enhanced building and community design

Community Engagement & Neighborhood Support

- **COMMUNICATION:** To improve and strengthen communication and engagement within our community.

Fiscal Challenges FY 17-18

Outstanding Obligations



Previous Debt All Paid

Previous Outstanding Obligations:

- ✓ \$1M Vendor Payments
- ✓ \$1.8M Storm Water Fund
- ✓ \$1.9M School System
- ✓ \$1.5M VRS (to be paid in full by calendar year end)
- ✓ \$ 775K South Central Waste Water Authority (to be paid within two years)

Other Outstanding Obligations (to be paid in full by calendar year end)

- ✓ Crater Criminal Justice Academy, Crater Youth, Riverside Regional Jail Authority
- ✓ Central Virginia Waste Management Authority
- ✓ Health Department
- ✓ District 19 Community Services Board

BALANCED BUDGET



- The City of Petersburg amended the FY17-18 Adopted Budget which was approved by the City of Petersburg's Council in March 2018.
- The City of Petersburg uses a Program-Based Budgeting method.
- The City Manager identified budget priorities and outlined areas of challenge for the departments and the City of Petersburg as a whole.
- There were budget trainings and review sessions scheduled
- The City Manager mandated all department heads to identify 5%-10% cost saving measures and efficiencies and to adjust service levels in order to propose a balanced budget.**



Expenditures for the General Fund were at \$77.8M for the FY18-19, when accounting for all positions and programs for each department while the revenues were at \$73.4M

City Manager made recommendations for the following:

- A 10% reduction in all departments except Constitutional Officers, Courts, and Grant Funded agencies;
- Reducing the City's contribution for health care to align with the required Federal minimum of 80% of the single health care cost.
- Elimination of non-funding of vacancies within departments
- Reducing the use of contractual services.

Result: A balanced budget

BALANCED BUDGET



REVENUE	2016-2017 ACTUALS	2017-2018 ADOPTED	2017-2018 AMENDMENT	2018-2019 ADOPTED
General Fund	73,069,844	78,225,499	74,804,958	73,440,122
Grants Fund	746,749	743,760	1,239,822	742,950
Streets Fund	2,559,923	5,697,247	5,859,254	5,834,237
CDBG Fund	852,535	923,419	1,213,763	944,987
Utilities Fund	12,334,213	12,639,291	12,765,978	13,478,695
Stormwater Fund	1,336,973	1,281,967	1,450,035	1,460,249
Golf Course Fund	703,735	737,657	1,018,815	1,030,507
Mass Transit Fund	2,598,980	3,253,206	4,518,875	5,184,962
TOTALS	\$94,202,951	\$103,502,046	\$102,871,501	\$102,116,709
EXPENDITURE/ EXPENSES	2016-2017 ACTUALS	2017-2018 ADOPTED	2017-2018 AMENDMENT	2018-2019 ADOPTED
General Fund	65,861,125	78,225,499	74,804,958	73,440,122
Grants Fund	812,522	743,760	1,239,822	742,950
Streets Fund	1,681,091	5,697,247	5,859,254	5,834,237
CDBG Fund	830,261	923,419	1,213,763	944,987
Utilities Fund	12,334,213	12,639,291	12,765,978	13,478,695
Stormwater Fund	886,834	1,281,967	1,450,035	1,460,249
Golf Course Fund	771,228	737,657	1,018,815	1,030,507
Mass Transit Fund	4,359,362	3,199,206	4,518,875	5,184,962
TOTALS	\$87,536,636	\$103,448,046	\$102,871,501	\$102,116,709

NOT BALANCED

NOT BALANCED

Robert Bobb Performance Review of the City of Petersburg's Financial Operations: May 2018



- The purpose of the review was to assess the City's financial and operational restructuring activities since the RBG concluded its work effective September 30, 2017. While the report highlights positive movements and improvements in local government best practices, as seen by the RBG, **it also highlights 10 Areas of Significant Risks and its concerns with the City's progress towards implementing the "Top 15 Actions the City Must Take" as defined in the Robert Bobb's Five-Year Financial Action Plan.**
- The City of Petersburg concurs partially with the observations, while others we simply do not agree with. This response will reference the work we have completed thus far and the corrective action plans we have either put in place or are in the process of implementing to address the observations noted in the report.



Robert Bobb Performance Review of the City of Petersburg's Financial Operations: May 2018

Description of Observation	
<p>Observation Summary No: 1: The City has not maintained a daily, weekly, or monthly cash flow. The City has not developed a strategy for eliminating the need for a RAN.</p>	<p>Observation Summary No: 2: Five-Year Financial Action Plan recommendations; remediate the audit findings as identified by the external auditors.</p>
<p>Observation Summary No: 3: The City management team's projection of a \$300,000 surplus for FY '18 is at risk of not being achieved.</p>	<p>Observation Summary No: 4: Transitional audit between the City Treasurer and Collector of Taxes was started but not completed by the City's Internal Auditor.</p>
<p>Observation Summary No: 5 There is no financial plan for the Utility Fund's significant capital needs.</p>	<p>Observation Summary No: 6: The Utilities infrastructure continues to be a significant risk continues to deal with water main breaks and boil water notices.</p>
<p>Observation Summary No: 7: Billings and Collections continues to be an area of significant risk and challenge. There continues to be a disjointed flow of information from the Commissioner of Revenue, the Collector of City Taxes, and the City Treasurer.</p>	<p>Observation Summary No: 7(b1): Implement a monthly edit-check system prior to utility bills being finalized to eliminate billing errors before bills are mailed.</p>
<p>Observation Summary No:7 (b2): Implement a system of internal controls (checks and balances) to prevent unauthorized adjustments or write-offs of customer bills.</p>	<p>Observation Summary No: 7 (b3): Implement procedures to document connection charges and ensure that accounts are established for new customers.</p>



Robert Bobb Performance Review of the City of Petersburg's Financial Operations: May 2018

Description of Observation	
<p>Observation Summary No: 7 (b4): Undertake an audit of every meter and every account to ensure that the correct meter is attached to the correct account and that the meter size, measurement type, and ERT are correctly configured.</p>	<p>Observation Summary No: 7 (b5): Automate compound meter billing calculations</p>
<p>Observation Summary No: 7 (b6): Upgrade the billing system to allow validation of mailing addresses to minimize returned mail.</p>	<p>Observation Summary No: 7(b7): Upgrade the current phone system Observation Summary No: 7 (b8): Upgrade website</p>
<p>Observation Summary No: 7 (b9): Assess the system for the need for backflow-prevention devices Observation Summary No:7 (b10): Review and evaluate the meter reading/billing cycle</p>	<p>Observation Summary No: 8: The Treasurer's Office is not depositing customer payments in a timely fashion and there is a significant risk and liability with how cash is handled by the City.</p>
<p>Observation Summary No: 9: The FY '19 Proposed Budget did not develop a capital budget or Capital Improvement Plan (CIP) at the time the operating budget was developed.</p>	<p>Observation Summary No: 10: The FY '19 Proposed Budget was developed without an updated Cost Allocation Plan so this could be a financial vulnerability once the new plan is updated.</p>

Management Response/Planned Corrective Action

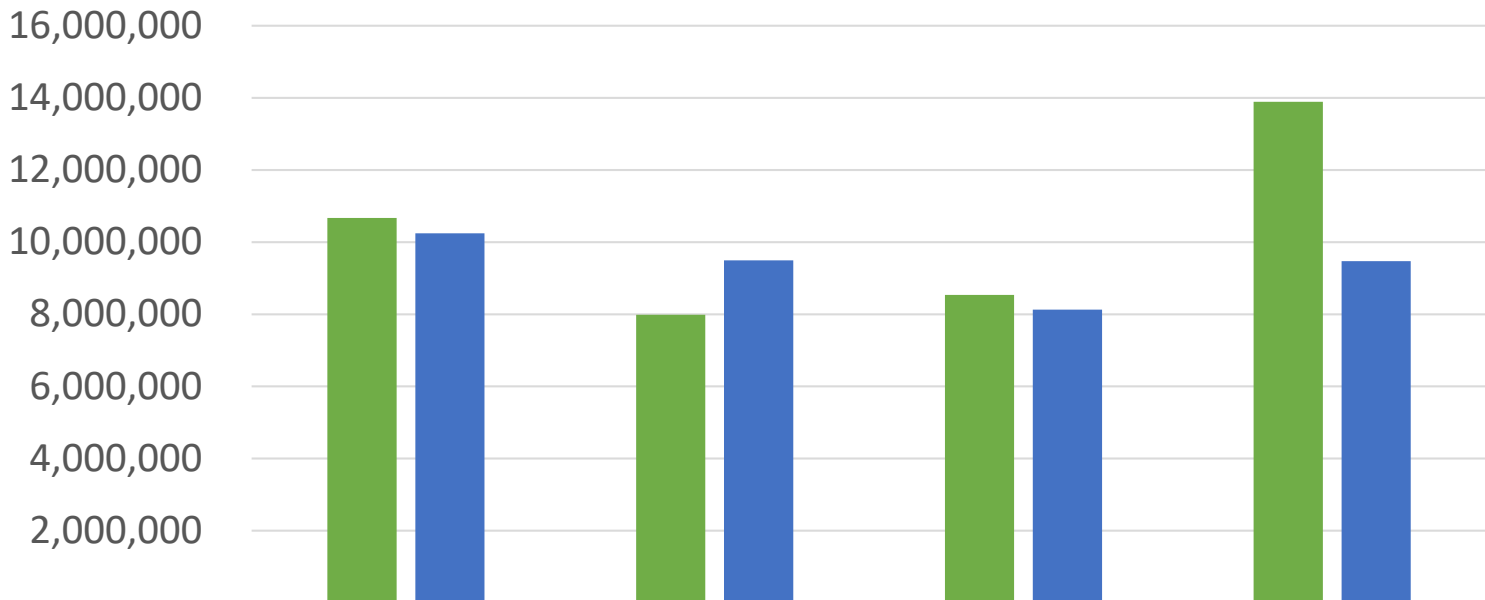


- Daily, weekly, or monthly cash flow.
- Revenue & Expenditure:
 - Summary
 - Budget to Actual
- Fund Balance History
- Billing & Collections

Month to Month FY19 Cash Flow Data



Government Wide Cash Inflow



	July	August	September	October-Projected
FY19 Cash Inflow	10,672,235	7,985,219	8,535,853	13,888,308
FY19 Cash Expenditure	10,246,192	9,493,398	8,128,718	9,473,823

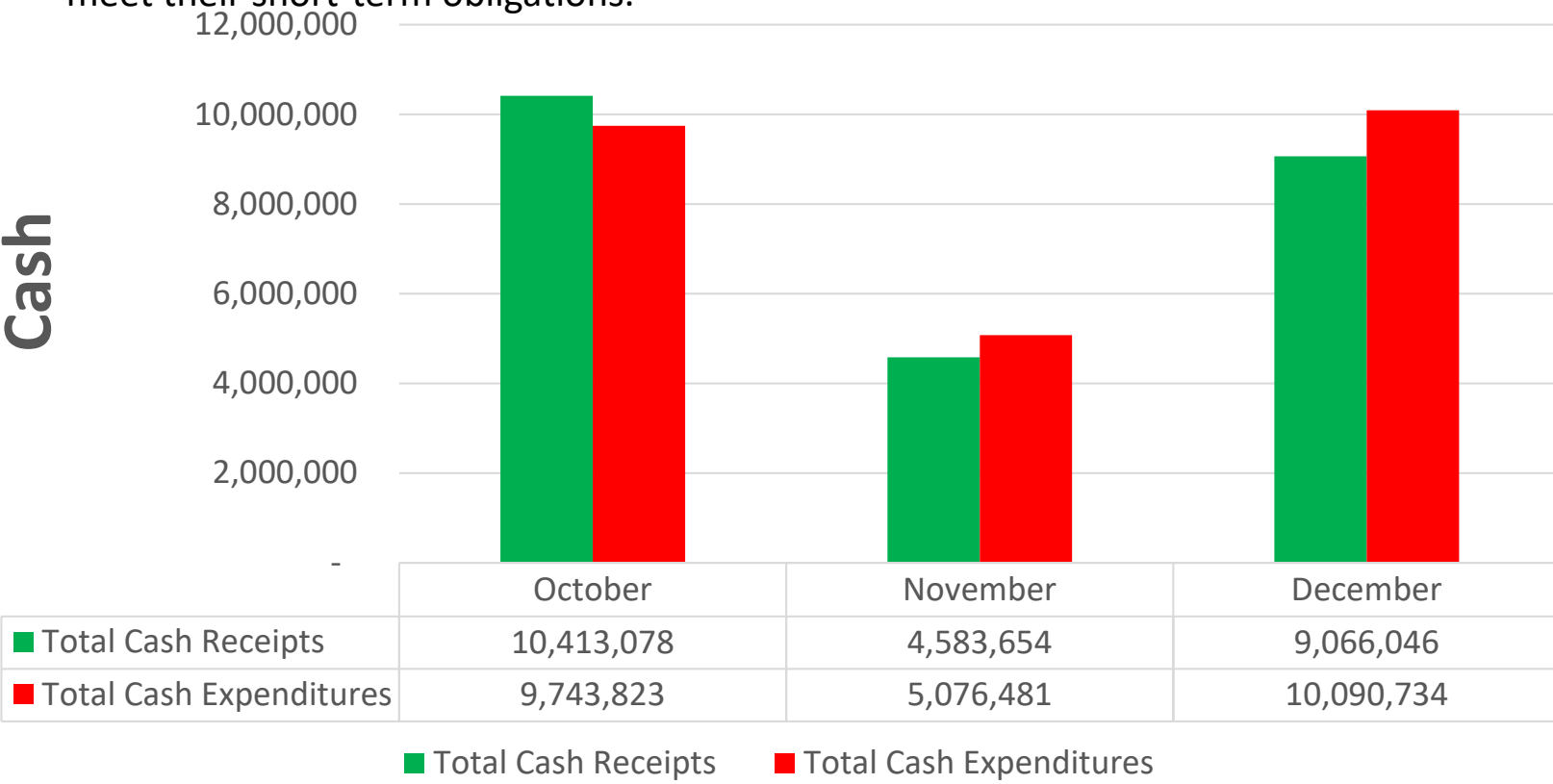
■ FY19 Cash Inflow ■ FY19 Cash Expenditure

2nd Quarter Cash & Expenditure Projections



❖ Cash vs Expenditures/Liabilities is a measurement of liquidity and provides an assessment of the City’s ability for both governmental and business-type activities to meet their short-term obligations.

❖ Cash should at a minimum equal current liabilities (a ratio of 1.0). A ratio of 1.0 or higher indicates that the government lived within its means for the respective activity or fund.



General Fund Revenues & Expenditure Summary



	2017-2018 Amendment	Year Ended June 30, 2018 <u>Unaudited</u>
TOTAL GENERAL FUND REVENUE	\$ 74,804,958	\$74,127,936
TOTAL GENERAL FUND EXPENDITURES	\$ 74,804,958	\$72,344,623
Excess (Deficit) of revenue over (under) expenditures	\$0	\$1,783,313

Statement of Revenues, Expenditures and Changes in Fund Balances General Fund



Revenues Final Budget FY18 Actual Variance
Unaudited **Over/(Under)**

General Property Taxes	\$ 33,628,557	\$ 32,449,499	\$ (1,179,059)
Other Local Taxes	14,434,623	14,510,058	75,435
Permits, Fees & Licenses	349,518	273,706	(75,812)
Fines & Forfeitures	806,942	869,744	62,802
Revenue from Use of Money/Property	157,947	153,228	(4,719)
Charges for Services	3,086,687	3,425,994	339,307
Miscellaneous Revenue	683,556	1,582,818	899,262
Recovered Costs	876	97,042	96,166
Revenue from the Commonwealth	14,959,278	14,869,198	(90,080)
Revenue from the Federal Government	4,899,973	4,682,537	(217,436)
Non-Revenue Receipts	1,797,000	1,214,113	(582,887)
TOTAL GENERAL FUND REVENUE	<u>\$ 74,804,958</u>	<u>\$ 74,127,936</u>	<u>\$ (677,021)</u>

Statement of Revenues, Expenditures and Changes in Fund Balances General Fund

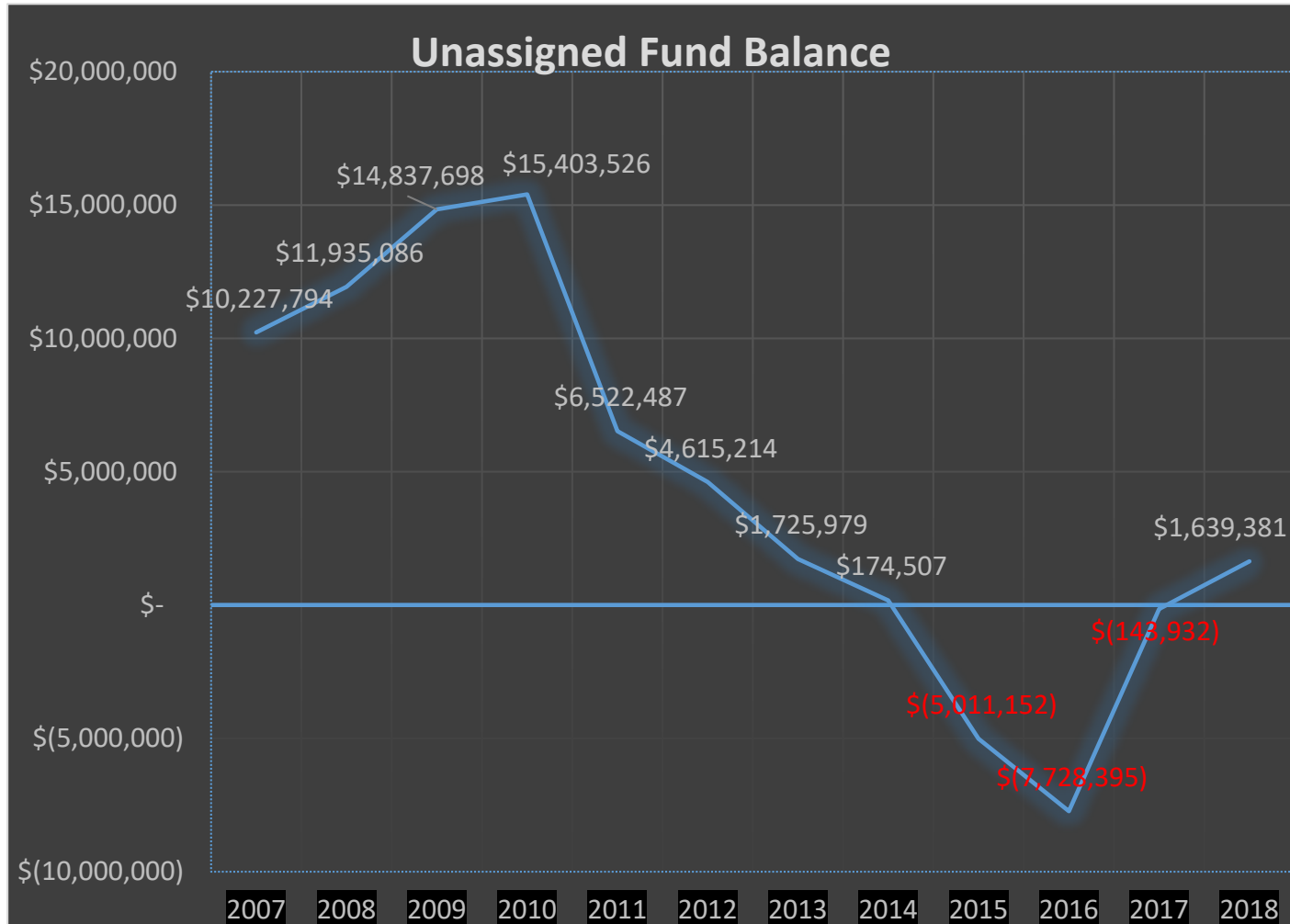


Expenditures	Final Budget	FY18 Actual Unaudited	Variance Over/(Under)
General Government	\$ 7,091,009	\$ 7,509,846	\$418,837
Judicial Admin/Constitutional Officers	4,208,240	4,209,079	839
Public Safety	18,950,403	18,154,299	(796,104)
Courts & Other Public Safety	279,083	245,110	(33,974)
Public Works	4,939,084	4,356,858	(582,227)
Social Services	13,553,873	12,768,511	(785,362)
Leisure & Community Engagement	2,010,123	1,872,473	(137,650)
Development Services	1,703,314	1,212,720	(490,594)
Debt Service	3,495,834	3,831,346	335,512
Schools	9,474,762	10,415,471	940,709
Transfers	1,578,046	1,469,713	(108,333)
Non-Departmental	7,521,186	6,299,197	(1,221,988)
TOTAL GENERAL FUND EXPENDITURES	\$ 74,804,958	\$72,344,623	\$(2,460,334)

FUND BALANCE HISTORY



Year	Fund Balance
2007	\$10,227,794
2008	\$11,935,086
2009	\$14,837,698
2010	\$15,403,526
2011	\$6,522,487
2012	\$4,615,214
2013	\$1,725,979
2014	\$174,507
2015	(\$5,011,152)
2016	(\$7,728,395)
2017	(\$143,932)
2018	\$1,639,381 (*)



(*) Unaudited



WATER BILLING OPERATIONS

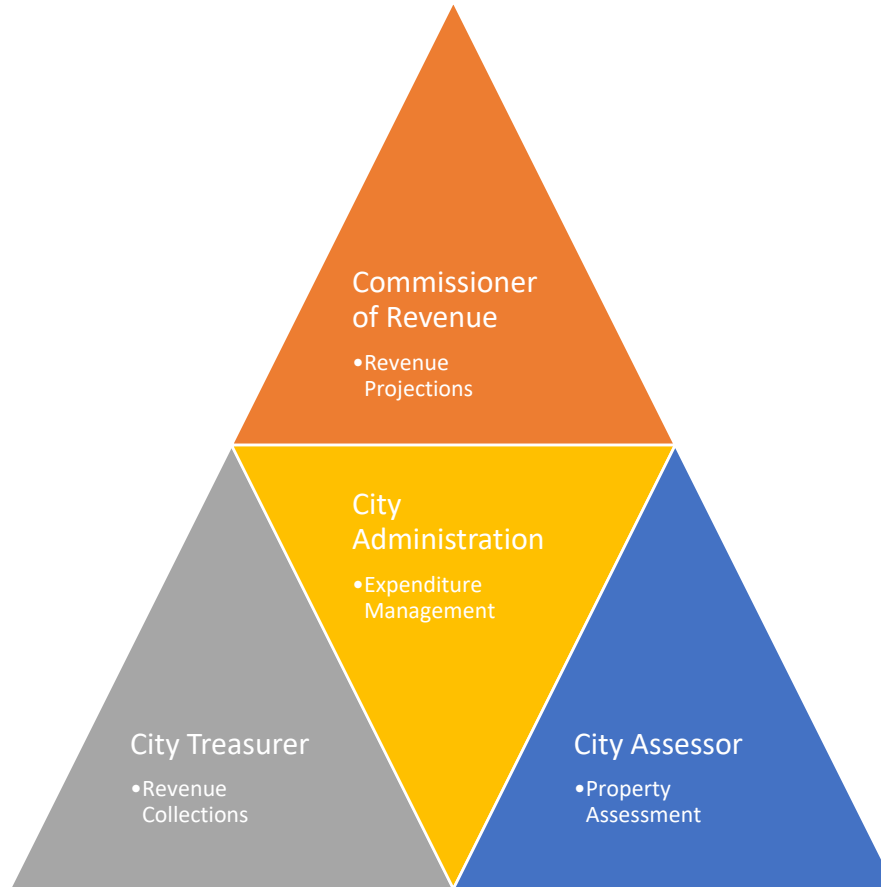
- ✓ Decreased Accuracy & Efficiency Error Rate by 50% since June 2018
- ✓ Brand New all inclusive “New Customer Packets” for new water service customers
- ✓ Established new Water Billing Due Date on the 1st of every month
- ✓ Water Bill Payments processed daily and customer forwarding balances have been reduced 46%
- ✓ BI-Monthly Process Mapping Meeting with B&C and Public Works to monitor progress



Forward Plan

- Develop delinquency tax plan & process to increase revenue collections (Assign persons specifically for delinquent tax collection)
- Continue dialogue with our delinquent tax vendors to better improve prior year tax collections (Sands Anderson & TACS)
- Continue to explore additional options to acquire other vendors for delinquent tax collections

FISCAL CHALLENGES



Commissioner of Revenue



- ❑ The Commissioner of Revenue Office is a publicly elected representative, responsible for maintaining real estate ownership information and for overseeing the Tax Relief Program for the elderly and disabled. Other responsibilities include accurately assessing all:
 - Personal and business property
 - Machinery tax
 - Consumption tax
 - Meals and lodging tax
 - Admissions tax
 - Cigarette tax
 - Business License

City Treasurer



- ❑ The legal authority for the Treasurer's duties and responsibilities is governed by the Constitution of Virginia, the Code of Virginia, Local Ordinances and charter provisions, case law, court decisions and opinions of the Attorney General.
- ❑ The Treasurer is an elected official and serves a term of four years. Responsibilities and duties encompass all activities related to the receipt and collection of revenue, the safekeeping and investment of revenue, and an accurate accounting for and the disbursement of revenue.

City Assessor



- ❑ The City Assessor is appointed by and reports directly to the Petersburg City Council. As their primary adviser on state and local laws and policies applicable to appraisal and assessment of real property, the duties include directing an effective comprehensive assessment program for Petersburg and leading a team of dedicated professionals.



☐ City Manager

- As City Manager, Mrs. Ferrell-Benavides is responsible for the day-to-day operations of the city and reports directly to City Council.

☐ Chief Operating Officer

- To ensure that the City of Petersburg's financial resources are protected through sound financial management, including allocation of resources consistent with community goals and providing timely, accurate, and reliable information that will assist in making informed decisions.
- Services include accounting, financial reporting, budgeting, grants management, payroll, accounts payable, special financial analysis, risk management and purchasing.



QUESTIONS?

COMMENTS