



**City of Petersburg
Virginia**

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City Council

W. Howard Myers, Mayor – Ward 5
Samuel Parham, Vice-Mayor – Ward 3
Treska Wilson-Smith, Councilor – Ward 1
Darrin Hill, Councilor – Ward 2
Brian A. Moore, Councilor – Ward 4
David Ray Coleman, Councilor – Ward 6
John A. Hart, Sr., Councilor – Ward 7

Acting City Manager

Dironna M. Belton

Agenda

August 23, 2016

**Union Train Street
103 River Street**

- 1. Special City Council Meeting — 6:30 p.m.**
- 2. Roll Call**
- 3. Purpose:**
 - a. Discussion of the FY2017 Budget
- 4. Closed Session (if necessary)**
- 5. Adjournment**

City of Petersburg Recommendations for the FY 2017 Program to Eliminate the Gap (PEG)

Presentation to City Council
August 23, 2016



Overview of Recommendations

- PFM has developed **19** specific recommendations for action by the City Council
- These recommendations would produce an estimated **\$12.5 million** in savings or new revenue in FY 2017
- The recommendations would produce an estimated **\$15.1 million** in new revenue or savings in FY 2018
- Additional recommendations of potential steps to address FY 2018 and out-year deficits, and to restore cuts imposed to close the current structural deficit

FY 2017 & FY 2018 PEG: Expenditure Reductions

- Reduce Schools Funding to the Required Local Match (\$4.14 million in savings)
 - Required local match in FY 2016 was \$7.3 million. The reduction results in an 8.6% cut from the Petersburg Schools overall budget of \$53.3 million. City was unable to pay prior year appropriation
- Ten Percent Reduction in City Salaries (\$2.07 million in savings)
 - City has already imposed a 10% pay reduction for employees that will generate savings in FY 2017
- Eliminate one of the City's four firehouses and eliminate funding for Fire Education Specialist (\$675,000 in savings)
 - Potential opportunity to reallocate staff resources to an expansion of Fire Department provided EMS services

FY 2017 & FY 2018 PEG: Expenditure Reductions

- Freeze hiring in the Bureau of Police (\$550,000 in savings)
 - Petersburg’s level of police staffing has been higher on a per capita basis than in other benchmark jurisdictions
- Fund Code Compliance with CDBG Funds (\$475,000 in savings)
 - Shift current CDBG allocations from services, public facilities, and affordable housing to code compliance.
- Eliminate funding for museums and visitor centers operations by City(\$300,000 in savings)
 - City cannot afford investment with limited returns – may be an opportunity for non-profit or other governmental entity to take over

FY 2017 & FY 2018 PEG: Expenditure Reductions

- Reduce local jail population by 15% (\$395,000 in FY 2018)
 - Petersburg has a local incarceration rate of nearly three times the national jail incarceration rate as of mid-2014
- Reduce agency appropriations (\$270,000 in savings)
 - Current budget includes funding for 23 organizations where there does not appear to be a mandate for City funding
- Consolidation of Planning, Community Development and Economic Development (\$120,000 in savings)
 - Proposed initiative to eliminate funding for museums and visitor centers reduces employees - Planning and Community Development employees should consolidate with remainder of Economic Development

FY 2017 & FY 2018 PEG: Expenditure Reductions

- Reduce Library Hours and Spending by 25% (\$112,500 in savings)
 - The Library provides significantly more hours of service than main libraries in all but one of the other benchmark jurisdictions
- Reduce Parks and Leisure Services Programming (\$150,000 in FY 2018 savings)
 - City should begin planning to transfer summer youth programming to Petersburg Schools, VSU, other non-profits for the summer of 2017
- Cut funding for Hispanic Liaison Office (\$75,000 in savings)
 - No other benchmark jurisdiction has a Hispanic Liaison office
 - Potential for location of functions in Social Services

FY 2017 & FY 2018 PEG: Revenue Increases

- Increase the number of commercial and industrial properties in the tax base (\$1 million in additional revenue)
 - Continue FY 2014 effort to identify and fully assess all commercial and industrial properties
- Increase Cigarette Tax (\$900,000 in additional revenue)
 - Petersburg currently imposes a ten cents per pack tax; seven Virginia cities have cigarette taxes of 75 cents per pack or higher
- Audit tax exempt property and charge an annual exempt property registration fee (\$585,000 in additional revenue)
 - Non-government tax exempt property is substantially higher than in benchmark jurisdictions: 11.9% of fair market value is non-government tax exempt compared to an average of 6.4% in benchmarks

FY 2017 & FY 2018 PEG: Revenue Increases

- Increase refuse management fee from \$14 per month to \$20 per month (\$472,500 in additional revenue)
 - Petersburg imposes the second lowest refuse management fee among its peers who charge fees
- Increase the meals tax from 6% to 7.5% (\$360,000 in additional revenue)
 - Five other cities have a higher rate, with three cities at the highest rate of 7.5%

FY 2017 & FY 2018 PEG: Revenue Increases

- Increase Personal Property Tax Rate to \$4.90 per \$100 (\$352,500 in additional revenue)
 - This increase would still be lower than benchmarks Portsmouth and Waynesboro -- both at \$5.00 -- and Alexandria, Bristol, Buena Vista, Covington and Emporia. It would have the same rate as Dinwiddie County and a lower rate than seven Virginia counties
- Increase the lodging tax from 6% to 10% (\$127,500 in additional revenue)
 - Fifteen other cities had a higher rate

Additional Recommendations for Consideration

- Reform current work rules and workforce benefits
 - Reduce number of holidays from 12 to 10
 - Reduce the cost of health insurance
- Additional Opportunities for Consolidation
 - Create a Public Safety Department
 - Consolidate Library, Parks, and Youth programs into one department
- Develop a Shared Services Plan with Petersburg Schools and Other Local Governments
- Privatization of Operations and Assets
- Evaluate Subsidy Levels for Petersburg Area Transit
- Reduce Energy Use and Costs
- Eliminate funding for the Petersburg Generals

PETERSBURG: A NEED FOR ACTION, A PATH FORWARD

Recommendations for the FY 2017
Program to Eliminate the Gap (PEG)

August 22, 2016

David R. Eichenthal, PFM
V. Lynn Evans, V. Lynn Evans, CPA
Erich Caulfield, Caulfield Consulting
Patrick Jordan, Enterprise Community Partners
Jay Fullenwider, PFM
R.J. Griffin, PFM
Alyssa Mehalick, PFM
Christa Payne, PFM

Introduction

The City of Petersburg faces an immediate, severe and significant threat to its fiscal well-being. The August 3 Commonwealth of Virginia technical assistance team report points to a set of problems that require immediate action to ensure the City's solvency.¹

The Commonwealth technical assistance team noted that the City has had multiple years of deficit spending and projected a structural deficit of \$12 million in its recently adopted FY 2017 budget. At the same time, the Commonwealth technical assistance team noted that the City – as of June 30 – had insufficient cash to meet over \$14 million in unpaid obligations to external entities. Absent some form of short term financing, it is unlikely that the City would be able to continue to pay its workers through the current calendar year.

The City's financial advisor, Davenport & Company, reported to the City Council that the City would need to develop a realistic cash flow analysis and a set of corrective actions to close the FY 2017 budget gap before it would be able to seek short term financing to meet its cash flow requirements and a longer term restructuring that would allow the City to pay off its accumulated unpaid obligations.

This report outlines a series of recommendations of budgetary actions to close the reported FY 2017 structural deficit and begin to right the City's fiscal ship going forward. The recommendations are designed to produce recurring revenue or recurring savings and do not generally include one-time actions that would fail to achieve longer term fiscal sustainability.

The goal of this report is to guide the City Council in enacting a set of corrective actions – what we refer to as a program to eliminate the gap (PEG) – that would eliminate the FY 2017 deficit and allow the City to seek and obtain short-term financing..

None of the steps recommended in this report will be easy. Based on our experience working with local governments across the nation, we have attempted to develop a set of recommendations with a goal of minimizing the impact on City residents and employees. Still, these recommendations include significant increases in taxes, significant reductions in services and layoffs of City workers.

These will not be the only steps that the City will need to take to achieve fiscal sustainability over the coming years. Given the state of the City's economy and finances, it is more likely than not that the City will again face deficits in FY 2018 and future years before it is fully able to turn the corner on issues affecting its fiscal health.

In reviewing these recommendations, we would urge the City Council – as well as City employees and City residents – to keep four things in mind:

- The City has no choice but to take further action. As we noted in an earlier analysis of the FY 2017 budget, "Further reductions in City spending and increases in City revenue

¹ On May 27, 2016, the Acting City Manager informally requested technical assistance from the Commonwealth, followed by a more formal request on June 10, 2016. The Commonwealth team began its work on June 13, 2016.

- will likely be necessary to achieve structural balance and eliminate the reliance on short-term borrowing to fund operating expenditures.”
- The City needs to act immediately. As noted in our August 3 presentation to City Council, the longer that the City waits to address its FY 2017 shortfall, the harder the choices. Immediate action is needed to obtain timely short term financing so the City can have adequate cash flow to pay vendors, employees and other obligations. Also, in order to close a full year gap of \$12 million over the course of 12 months, it requires a reduction of \$1 million a month: closing the same gap over a period of nine months, requires a reduction of \$1.33 million per month.
 - The City cannot afford any sacred cows. Local elected officials typically – and understandably – seek budgetary solutions that avoid cuts to police, fire and schools, that avoid layoffs and that avoid tax increases. Unfortunately, the magnitude of the City’s fiscal challenges demands that every revenue and spending option be fully explored and considered.
 - There is a path forward. Right now, the City’s fate remains in the hands of City leadership. The fiscal challenges facing the City today do not diminish the fact that Petersburg has strong and important assets. Stabilizing the City’s fiscal condition, however, is an essential first step toward positioning the City to begin to better take advantage of those assets and build a future of opportunity and prosperity for its residents.

Summary of Recommendations

This report outlines 19 specific recommendations for action by the City Council. These recommendations would produce an estimated \$12.5 million in savings or new revenue in FY 2017 and an estimated \$15.1 million in new revenue or savings in FY 2018. The report also outlines a series of examples of additional potential steps that the City can take to address FY 2018 and out-year deficits, as well as to restore cuts imposed to close the current structural deficit.

Recommendations were based on projected FY 2018 impact and discounted, where necessary, to show FY 2017 impact.

The following chart is a summary of our recommendations:

Impact	FY 2017	FY 2018
Reduce school funding to the level required by State law	\$4,140,000.00	\$4,600,000.00
10% reduction in salaries	\$2,066,666.67	\$2,480,000.00
Close a firehouse and reduce staffing	\$675,000.00	\$900,000.00
Freeze police hiring and redeploy detectives to patrol	\$550,000.00	\$550,000.00
Fund code compliance with CDBG funds	\$475,000.00	\$475,000.00
Eliminate funding for museums and tourism centers	\$300,000.00	\$400,000.00
Reduce jail population	0	\$395,000.00
Reduce agency appropriations	\$230,000.00	\$230,000.00
Consolidation of planning, economic and community development	\$120,000.00	\$160,000.00
Reduce library hours and spending by 25%	\$112,500.00	\$150,000.00
Reduce parks programming	0	\$150,000.00
Eliminate the Office of Hispanic Liaison	\$75,000.00	\$100,000.00
Increase the cigarette tax to 90 cents per pack	\$900,000.00	\$1,200,000.00
Add commercial and industrial properties to the tax base	\$1,000,000.00	\$1,000,000.00
Increase refuse management fee to \$20/month	\$472,500.00	\$630,000.00
Audit tax exempt property	\$585,000.00	\$585,000.00
Increase the meals tax to 7.5%	\$360,000.00	\$480,000.00
Increase personal property tax to \$4.90	\$352,500.00	\$470,000.00
Increase the lodging tax to 10%	\$127,500.00	\$170,000.00
TOTAL	\$12,541,666.67	\$15,125,000.00

Scope and Methodology

In June 2016, PFM was asked to undertake a preliminary review of the City's proposed FY 2017 budget. As we noted in our June 15 memorandum to the Acting City Manager:

Based on data from the City's most recent CAFR and discussions with City officials, the City has exhausted most of its unrestricted reserves through a series of revenue shortfalls – where actual revenue was less than budgeted and projected revenue – combined with spending greater than budget. In FY 2015, the City's final budget called for General Fund revenue of \$81.4 million and spending of \$81.1 million: actual revenue was \$77 million and spending was \$82.9 million.

The City has had to resort to short term borrowing to manage its day to day finances, relying on revenue anticipation notes to fund City services. At present, the City is not able to pay all of its vendors and meet other obligations in a manner consistent with best practices or even a minimal standard for local governments. If it is unable to renegotiate short term lending, it risks insolvency.

We suggested that, upon the adoption of the FY 2017 City budget, the City move immediately to undertake a series of steps to both more effectively manage the implementation of the FY 2017 budget and begin a more comprehensive review of City revenue and spending to achieve reductions in a budget gap in FY 2017 and begin to achieve structural balance over a five year period.

On July 6, the City engaged PFM Group Consulting LLC (PFM) to develop a high level five year forecast of revenues and expenditures to identify preliminary deficit projections for FY 2017 – FY 2021 and provide a high level analysis of areas of potential savings or new revenue for the City of Petersburg with a goal of maintaining a balanced budget over a five year period. The goal was to identify options totaling \$15 million on an annual basis.

In subsequent conversations with the City, Davenport, the Commonwealth, the City Attorney and bond counsel, it became clear that the City needed to develop a short term action plan far before the planned completion of our initial scope on October 30..

The inability to secure short term financing for the City is the principal reason for an accelerated timetable. Over the last several years, the City has sought and obtained short term financing through tax anticipation notes (TANs). Essentially, this borrowing was done on a rolling basis – with the City paying off the prior year note and then obtaining a new note to address cash flow needs. This year, however, the lender was unwilling to extend a new TAN. As a result, the City repaid a \$4.5 million note on June 30 without the prospect of new financing to support cash flow.

To be clear, even if the City had obtained a new TAN, it would not have been enough to pay off all of the outstanding obligations identified by the Commonwealth technical assistance team. And the non-renewal of the TAN certainly did not cause the structural issues faced by the City.

Now, as noted in Davenport's August 3 presentation, the City is unable to obtain short term financing without a plan of action in place. Moreover, even after adopting a plan, Davenport estimates that it will require 60 days from the point of adoption to when financing can be secured. Until then, there is a significant risk that the City will be unable to meet cash flow requirements.

Given the risk to the City's cash flow, PFM suggested that we greatly accelerate our work and provide this report to the City by August 17 so that the City Council could act on a plan by August 23.

We have applied the following methodology to this revised scope:

- Review the City's existing financial documents (CAFR, budget, budget-to-actual reports, actuarial and other studies), prior studies and reviews to fully understand the City's current financial condition, financial obligations, operations and plans
- Meet with elected officials, City leadership, division and department heads and others as appropriate to explore recent, current and upcoming operating and capital initiatives that will affect the coming fiscal year and subsequent years

- Based on discussions with internal and external stakeholders and PFM's experience working with similar governments around the country, outline a series of potential areas of inquiry to identify and develop specific initiatives to generate additional revenue, savings and more generally to improve the efficiency and effectiveness of City government

This report differs from the original scope in the following ways:

- We had hoped to provide a forecast of surplus and deficit for FY 2018 – FY 2021. Our understanding of the Commonwealth technical assistance team's review suggests that this type of forecast will not be feasible until the City completes its audit for FY 2016. Moreover, given the significant changes that are being recommended to the FY 2017 budget, a forward looking forecast at this time will have limited value.
- We had hoped to be able to provide greater detail on potential savings and revenue initiatives that would be difficult to achieve until out-years in the five year plan. Given the need to focus on actions with FY 2017 impact, our review of these out-year opportunities is more limited.
- Typically, debt and the management of debt – a significant expenditure for the City – is part of our review of savings opportunities. Given the issues related to short term and long term financing ability, we have not included any discussion of debt in our PEG recommendations.

The Economic Context for Petersburg's Fiscal Crisis

Members of the City Council, taxpayers, City workers and the public can reasonably ask – how did the City get to this current condition?

Without providing a detailed analysis, at least some context may be helpful.

Some of the City's fiscal woes are directly related to demographic and socioeconomic conditions. With a poverty rate of 27.5%, Petersburg has more than double the percentage of people living in poverty as the Commonwealth overall (11.5%) and in the Richmond Metropolitan Statistical Area (12.3%) and a slightly higher rate of poverty than Richmond (25.5%).² The number of people living in poverty in Petersburg has increased from approximately 6,500 in 1999 to 8,700 in 2014.

The increase in residents living in poverty has occurred as Petersburg's population has declined. The City's population peaked in 1980, with just over 41,000 residents. By 2010, the population had declined to 32,420 – a drop of more than 20% since its peak thirty years earlier. While the City appears to have regained some population since 2010, it is on a trajectory of slow growth: the University of Virginia Weldon Cooper Center predicts that Petersburg's population will only grow to 33,939 residents by 2040. The City's population is also older – with

² United States Census Bureau / American FactFinder, 2010 – 2014 American Community Survey. "DP03 : Selected Economic Characteristics (Percentage of Families and People Whose Income in the Past 12 Months is Below the Poverty Level; All People)." <<http://factfinder2.census.gov>>

15.2% of residents 65 years old or older -- than in the surrounding metropolitan area (12.9%) or throughout the Commonwealth (13%).

These economic and demographic factors have a direct impact on local government finance. High poverty rates, a declining population and an aging population can all limit a local area's tax base. Higher poverty rates can also result in increased demand for local government services -- particularly for local governments with responsibility for social service and criminal justice services.

Economic and demographic challenges, however, do not necessarily lead to fiscal instability. Local government in economically challenged cities must take special care to ensure a prudent and conservative approach to budgeting. Without proper budgetary controls and fiscal policy in place, expenditure growth can quickly overtake revenue growth, leading to ongoing and unsustainable structural deficits.

That appears to be what has taken place in Petersburg. Based on data from the City's most recent CAFR, the Commonwealth technical assistance team's review and discussions with City officials, the City has exhausted most of its unrestricted reserves through a series of revenue shortfalls -- where actual revenue was less than budgeted and projected revenue -- combined with spending greater than budget. In FY 2015, the City's final budget called for General Fund revenue of \$81.4 million and spending of \$81.1 million: the CAFR reports that actual revenue was \$77 million and spending was \$82.9 million. The Commonwealth technical assistance team report indicates that, based on General Ledger reports, all funds expenditures exceeded all funds revenue by at least \$5.3 million in FY 2016.

Petersburg's budget woes can also be ascribed to a term that one author used to describe New York City's near bankruptcy in the 1970s -- "the cost of good intentions." In describing the New York City fiscal crisis, Charles Morris wrote that:

The immediate source of the problem was the city's practice of borrowing short term to pay current operating expenses. When the short term loans fell due... the city would borrow again to pay them off. The underlying problems, of course, were more basic than access to financial markets. The loans had been necessary because, over a number of years, the city's current expenses had grown to the point where they far exceeded the revenues received from local taxes and federal and state aid.

Morris went on to write that much of that spending was driven by "good intentions" -- the desire to provide more programs and more services to the City's residents and higher wages and benefits for City workers. Inherently, there is nothing wrong with these good intentions. The problem in New York -- and in Petersburg -- is that the City routinely began to spend more than it could afford.

FY 2017 PEG: Expenditure Reductions

Based on our review, we recommend that the City consider the following expenditure reductions for immediate action. Savings estimates are for a fully year, FY 2018: FY 2017 projected savings are outlined in the summary of recommendations above.

Reduce Schools Funding to the Required Local Match (\$4.6 million in savings)

The City's contribution to Petersburg Schools is the largest area of spending in the City budget. The FY 2017 budget calls for a contribution of \$11.9 million in FY 2017 – or almost 17% of the General Fund budget – and up from a budgeted \$11.7 million in FY 2016. After dropping from \$12.7 million to \$9.6 million in FY 2012, the City's budget appropriation for schools increased by 26% – to \$12.1 million in FY 2015.

The increase in school spending has occurred even as the actual number of enrolled students has declined – between FY 2012 and FY 2015, enrollment dropped by 5%. As a result of the reduction in enrollment and the increase in local spending, the rate of local dollars per student has increased from \$2,127 in FY 2012 to \$2,825 in FY 2015 – an increase of almost 33% percent.³

	2011	2012	2013	2014	2015
School Age Population	4,133	4,504	4,369	4,393	4,279
Total Per Pupil Spending	\$11,914	\$10,655	\$11,124	\$10,906	\$11,490
Local Per Pupil Spending	\$3,081	\$2,127	\$2,390	\$2,425	\$2,825
Local Spending	\$12,737,402	\$9,578,606	\$10,440,311	\$10,654,293	\$12,087,747
State Spending	\$21,394,902	\$23,434,513	\$23,994,002	\$24,622,279	\$24,484,152
Federal Spending	\$11,285,019	\$10,947,383	\$9,901,214	\$8,341,900	\$8,076,714
Total Spending	\$49,248,233	\$47,991,320	\$48,601,715	\$47,917,352	\$49,169,558
Instructional FTEs	376.4	398.9	394.5	372.5	375.5
Total FTEs	616.0	632.5	621.6	617.5	636.5

³ Virginia Department of Education, Superintendent's Annual Report, FY 2011- FY 2015. "Table 15 of the Superintendent's Annual Report for Virginia" http://www.doe.virginia.gov/statistics/reports/supts_annual_report/index.shtml

The increase in local funding has supported teacher salary increases (3% in 2015 and 1.5% in 2016) and a cost-of-living adjustment (2% in 2015) as well as a 3% raise for all school employees in 2015. School system employees were unaffected by the 10% reduction in compensation to City employees and City employees have not had a pay increase since the average salary increase of 5% in 2013. Pay increases have accompanied an increase in FTEs in the school system as well, with total FTEs rising from 616 in FY 2011 to 636.5 in FY 2015.

The City does not have specific budgetary authority over how local school dollars are spent. Moreover, local spending accounts for less than one-quarter of Petersburg Public Schools spending – approximately half of the level of spending by the Commonwealth. The increase in local spending has not resulted in an increase in overall spending: between FY 2011 and FY 2015, the increase in local spending largely offset a decrease in federal spending.

Even as local spending has increased, student performance in Petersburg has remained largely unchanged, and with new, more rigorous measures, it has declined in some areas. Petersburg's on-time graduation rate decreased from 84.1% in 2014 to 70.9% in 2015. Compared to districts with similar levels of poverty, Petersburg also lags: Danville had a 79.1% on-time graduation rate in 2015, Hopewell's was 81.9%, and Richmond's was 81.3%⁴. With few exceptions, Petersburg had a higher failure-to-pass rate in all core subject areas compared to other districts,

The City is required to provide a minimum level of funding for Petersburg schools under state law. There are required local matches for both basic aid and incentive and lottery aid. Although many school districts dedicate more funds than required by the match, Petersburg dedicated more than most districts in FY 2015 at 86% above the requirement. The average local operational expenditure in excess of the required level for FY 2015 was 77.8%, with almost half the school districts in Virginia exceeding the required match by less than 75%⁵.

The required local match in FY 2016 for Petersburg was \$7.3 million – or \$4.6 million less than the current budgeted amount for FY 2017. A \$4.6 million reduction would result in an 8.6% cut from the Petersburg Schools overall budget of \$53.3 million.

Ten Percent Reduction in City Salaries (\$2.5 million in savings)

The City has already imposed a 10% pay reduction for employees that will generate savings in FY 2017.

As is the case in most local governments, employee salaries make up a significant amount of General Fund spending. This is certainly true in Petersburg. Overall, operating costs – including part-time and full-time salaries, FICA, health insurance, life insurance and pension costs – accounted for \$31.2 million out of the \$70.5 million adopted FY 2017 General Fund budget.

⁴ Virginia Department of Education, Virginia Cohort Reports, School Divisions, Class of 2015. "Class of 2015 Cohort Report." <http://www.doe.virginia.gov/statistics_reports/graduation_completion/cohort_reports/>

⁵ Virginia Department of Education, 2016-2018 Composite Index of Local Ability to Pay. "2015-2016 Required Local Effort & Required Local Match." <http://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/index.shtml>

Most of these compensation related costs are attributable to salaries. For example, under the adopted FY 2017 budget, six public safety departments – Police, Fire, Code Compliance, Emergency Communications and Animal Warden – accounted for \$16.8 million in personnel spending (53.8% of the total) and \$18.7 million in total General Fund spending. In these six departments, salary budgets totaled approximately \$12.1 million, or 72% of operating expense budgets for these departments. The baseline budget for City salaries is \$24.8 million in FY 2017. Thus a 10% reduction – over the course of a full year – would equal \$2.48 million.

There are several reasons why the estimated savings for the salary reduction may differ from what has been reported with respect to this initiative. First, our estimate is based on the potential of a full year of savings. Second, our estimate is based on the adopted FY 2017 budget as a baseline – not actual current payroll. Thus, to the extent that the salary reduction is a savings over baseline, it is only effective if other steps are taken to reduce FTEs over time (e.g. vacancy freeze). The most recent payroll data that we obtained from the City suggests a total annual salary base of \$24.5 million.

It is also important to put the salary reduction in context. While this is a necessary step for FY 2017 and likely for FY 2018 as well, the City cannot sustain the reduction in pay indefinitely.

A 2014 compensation study, comparing Petersburg to other Virginia local governments, generally found that City of Petersburg employees lag the market average compensation by significant margins at maximum for all but six out of 55 titles reviews. The City also lagged for almost all titles at minimum and midpoint.

The City moved from a step system to an open range pay plan at the study's recommendation. Yet, even with the movement to an open range plan and other adjustments to the City's compensation philosophy (pay plan should be routinely reevaluated, compensation should be market driven, etc.), the City still lags the market average by significant margins, as shown for a handful of titles in the table below:

Petersburg Compensation - FY2016			
Job Title	Min	Mid	Max
Firefighter	\$38,147	\$56,540	\$62,829
Police Sergeant	\$48,687	\$59,398	\$80,187
Human Resources Technician	\$30,673	\$37,421	\$50,518
Account Clerk II	\$24,033	\$29,320	\$39,582
Maintenance Worker I	\$17,080	\$20,837	\$28,130
Telecommunicator I	\$32,206	\$39,292	\$53,044
Administrative Assistant I	\$27,821	\$33,942	\$45,821
Recreation Program Coordinator	\$37,283	\$45,485	\$61,405
Motor Equipment Operator II	\$25,235	\$30,786	\$41,561
Accountant II	\$41,104	\$50,147	\$67,699
Market Lag – 2015			
Job Title	Min	Mid	Max
Firefighter	-17.6%	-16.4%	-15.7%
Police Sergeant	-5.2%	-8.2%	-10.0%
Human Resources Technician	-27.7%	-28.0%	-28.2%
Account Clerk II	-47.0%	-47.0%	-47.0%
Maintenance Worker I	-31.9%	-30.7%	-29.9%
Telecommunicator I	-6.1%	-7.8%	-8.9%
Administrative Assistant I	-13.7%	-14.7%	-15.2%
Recreation Program Coordinator	-27.5%	-29.4%	-30.7%
Motor Equipment Operator II	-25.5%	-27.4%	-28.6%
Accountant II	-24.5%	-25.3%	-26.0%

Market Lag - FY2016 vs. 2015 Comparator Pay Levels			
Job Title	Min	Mid	Max
Firefighter	4.6%	14.2%	3.4%
Police Sergeant	0.5%	-8.1%	0.3%
Human Resources Technician	-6.2%	-13.7%	-4.0%
Account Clerk II	-20.1%	-27.4%	-15.9%
Maintenance Worker I	-33.2%	-39.6%	-26.0%
Telecommunicator I	-1.6%	-9.2%	-0.1%
Administrative Assistant I	-9.0%	-17.5%	-7.9%
Recreation Program Coordinator	0.3%	-8.5%	-0.2%
Motor Equipment Operator II	-11.2%	-20.2%	-10.6%
Accountant II	-5.8%	-13.8%	-4.5%

The market lag shown above does not take into account any wage increases given in several comparator jurisdictions between the time of the study and the present. Several jurisdictions granted pay increases in FY 2016 and are proposing increases for FY 2017:

- Harrisonburg – 2% FY 2016 increase
- Salem – 2.5% FY 2016 increase
- Hanover County – 2% FY 2016 increase
- Henrico County – 2.4% proposed in FY 2017 budget
- Prince George’s County – 2% proposed in FY 2017 budget

Eliminate one of the City’s four firehouses and eliminate funding for Fire Education Specialist (\$900,000 in savings)

The Petersburg Department of Fire, Rescue and Emergency Services delivers a wide variety of services including fire suppression; emergency medical services; fire, building and housing code enforcement; fire and safety education programs; and rescue services. The Department operates out of four fire stations.

With an FY 2017 adopted budget of \$6,143,589, the Department represents the City’s fourth largest budget allocation – after Schools, Police and Social Services. The funding is largely dedicated to covering the costs of the Department’s 84 full-time staff positions, for which approximately \$5.69 million is expended for salaries, benefits and overtime (approximately 92.7% of annual spending).

The table below summarizes the Fire Department's activities during 2014 and compares Petersburg to other Virginia cities with similar demographics. In 2014, the most recent year that comparison data are available, the Petersburg Fire Department responded to 219 fires (approximately 1 every 1.7 days) and fielded calls for a total of 5,234 incidents. These figures yield rates of 6.8 fire incidents per 1,000 residents and 161.4 total incidents per 1,000 residents.⁶ Although the fire rate is higher than most of the other jurisdictions in the group, the total incident rate, which is a more comprehensive measure of how active a fire department is, is lower than most of the other benchmark cities.

Municipality	2010 Census Population	Fires	Total Incidents	Fire Incident Rate per 1,000 Residents	Total Incident Rate per 1,000 Residents
Colonial Heights	17,411	94	4,498	5.4	258.3
Danville	43,055	260	7,178	6.0	166.7
Hampton	137,436	501	25,837	3.6	188.0
Hopewell	22,591	93	3,156	4.1	139.7
Petersburg	32,420	219	5,234	6.8	161.4
Portsmouth	95,535	447	17,287	4.7	180.9
Richmond	204,214	1252	34,934	6.1	171.1
Roanoke	97,032	391	24,365	4.0	251.1
Waynesboro	21,006	67	1,769	3.2	84.2

Staffing levels for Petersburg were comparable to the other jurisdictions in the group for which data were available. Out of nine cities, Petersburg had the second highest number of FTEs per capita, but a below average number of FTEs per fire and a slightly higher than average number of FTEs per incident.⁷ The table below outlines the FTE comparisons for the benchmark cities.

⁶ Virginia Department of Fire Programs, VFIRS Annual Reports. "2014 Virginia Fire Incident Reporting System (VFIRS) Annual Report." <http://www.vafire.com/fire_data_statistics/fighting_fires/2014-VFIRS-Annual-Report-Final-06-05-15.pdf>; and the 2010 United States Census.

⁷ Virginia Department of Fire Programs, VFIRS Annual Reports. "2014 Virginia Fire Incident Reporting System (VFIRS) Annual Report." <http://www.vafire.com/fire_data_statistics/fighting_fires/2014-VFIRS-Annual-Report-Final-06-05-15.pdf>; and the 2015 CAFRs for the benchmark cities

Municipality	Fire FTEs	Fire FTEs Per 10,000 Residents	FTEs per Fire	FTEs per Incident
Colonial Heights	44	24.7	0.5	0.010
Danville	123	29.2	0.5	0.017
Hampton	297	21.8	0.6	0.011
Hopewell	45	20.1	0.5	0.014
Petersburg	84	25.9	0.4	0.016
Portsmouth	242	25.2	0.5	0.014
Richmond	439	19.9	0.4	0.013
Roanoke	254	25.4	0.7	0.010
Waynesboro	38.1	17.7	0.6	0.022

In addition to the fire suppression services it provides, the Department also responds to rescue calls, and manages EMS activities, which include transportation services for which it collects transportation fees.

Petersburg EMS has two ALS ambulances that operate 24 hours/day, 7 days/week and cover two of the fire districts. Each of the City's ALS ambulances is staffed by two personnel: one part-time ALS-certified staff member and one BLS-certified EMT. All of Petersburg firefighters are BLS-certified EMTs. The ALS certified staff are part-time employees that were brought in to quickly meet the needs for operating the two ambulances, a decision that was made in 2014. By regulation, at least one of the two staff in an ambulance has to have completed ALS training for the unit to be ALS certified.

The City also supplements the Department's EMS services. It does so through a contract with the Southside Virginia Emergency Crew (SVEC), which it pays, through a non-departmental appropriation, \$183,000 each year to provide emergency medical care and rescue services to the two districts not covered by EMS. SVEC operates two ambulances 24 hours/day, 7 days/week.

The Department also has mutual aid agreements with neighboring jurisdictions, having received mutual aid for 35 incidents between January 1, 2016 and August 1, 2016 and rendered mutual aid for 26 incidents during the same period.

As is the case nationally, the vast majority of the Department's activity is unrelated to fire suppression. In 2014, the Petersburg Fire Department responded to 219 fires, which represents approximately 4.2% of the total incident calls. The table below outlines the 10 most common

incidents to which the Department responded during the three-and-half-year period from January 1, 2013 to August 1, 2016.⁸

Incident Type Reported	Count	% of All Responses
EMS call, excluding vehicle accident with injury	10,145	50%
Dispatched & canceled en route	1,090	5%
Smoke detector activation, no fire – unintentional	879	4%
Motor vehicle accident with injuries	693	3%
Good intent call, other	492	2%
Public service	463	2%
Medical assist, assist EMS crew	460	2%
Alarm system activation, no fire – unintentional	362	2%
Water or steam leak	358	2%
No incident found on arrival at dispatch address	348	2%

During this period, the most common types of calls were non-fire suppression-related, and were either false alarms or medical emergencies. For these types of calls, it is not necessary to dispatch a fire engine, though it is generally done for serious medical emergencies.

The number of calls varies from fire station to fire station. Since January 1, 2013, Station 2 has been the most active of the four stations – accounting for 46.4% of fire calls citywide and 30.6% of all calls. By comparison, Station 5 has accounted for just 14.6% of fire calls and 8.1% of total calls.

⁸ National Fire Incident Reporting System (NFIRS). "All NFIRS Incident Summary 2013-2016, Petersburg."

Station Number	Station Location	Fire Calls	Total Calls	Fire Calls %	Total Calls %
2	50 South Market Street	1,113	8,375	46%	31%
3	1320 Farmer Street	380	7,789	16%	28%
4	1907 South Sycamore Street	557	9,002	23%	33%
5	3321 Johnson Road	351	2,230	15%	8%

The Petersburg Fire Department recently received an Insurance Services Office (ISO) Public Protection Classification (PCC™) rating of 2, which is based in large part on the number of engines a department has, the size of the staff and the available water capacity. Petersburg's rating was given to only 1.3% of departments in the country, and accordingly their criteria place it well above the suppression capacity of the vast majority of other localities.

Unfortunately, the City is not in a position to provide fire service at this level. The City should move to close one of the City's fire stations and reduce the staffing associated with that station. The elimination of a fire station would result in a reduction in staffing at the Fire Department, through the elimination of funded positions for three captains, four sergeants and ten firefighters. The City should also eliminate funding for the Fire Education Specialist position. Although this is an important function, this work could be handled by one or more of the Assistant Fire Marshals. Annual compensation costs for these positions total approximately \$1.0 million. Because most of this savings would be the result of reducing compensation, we are discounting annual savings by 10% to ensure that it accounts for savings attributable to the 10% pay reduction.

The closing of a station may be an opportunity to reallocate staff resources to an expansion of Fire Department provided EMS services that could result in additional savings. Over the last several years, the City has explored the possibility of expanding its EMS services to cover the entire City. To fully cover the City, the Fire Department would need to deploy two additional EMS crews. Under an expansion, the Fire Department would need to lease or otherwise acquire two additional ALS ambulances, reassign the personnel from the closed fire station to EMS and provide some additional training. The additional EMS revenue and the elimination of City funding for SVEC should offset all of these additional costs: in 2013, SVEC received \$1,207,170 in program service revenue.⁹

⁹ Figure taken from SVEC's IRS 990 form.

Freeze hiring in the Bureau of Police (\$550,000 in savings)

The FY 2017 adopted budget provides \$8,341,393 for the Bureau of Police -- the second largest departmental allocation in the General Fund. The Bureau is composed of four Divisions: Administrative Services, Internal Affairs, Field Operations, and Investigations. The Bureau currently has 124 full-time, funded positions, which is one more than the adopted FY 2017 total of 123¹⁰. There are currently 15 full-time, funded vacancies. The Bureau also has 11 part-time funded positions, one of which is the Interim Police Chief. The tables below summarize the Bureau's staff distribution.¹¹

Title	# of Filled Positions	# of Vacant Positions	# of Filled PT Positions	# of Vacant Part time Positions	Total # of Positions
Chief of Police	0	1	1	0	2
Chief of Staff-Police	1	0	0	0	1
Data Entry Operator	2	0	2	0	4
Deputy Police Chief	0	1	0	0	1
Fiscal Manager	1	0	0	0	1
Information System Mgr	0	1	1	0	2
Investigator	0	0	1	0	1
Admin. Services Manager	0	1	0	0	1
Police Captain	2	0	0	0	2
Police Information Analyst	1	0	0	0	1
Police Lieutenant	4	0	0	0	4
Police Officer	84	10	0	0	94
Police Records Supervisor	1	0	1	0	2
Police Sergeant	11	1	0	0	12
School Crossing Guard	0	0	5	0	5
Secretary II	1	0	0	0	1
Secretary III	1	0	0	0	1
Total	109	15	11	0	135

¹⁰ Sources: August 8, 2016 payroll report and the FY 2017 adopted budget. Note: the Records Supervisor is currently listed on the payroll, but does not appear in the FY 2017 adopted budget.

¹¹ The Secretary II & III positions are listed on the August 8, 2016 payroll and correspond to the two Administrative Assistant positions listed in the FY 2017 adopted budget.

Most of the Bureau' staff – 93% – are sworn officers and most of the sworn officers hold the rank of police officer: civilians make up the remaining 7% of the department. Of the 84 filled, sworn police officer positions (thus, excluding supervisors), 68 (81%) are patrol officers who are primarily responsible for responding to calls for service and performing other community facing activities. Sixteen police officers (19%) are detectives who primarily handle investigations of serious crimes, forensics and other functions: the percentage of police officers that are detectives exceeds the national average for local police departments, which is 16%.¹²

Petersburg's level of police staffing has been higher on a per capita basis than in other benchmark jurisdictions – at 32.6 FTEs per 10,000 residents compared to an average of 27 FTEs per 10,000 residents.

Municipality	Sworn FTEs	Civilian FTEs	Total	Population	Sworn FTEs per 10,000
Colonial Heights	53	7	60	17,820	29.7
Danville	128	7	135	42,082	30.4
Hampton	287	113	400	136,454	21.0
Hopewell	60	17	77	22,378	26.8
Petersburg	106	35	141	32,477	32.6
Portsmouth	241	86	327	96,201	25.1
Richmond	732	153	885	220,289	33.2
Roanoke	245	47	292	99,897	24.5
Waynesboro	42	11	53	21,491	19.5

Source: Crime in Virginia 2015 Report, compiled by the Department of State Police (as of October 31, 2015)

In part, staffing levels in Petersburg may be related to the level of crime. Based on UCR crime data and compared to other Virginia cities, Petersburg has a crime problem. In 2014, Petersburg had a violent crime rate of 581 offenses per 100,000 residents, which is higher than cities of comparable size in Virginia. Its property crime rate, which is 2,584 offenses per 100,000 residents, however, was lower than most of the other cities in the benchmark group. The table below describes the 2014 crime rates for Petersburg, along with eight benchmark cities.¹³

¹² U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics. "Local Police Departments, 2013: Personnel, Policies, and Practices." <<http://www.bjs.gov/content/pub/pdf/lpd13ppp.pdf>>

¹³ Federal Bureau of Investigation, FBI Uniform Crime Reporting (UCR). "2014 Crime in the U.S. Report." <<https://ucr.fbi.gov/crime-in-the-u.s/2014/crime-in-the-u.s.-2014>>

Municipality	Population	Violent Crime	Violent Crime Rate per 100,000 Residents	Property Crime	Property Crime Rate per 100,000 Residents
Colonial Heights	17,706	36	203	867	4,897
Danville	42,936	193	450	1,761	4,101
Hampton	136,590	347	254	4,399	3,221
Hopewell	22,054	83	376	669	3,033
Petersburg	32,546	189	581	841	2,584
Portsmouth	96,435	581	602	4,838	5,017
Richmond	216,747	1,254	579	8,388	3,870
Roanoke	98,941	340	344	4,127	4,171
Waynesboro	21,321	33	155	655	3,072

The Bureau's FY 2017 adopted budget for full-time salaries is \$5,590,106. Based on August 8, 2016 payroll records, if the City were to fill all 15 of its current full-time vacancies, it would be over budget by approximately \$223,800 (\$165,800 in salaries and \$58,000 in benefits). Thus, at least four currently vacant positions are really unfunded.

Of the remaining 11 vacant positions, the Bureau will need to fill the permanent position of Chief of Police. The Bureau should freeze the Deputy Chief position as long as there is a funded Chief of Staff position and either the Information Systems Manager or Police Administrative Services Manager position as well. In effect, the Chief position and the Information Systems Manager position would be moved from provisional to permanent.

The City should freeze the remaining six Police Officer and one Sergeant vacancies. To the extent that this limits the Bureau's patrol capacity, detectives – currently assigned to investigation, forensics and other duties – should have some of their time reassigned to patrol activities. This could be done by requiring them to spend one shift per week on patrol duty or splitting shifts between patrol duty and their regular assignments. Alternatively, six of the detectives could simply be reassigned to patrol.

Title	Number of Vacancies	Base Salary	Benefits	Total Salary Savings	Total Salary + Benefits Savings
Deputy Chief	1	\$82,000	\$28,700	\$82,000	\$110,700
Administrative Services Manager	1	\$77,290	\$27,051	\$77,290	\$104,341
Police Officer	6	\$40,688	\$14,241	\$244,128	\$329,573
Sergeant	1	\$48,687	\$17,040	\$48,687	\$65,727

Even after freezing these vacancies, Petersburg will still have more Police FTEs per capita than comparable cities in the Commonwealth. Annual compensation costs for the frozen vacancies total \$610,000. Because most of this savings is attributable to reductions in compensation, we have discounted savings by 10% to account for the reduction in salary.

Fund Code Compliance with CDBG Funds (\$475,000 in savings)

In Petersburg, code enforcement activities support the execution of building codes and other regulations to ensure minimum levels of safety for building and non-building structures and to support the public health, safety and welfare. Code enforcement inspections also seek to encourage property owners and tenants to maintain the appearance and value of real property. In the FY 2017 adopted budget, the City appropriated \$793,598 to Code Compliance.

As an entitlement community under the Community Development Block Grant program (CDBG), Petersburg receives an annual allocation of funding from the U.S. Department of Housing and Urban Development. In 2016, Petersburg's grant amount totaled \$596,163. Based on current Federal budget proposals, Petersburg's 2017 award should be of similar value.

Petersburg has proposed to provide \$479,000 of its 2016 funding to local community initiatives in its 2016 Annual Action Plan to HUD, through 12 separate sub-awards for services, public facilities, and affordable housing. The City plans to use the balance of funds, or \$117,163, for planning and administration expenses. Given Petersburg's current financial constraints, CDBG funds could be reprogrammed for another eligible expense that more clearly supports City programs on safety and health and could more clearly demonstrate its impact.

Community Development Block Grant regulations and the Housing and Community Development Act of 1974 permit the use of CDBG funds for selected code enforcement activities, particularly as part of a strategic effort to arrest deterioration. Per HUD CPD Notice 14-016, Section 105(a)(3) of the act permits "the use of CDBG funds for code enforcement in deteriorated or deteriorating areas in which such enforcement, together with the public or private

improvements or services to be provided, may be expected to arrest the decline of the area.” Specifically, the program regulations at 24 CFR 570.202(c) read as follows:

Code enforcement. Costs incurred for inspection for code violations and enforcement of codes (e.g., salaries and related expenses of code enforcement inspectors and legal proceedings, but not including the cost of correcting the violations) in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided may be expected to arrest the decline of the area.

CDBG defines code enforcement as a process whereby a local government gains compliance with ordinances and regulations regarding health and housing codes, land use and zoning ordinances, sign standards, and uniform building and fire codes. Code enforcement may take place in residential, commercial, and industrial areas. Ancillary efforts to address violations of codes concerning vacant lots, signs, and motor vehicles, are permitted in conjunction with health and safety efforts but should form a minor part of the code enforcement program.

All CDBG expenses must be spent on both *eligible activities* and in furtherance of a *national objective*. Although code enforcement is an eligible activity, the national objective standard is met when the activity is carried out in a deteriorating or deteriorated area, in conjunction with activity expected to arrest the deterioration. Most census tract block groups in Petersburg meet the national objective for low- and moderate-income housing because at least 51% of the residents are moderate- or low-income (those making less than 80% of the area median income). For the other block groups located in the south and southwest portions of the City, code enforcement expenses will be eligible only if costs meet the national objective for slum/blight prevention or elimination, which has a separate standard that may be difficult to meet. To conduct code enforcement activities in census tracts that do not meet a national objective, the City will need to use non-CDBG resources and will therefore need to track these expenses separately.

To ensure compliance in using CDBG for code enforcement, Petersburg will have to record and document activity eligibility, national objective compliance, allowability of costs, and cost reasonableness. In addition, the City’s time distribution records must show that time spent conducting code enforcement in eligible areas is accurate.

In order to reprogram the current CDBG funds, the City will need to amend its Annual Action Plan to HUD, consistent with Petersburg’s citizen participation process regarding proper notice and public meeting requirements. The City will need to describe in its Action Plan amendment how its code enforcement activities will be a primary component of a strategy to arrest deterioration and move toward stabilization and revitalization. These revitalization activities could be supported through CDBG in future years and could be funded through applications for State HOME funds or other redevelopment resources.

Eliminate funding for City museums and visitor centers (\$400,000 in savings)

The City of Petersburg operates three museums – Blandford, Centre Hill and Siege – and two visitor centers, one in Petersburg and one in Carson: the Siege Museum is currently closed. The FY 2017 budget includes \$672,386 for personnel and operations for these facilities. At least part of this budget, however, is associated with the anticipated move of offices to 30 Franklin Street: for example, \$71,000 is associated with new furniture and fixtures, \$28,000 is for an increase in electricity and \$26,530 is for an increase in rent. That leaves \$547,000 in other budgeted costs.

In FY 2015, the City reported that the museums had 10,922 visitors, the Petersburg Visitor Center had 5,357 visitors and the Carson Visitor Center had 19,077 visitors. Both the Blandford Church & Cemetery and the Centre Hill Museum are now open seven days a week. Assuming the three museums were open at least 300 days a year each in 2015, that amounts to a total of just over 36 visitors per day.

Admission fees are very modest. Adults pay \$5 for admission, senior citizens (60 or older) pay \$4 and children aged 7 to 12 pay \$4. Petersburg residents, children under the age of seven and active military all receive free admissions. Total revenue for all of the sites in FY 2015 was just over \$52,000 – as a result, the net cost of operations to the City is approximately \$495,000.

Given its importance in U.S. history, Petersburg should have a strong tourism economy that helps to generate employment and revenue. Currently, it does not.

In the short term, however, the City cannot support multiple visitor centers and museums. It should close all visitor centers and museum sites. To offset the closing of the visitor center, it should continue funding for the regional Petersburg Area Regional Tourism Corporation and work with the Virginia Tourism Corporation to further promote visits to Petersburg. The City should also actively explore the potential for partnerships with not-for-profit organizations that might be willing to take over operation of the City museums. The net result would be annual savings of approximately \$450,000. Because most of this savings is attributable to reductions in compensation, we have discounted savings by 10% to account for the citywide salary reduction.

Reduce local jail population by 15% (\$395,000 in savings to be captured in FY 2018)

The FY 2017 adopted budget includes \$3,292,195 in funding for the Riverside Regional Jail (RRJ). RRJ is a regional jail that houses inmates from seven member localities: Charles City County, Chesterfield County, City of Colonial Heights, City of Hopewell, City of Petersburg, Prince George County, and Surry County. The Jail is governed by the Riverside Regional Jail Authority (RRJA), which has board members that are appointed by the participating jurisdictions.

RRJ houses approximately 1,400 inmates whose cases are at various stages in the criminal justice process. The table below gives a snapshot of the status of the inmates from the various member localities.¹⁴

Jurisdiction	Pre-Trial Inmates	Convicted Inmates	State-Ready Inmates	Total
Charles City County	5	12	7	24
Chesterfield County	235	357	171	763
City of Colonial Heights	41	88	36	165
City of Hopewell	43	61	24	128
City of Petersburg	52	160	29	241
Prince George County	27	34	28	89
Surry County	3	3	1	7

RRJ is funded by per diem payments of \$40 per inmate per day. Petersburg's ADP increased significantly in FY 2016 with the closing of the City's jail.

Fiscal Year	ADP
2011	136
2012	144
2013	96
2014	78
2015	103
2016	225

For FY2017, the City of Petersburg will pay RRJ approximately \$3,292,195 to house its inmates. Petersburg can reduce the amount that it pays for RRJ by reducing the current jail population. Petersburg has an ADP of 225 inmates per day. At that rate, Petersburg has a local incarceration of 692.8 per 100,000 residents – or nearly three times the national jail incarceration rate as of mid-2014. Part of this may be explained by Petersburg's crime rate – its violent crime rate is more than one-and-a-half (1.59) times the national violent crime rate and its overall arrest rate (7,350 per 100,000 residents) is more than twice the national rate. Still, Petersburg has the ability to reduce its use of incarceration and – without affecting public safety – reduce its costs for incarceration.

The City of Petersburg should work to reduce its population at RRJ by 15%. As previously noted, jail population size is influenced by a variety of factors and no single agency can affect it

¹⁴ As of August 8, 2016

in isolation. As such, the approach to reducing it has to be collaborative and involve representatives from offices across the criminal justice system, including the Commonwealth and other partners outside of City Government.

While the exact path to reducing the population will have to be developed, coordinating the efforts of those with major roles in the system will be critical to its success. This group could include, among others, the Police Chief, Commonwealth Attorney, General District and Circuit Court Judges, Circuit Court Clerk, and senior representative from the Virginia Department of Corrections, Office of Probation and Parole, and Riverside Regional Jail Authority. In addition to government agencies, subject matter experts from Virginia State University could also provide additional insight on opportunities for population reductions. Together they could establish a cap for the size of the population and work collectively toward achieving it.

Coordination of similar groups has shown success. In Sedgwick County, Kansas (Wichita), a group of this kind saved approximately \$4 million through the active use of alternative sentencing.¹⁵ In Philadelphia, a Criminal Justice Advisory Board was set up to, among other things, reduce the City's prison population. The group was credited with helping to achieve an ADP decrease of 11% in a single year.¹⁶ They were able to accomplish the reduction through changes in charging standards and efforts to speed case processing, which included a fast track court for misdemeanants in jail.

In addition to the activities listed above, a coordinated group could explore the feasibility of more extensive use of citations as an alternative to arrests for minor crimes. They could also examine ways of more quickly moving State-ready inmates to other facilities.

A reduction of 15% in the Petersburg jail population would result in savings of approximately \$495,000. Recognizing the practical challenges that could arise in coordinating the activities of this kind of group, \$100,000 of the savings would be invested in providing support. The funding could be used to hire a coordinator, whose sole responsibility would be to facilitate the collaboration of the group and identify opportunities for reducing the population. The funding could also be used toward implementing various programs that would support decreasing the number of inmates. With the investment for the group's support, the net savings would be \$395,000. These savings, however, would probably not be achieved until FY 2018.

Reduce agency appropriations (\$230,000 in savings)

The FY 2017 budget includes \$5.2 million in funding for Non Departmental activities. This amount includes funding for Petersburg Area Transit, the subsidy for the Golf Course, funding for juvenile detention facilities and the Riverside Regional Jail Authority and a number of other governmental organizations. But the budget also includes funding for 22 organizations where

¹⁵ Delores Craig-Moreland, Nancy McCarthy Snyder, Jodie Beeson, Michele White, Kyle Carr, and Adella Rucker, "Update of Information – Sedgwick County Adult Detention Facility: A Detailed Review of the Population; Evaluation of the Impact of Jail Alternatives; A Review of Further Opportunities," October 2010.

¹⁶ The Pew Charitable Trusts, Philadelphia Research Initiative, "Philadelphia's Less Crowded, Less Costly Jails," July 20, 2011 at <http://www.pewtrusts.org/en/about/news-room/press-releases/2011/07/20/pew-study-philadelphias-jail-population-dropped-dramatically>.

there does not appear to be a mandate for City funding and where average funding per organization is less than \$15,000.

Agency	Appropriation
American Red Cross	\$1,900
Black History Month	\$9,620
Chamber of Commerce	\$1,000
Employee Recognition Events	\$6,000
Feed More	\$2,500
Friends of the Appomattox	\$3,000
John Tyler	\$4,500
Legal Aid Justice Center	\$59,200
Longwood University Small Business	\$4,810
National League Of Cities	\$3,388
Petersburg Area Regional Tourism ¹⁷	\$38,500
Petersburg Symphony	\$9,620
Regional Med Flight	\$1,000
Reserve For Contingencies	\$30,677
Richard Bland College	\$8,500
Triad	\$10,000
Halifax Music Festival	\$5,000
VA First Cities	\$15,763
Virginia Institute of Government	\$1,500
Virginia Municipal League	\$12,280
Virginia State University	\$8,500

Without determining whether these appropriations have value or not, the City is simply not in a position to support non-mandated funding to non-governmental organizations. Elimination of this funding would save the City approximately \$230,000 in FY 2017 and FY 2018.

Reduce Library Hours and Spending by 25% (\$150,000 in savings)

The FY 2017 adopted budget includes \$1,005,989 in funding for the Petersburg Public Library. Compared to other areas of local government, Petersburg provides more funding for the Library than Parks, Planning, Transit, Code Enforcement, and citywide Information Technology. The Library budget includes more than \$700,000 for personnel and \$300,000 for operations. In

¹⁷ This would be funded as part of the initiative related to City museums and tourism centers.

addition, the Non Departmental budget includes \$213,380 for payments under a lease agreement for the Library.

Petersburg's new library was opened in 2014. The Library provides significantly more hours of service than main libraries in all but one of the other benchmark jurisdictions.

Library Hours								
Municipality	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Total Hours
Waynesboro	9am-9pm	9am-9pm	9am-9pm	9am-9pm	9am-9pm	9am-5pm	Closed	69
Petersburg	9am-9pm	9am-9pm	9am-9pm	9am-9pm	9am-5:30pm	9am-5:30pm	Closed	65
Hopewell	10am-9pm	10am-9pm	10am-9pm	10am-9pm	10am-6pm	10am-6pm	Closed	60
Roanoke	10am-8pm	10am-8pm	10am-6pm	10am-8pm	10am-5pm	10am-5pm	Closed	54
Richmond	10am-7pm	10am-7pm	10am-7pm	10am-6pm	10am-6pm	10am-5pm	Closed	50
Colonial Heights	10am-7pm	10am-7pm	10am-7pm	10am-6pm	10am-6pm	10am-4pm	Closed	49
Danville	10am-7pm	10am-7pm	10am-6pm	10am-8pm	10am-5pm	9am-1pm	Closed	47
Portsmouth	10am-6pm	10am-6pm	10am-6pm	10am-6pm	10am-5pm	10am-5pm	Closed	46
Hampton	1pm-9pm	9am-5pm	9am-5pm	1pm-9pm	9am-1pm	1pm-5pm	1pm-5pm	44

Petersburg should reduce its hours by 25% to 49 hours per week: at 49 hours per week, Petersburg would still provide more hours of service than libraries in Danville, Portsmouth and Hampton and the same number of hours as in Colonial Heights.

By reducing all budgeted full-time salaries and benefits (other than the Director) by 25%, the Library would save \$105,000 and an additional \$27,700 through a similar reduction in part-time salaries. By closing the Library on Thursdays and reducing hours on Tuesdays, utility savings would be maximized and would total an additional \$28,000. Total savings would be \$160,700. Because some of these savings would be in the reduction of full time salaries, we are discounting potential savings by \$10,000 to avoid duplication of savings through salary reduction.

Reduce Parks and Leisure Services Programming (\$150,000 in FY 2018 savings)

The adopted FY 2017 budget provides \$904,742 in funding for the City's Park and Leisure programs. Petersburg operates programs in 11 parks and recreational facilities citywide. The department provides a number of free programs including a summer camp and a pool free to Petersburg residents.

As of August 8, the department only had six full-time employees and the FY 2017 budget for full-time salaries and benefits was just under \$412,500: nearly \$300,000 in salaries is for part-time employees.

The City employs 26 part-time staff from Labor Day until Memorial Day, which includes 20 Recreational Aides, one bus driver, and five Recreational Leaders. Recreational Aides and Leaders provide support to the after school program, Senior Programming, Sports Complex, Virginia Food Bank, and administrative support. The bus driver provides transportation services for the senior program. All part-time staff from Labor Day until Memorial Day work 25-35 hours, with the exception of bus drivers, who work a maximum of 25 hours a week.

# of Staff	Position	Salary	Hours/Week
20	Recreation Aides	\$8.00	25-35
1	Bus Driver	\$10.75	25
5	Recreation Leaders	\$10.75	25-35

To provide summer programming, the department hires 46 employees during the summer: part-time employees include four additional bus drivers for the summer camps, six life guards and two supervisory life guards for the pools, an additional 25 Recreational Aides for summer camp and three additional Recreational Leaders in a supervisory role. Most of these positions work 25-35 hours a week, with the exception of bus drivers, at 25 hours, and Recreation Leaders, at 35-40 hours a week.

# of Staff	Position	Salary	Hours/Week
45	Recreation Aides	\$8.00	25-35
6	Life Guards	\$10.75	25-35
2	Head Lifeguards	\$11.00	25-35
5	Bus Driver	\$10.75	25
8	Recreation Leaders	\$10.75	35-40

The cost of operating the summer camp is approximately \$150,000. The camp serves Petersburg children ages 6-13 at no cost. In 2016, the summer camp operated from June 27 to August 4.

Both Virginia State University and Petersburg Public Schools also operate low- to no-cost summer camps as well. These camps include free sports camps for tennis and baseball, and paid camps for women's basketball, softball, men's basketball, and volleyball. Additionally, there are educational camps as well, with Petersburg schools providing a science and math focused summer camp. 4-H also provides summer camps, although these are at a higher cost than the camps provided by VSU and Petersburg Public Schools.

The City is not in a position to fund these summer programs going forward. While there are no potential savings in FY 2017, the City should begin planning to transfer summer youth programming to Petersburg Schools, VSU or other local non-profit organizations for the summer

of 2017. The City can make available its pool facility to either the Schools or VSU for programming.

Consolidation of Planning, Community Development and Economic Development (\$160,000 in savings)

As part of the FY 2017 budget process, the City combined its Economic Development, Tourism, Special Events and Cultural Affairs offices. As of August 8, that combined department now includes eight full-time employees. The proposed initiative to eliminate funding for museums and visitor centers would eliminate three of the full-time employees, leaving five full-time employees – including two of the City’s 19 full-time employees with salaries of \$90,000 or more. The Planning and Community Development has four full-time employees – including one additional full-time employee earning more than \$90,000.

The City should consolidate Planning and Community Development into the remaining Economic Development Department. As part of the consolidation, the City should eliminate two of the positions with a salary of \$90,000 or more and backfill one position with a more junior manager. Because some of these positions are part of the 10% reduction in salary, the potential savings is discounted by 10%.

Job Title	Proposed	Current
Director	\$115,000	\$115,000
Director	-	\$100,000
Manager	-	\$90,000
Grant Writer	\$50,000	\$50,000
Economic Development Project Manager	\$48,172	\$48,172
Administrative Assistant	\$27,882	\$27,882
Planner	\$40,034	\$40,034
Planner	\$40,034	\$40,034
Zoning Administrator	\$57,444	\$57,444
Project Manager	\$50,000	-
-	\$428,566	\$568,566
Benefits and FICA (assume 26.5%)	\$113,570	\$150,670
Total	\$542,136	\$719,236

Eliminate Office of Hispanic Liaison (\$100,000 in savings)

According to the most recent data from the American Community Survey, Petersburg has 1,333 Latino residents – up from 1,134 in 2000. While the Latino population is growing, it still accounts for just 4% of the City’s overall population.

The City provides funding for an Office of Hispanic Liaison. As of August 8, the office had one full-time employee and a part-time hourly office assistant. As a point of comparison, the total staff for Human Resources is just three FTEs and the total staff for Purchasing is just three

FTEs. Based on a review of City websites for benchmark jurisdictions, no other jurisdiction has a Hispanic Liaison office. Hampton has a Citizens' Unity Commission that works to bring together the City's various communities; Richmond has an Office of Multicultural Affairs, which was formerly the Hispanic Liaison's Office; and Roanoke has a Cultural Commission. By comparison, Richmond's Latino population is ten times the size of the Latino population in Petersburg.

Municipality	Hispanic Liaison
Colonial Heights, VA	N
Danville, VA	N
Hampton, VA	N
Hopewell, VA	N
Petersburg, VA	Y
Portsmouth, VA	N
Richmond, VA	N
Roanoke, VA	N
Waynesboro, VA	N

The total budget for the Office for FY 2017 is \$106,414 – including \$14,000 for property rental. The City should eliminate the office. Because part of the savings would be attributable to salaries and this budgeted salary has already been reduced by 10%, we are discounting annual savings to \$100,000. The City should also explore providing some additional local resources to Social Services, which might allow that department to access federal and state funding sufficient to provide a position focused on the Latino community.

FY 2017: Revenue Increases

Based on our review, we recommend that the City consider the following revenue increase for immediate action. Revenue estimates are for a fully year, FY 2018: FY 2017 projected savings are outlined in the summary of recommendations above.

Increase Cigarette Tax (\$1.2 million in additional revenue)

Petersburg currently imposes a tax of ten cents per pack on cigarettes sold in the city. As of 2014, 29 out of 38 Virginia cities imposed a cigarette tax. Of those cities, Petersburg had the lowest rate per pack. Seven Virginia cities had cigarette taxes of 75 cents per pack or higher:

Municipality	Tax per Pack
Portsmouth	\$0.90
Fairfax	\$0.85
Newport News	\$0.85
Alexandria	\$0.80
Hampton	\$0.80
Newport News	\$0.80
Falls Church	\$0.75

In FY 2015, the ten cents per pack cigarette tax generated \$190,558 in revenue. Increasing the tax rate to 90 cents per pack would likely lead to a reduction in sales in Petersburg. Nationally, there is strong evidence that increases in cigarette taxes result in a reduced rate of smoking especially among young people. A significant increase in cigarette taxes would likely lead to leakage, with some people traveling outside of the city to purchase cigarettes. Still, even with a 20 percent reduction in sales due to price elasticity and leakage, the increase in the cigarette tax would generate an additional \$1.2 million.

Increase the number of commercial and industrial properties in the tax base (\$1 million in additional revenue)

General property taxes are the single largest source of revenue for Petersburg. In FY 2015, the City generated \$32.6 million in revenue from the real estate property tax.

Compared to benchmark jurisdictions, Petersburg’s fair market value is low – based on both fair market value (excluding government property) per capita and per mile:

Municipality	2014 FMV per capita	2014 FMV per square mile
Richmond	\$95,266	\$350,877,077
Colonial Heights	\$93,324	\$221,148,537
Waynesboro	\$87,831	\$125,503,717
Hampton	\$80,162	\$212,768,279
Portsmouth	\$78,785	\$225,237,479
Roanoke	\$74,083	\$173,888,313
Petersburg	\$64,985	\$92,041,267
Hopewell	\$60,768	\$132,282,626
Danville	\$57,464	\$56,328,663

In part, the relative low value of the tax base may be due to the City’s overall economic conditions. But it may also be due to certain commercial and industrial properties not being fully assessed or included in the tax base.

According to information provided by the Real Estate Assessor, over \$85 million in assessed property value was added to the City’s property tax base during FY 2014 with the assistance of a consultant over a six month period. This initiative resulted in an additional \$942,127 in revenue – including \$321,953 in one-time revenue for back taxes.

The City should continue the effort to identify and fully assess all commercial and industrial properties. By continued investment in its consultant and new investment in technology, the

City should be able to expand the tax base by an additional \$85 million in assessed property value. Assuming an investment of \$100,000 in consulting cost and technology, the City should be able to generate an additional \$1 million in recurring revenue and additional revenue for back taxes. It is likely that this initiative would also produce one-time revenue in FY 2017 for back taxes.

Increase refuse management fee to \$20 per month (\$630,000 in additional revenue)

In FY 2015, the City of Petersburg collected \$1.5 million in revenue from a \$14/month refuse management fee. According to the City's CAFRs, the fee has fully supported the cost of the refuse management contract since 2010, with the exception of 2014.

City	Annual	Monthly
Hampton	N/A	\$ -
Roanoke	N/A	\$ -
Colonial Heights	\$159.00	\$13.25
Petersburg	\$168.00	\$14.00
Waynesboro	\$174.00	\$14.50
Richmond	\$210.00	\$17.50
Danville	\$246.00	\$20.50
Hopewell	\$247.80	\$20.65
Portsmouth	\$396.00	\$33.00

As of FY 2014, Petersburg imposed the second lowest refuse management fee among its peers who charge fees.¹⁸ Other cities use excess revenue from refuse management fees to provide funding to the General Fund, presumably to cover administrative and other costs. For example, Colonial Heights' FY 2017 budget expects a surplus in solid waste fee collections -- with \$543,687 in waste management costs and projected revenue of \$975,000. In FY 2016, the City of Portsmouth transferred \$1 million from the General Fund to its Solid Waste Fund.

The estimated collection rates from 2010-2015 show a 2-year moving average collection rate of 87%. Based on this collection rate and the current number of customers, an increase in fee to \$20 would raise an additional \$630,000 annually.

¹⁸ Weldon Cooper Center, Virginia Local Tax Rates, 2014, "Table 20.1 Refuse Collection Fees, 2014," <http://www.coopercenter.org/sites/default/files/econ/TaxRates/taxrates2014/tr%20book%202014.pdf>

Audit tax exempt property and charge an annual exempt property registration fee (\$585,000 in additional revenue)

Based on information provided by the Real Estate Assessor's Office, the City of Petersburg currently has approximately \$124,371,000 in total assessed value for all real property that is coded religious, charitable, or benevolent. This valuation represents approximately \$1,679,010 in general property tax revenue that is not available for use in the General Fund on an annual basis.

As a percentage of total fair market value, non-government tax exempt property in Petersburg is substantially higher than in benchmark jurisdictions. Based on state tax data, 11.9% of fair market value is non-government tax exempt compared to an average of 6.4% in benchmarks.

City	% Non-Govt. Tax Exempt
Petersburg	11.9
Waynesboro	10.7
Danville	7.5
Roanoke	7.4
Portsmouth	7.2
Richmond	6.7
Hampton	5
Colonial Heights	3.6
Hopewell	2.9

The City has recently implemented an application process for property owners who wish to have parcels considered for real property tax exemption. However, the application process does not address properties classified as exempt prior to its implementation. Further, the application process does not impose an annual processing fee, even though City resources are being used to determine exempt status.

The City should conduct an audit of all exempt property and reclassify non-exempt properties to the taxable property base. Assuming that Petersburg is closer to the average and that 35% of property currently assessed as tax exempt is really taxable, that would add an additional \$43.5 million to the tax base. This would generate recurring revenue of \$585,000 and one-time FY 2017 revenue based on back taxes.

The City should offset the cost of the audit and the new parcel review process by imposing an annual registration fee for tax exempt properties.

Increase the meals tax to 7.5% (480,000 in additional revenue)

In FY 2015, Petersburg collected \$2,571,793 in revenue from a 6% tax on meals. Five other cities had a higher rate. The highest meals tax rate in the state, as of 2014, was 7.5% in Covington, Hampton and Newport News.

Petersburg should increase its tax rate to 7.5%. Even assuming a five percent reduction in sales due to leakage and elasticity, the increase would generate \$480,000 in additional revenue annually.

Increase Personal Property Tax Rate to \$4.90 per \$100 (\$470,000 in additional revenue)

In FY 2015, Petersburg collected \$4.1 million in revenue from a \$4.40 tax per \$100 of personal property. Petersburg's tax base for personal property is much more limited than the tax base for real property. In FY 2015, the estimated value of real estate in Petersburg was \$1.9 billion compared to an estimated value of personal property of \$223.5 million. The 15 largest principal business taxpayers accounted for 15% of real property evaluation, but more than 70% of personal property evaluation: Virginia Electric (Dominion) accounts for \$73.1 million in personal property evaluation.

Even if Petersburg increases its rate to \$4.90 per \$100, the rate would still be lower than benchmarks Portsmouth and Waynesboro -- both at \$5.00 -- and Alexandria, Bristol, Buena Vista, Covington and Emporia. It would have the same rate as Dinwiddie County and a lower rate than seven Virginia counties. The increase would result in \$470,000 in additional revenue annually.

Increase the lodging tax to 10% (\$170,000 in additional revenue)

In FY 2015, Petersburg collected \$256,522 in revenue from a 6% tax on lodging. Fifteen other cities had a higher rate. The highest meals tax rate in the state, as of 2014, was 10% in Emporia. Petersburg should increase its tax rate to 10%, generating \$170,000 in revenue annually.

A Long Term Plan for Sustainability

Few – if any – of these recommended steps will be easy. But even if the City closes the projected gap in FY 2017, additional efforts will likely be necessary in FY 2018 and beyond.

The City faces likely increases in cost in coming years.

At some point, the City will need to consider the restoration of salary reductions and the need to address market lags.

Even with salaries frozen, it is likely that other employee benefits will continue to grow.

Health care costs will continue to increase. In its State and Local Governments' Fiscal Outlook, 2015 Update, the Government Accountability Office (GAO) noted that a "primary driver of long-term fiscal challenges for the state and local government sector continues to be the growth in

health-related costs.”¹⁹ The GAO projects that state and local government employee health care costs will outpace overall economic growth. Data from the Kaiser Family Foundation suggest that the rate of growth in employer contributions for health care has declined from 7.3% annually in 2000-2010 to 5.3% annually in 2010-2014 to 4.8% in 2015: even with these declines, the growth in employer contributions to health care continues to outpace overall economic growth.²⁰

Growth in pension contributions over the last decade has also exceeded overall economic growth. According to the Virginia Retirement System CAFR, employer contributions for the Political Subdivision plan as a percentage of payroll grew from 6.97% in 2006 to 11.87% in 2015. Thus, increased pension liability could also drive future deficits as well.

Depending on how the City ultimately restructures its debt, it is possible that short term budgetary relief (e.g. a reduction in FY 2017 or FY 2018) could come at the price of significantly higher debt service in out-years. Moreover, any debt restructuring will need to address the City’s unpaid obligations that were identified by the Commonwealth technical assistance team.

These structural issues are not atypical. Other than fast growing local jurisdictions, most local governments need to address structural budget gaps driven by health care, debt and pension obligations. The important point for Petersburg is that even as it begins to address its FY 2017 gap, it will likely need to take additional actions to address these issues as well.

During our review of options for the PEG, we identified a series of areas where potential additional savings may be possible but where those savings are unlikely to be realized until FY 2018 or later. The following are examples of the types of initiatives that the City will need to consider as it moves forward:

Reform current work rules and workforce benefits

The City should consider a series of reforms to work rules and benefits as part of an additional effort to obtain sustainable, budget savings: these changes will be essential if the City hopes to restore some or all of the salary reductions imposed this year.

Reduce number of holidays from 12 to 10

One way to increase productivity and potentially reduce staffing needs would be to expand the number of hours worked by City employees on an annual basis. Like many city governments, Petersburg currently provides more than 10 paid holidays to City workers. The City could consider reducing the number of holidays to 10 – the current number of holidays for federal employees.

¹⁹ U.S. Government Accountability Office, GAO-16-260SP. “State and Local Governments’ Fiscal Outlook, 2015 Update.” <<http://www.gao.gov/assets/680/674205.pdf>>

²⁰ Henry J. Kaiser Family Foundation, “2015 Employer Health Benefits Survey.” September 22, 2015. <<http://kff.org/health-costs/report/2015-employer-health-benefits-survey/>>

Reduce the cost of health insurance

The City will spend an estimated \$3.8 million on employee health insurance in FY 2017. To control growth in these costs going forward, the City needs to consider:

- Increased employee contributions
- Changes in health plan offerings
- Conducting a dependent eligibility audit

Employee contributions: City employees are insured through the State-administered health benefits program, The Local Choice (TLC). TLC offers a choice of four medical plans to each participating local jurisdictions. These medical plans include prescription drug and vision coverage and are bundled with one of two dental plans.

While the City cannot make or request any changes to each of the plans' design features such as copays, coinsurance, or deductibles, the City can determine which of the four plans it offers and how much it and its employees will contribute to the premiums. Currently, Petersburg offers its employees a choice of the Key Advantage Expanded or Key Advantage 500 plans, either with comprehensive and preventive dental coverage. The percentage of premium paid by the employee and employer are shown below:

Level of Coverage		Key Advantage Expanded		Key Advantage 500	
		Employee	City	Employee	City
With Comprehensive Dental	EE Only	24.2%	75.8%	9.4%	90.6%
	EE + One	41.2%	58.8%	29.7%	70.3%
	EE + Family	41.1%	58.9%	29.6%	70.4%
With Preventive Dental	EE Only	22.0%	78.0%	6.5%	93.5%
	EE + One	40.8%	59.2%	29.0%	71.0%
	EE + Family	40.8%	59.2%	29.1%	70.9%

The City must maintain a minimum of 80% contribution for employee only coverage if it offers two plans. The current average is 83.2%. Given this 80% minimum, only marginal changes can be made to the percent of premium paid by the employee.

Small increases to the employee share of premium at all levels of coverage for all plans can be made while maintaining the State-mandated 80% minimum. The employee/employer premium splits shown below meet the 80% minimum for the two plans when bundled with both the comprehensive dental plan (80%) and the preventive dental plan (83.3%). The changes in cost share shown below represent \$164,000 in annual savings for the City, based on Plan Year 2016-2017 premium rates.



Level of Coverage		Key Advantage Expanded		Key Advantage 500	
		Employee	City	Employee	City
With Comprehensive Dental	EE Only	30.0%	70.0%	10.0%	90.0%
	EE + One	45.0%	55.0%	30.0%	70.0%
	EE + Family	45.0%	55.0%	30.0%	70.0%
With Preventive Dental	EE Only	25.0%	75.0%	8.5%	91.5%
	EE + One	45.0%	55.0%	30.0%	70.0%
	EE + Family	45.0%	55.0%	30.0%	70.0%

The changes shown above represent an average 2.5% increase to the percent of premium paid by Petersburg employees. City employees have seen only two increases in their insurance premiums since FY 2010 (FY 2014 and FY 2016). In both years, the City absorbed the increase in rates. For future increases, the City should consider splitting any premium increase with employees.

Health plan offerings: Two other plans offered by the TLC – Key Advantage 250 and Key Advantage 1000 – are less rich versions of the Key Advantage Expanded and Key Advantage 500 plans currently offered to City employees. Specifically, they offer slightly higher deductibles, higher out-of-pocket maximums, and higher copays for some services and procedures. The City could potentially reduce its health benefits offerings to one lower cost plan.

Dependent eligibility audit: The City should consider conducting a dependent health care eligibility audit to identify individuals who receive health care coverage from the City even though they are no longer eligible. Current employees' dependents often remain on a jurisdiction's health care rolls even after they are no longer eligible due to reaching the dependent cutoff age, death, divorce, or procurement of health coverage from another source. An audit will cause no change to existing benefits or coverage. Audits typically find approximately eight percent of dependents to be ineligible.

The City has not performed a dependent eligibility audit since 1998. Commissioning an audit in the coming fiscal year and undertaking routine audits as feasible will identify long term savings for the City. Moreover, audits have become a common practice among large public employers in recent years, so conducting routine audits would bring the City in line with best practices.

The cost to execute a dependent eligibility audit varies significantly based on the size of the dependent pool and the level of effort desired by the jurisdiction. Audits can be conducted through a random mailing or can be a full, detailed audit of every dependent on the jurisdiction's health care rolls. Most commonly, a third party auditor is engaged to perform the audit. In the case of Petersburg, the ability to commission an audit might be limited by the City's participation in The Local Choice (TLC) benefits program, through more exploration is needed.

While difficult to estimate specifically for Petersburg, cost savings for smaller governments tend to be significant. A 2015 analysis of five small local government dependent eligibility audits

showed an average first-year savings of approximately \$136,000 and return on investment of 1135%.

Additional Opportunities for Consolidation

There are additional opportunities for departmental consolidation within City government.

Create a Public Safety Department

The City should consider consolidating its police and fire departments into a single public safety department. In 2012, Michigan State University conducted a study which found that 130 agencies had some level of consolidation.

There were some cases where departments operated with a joint force, which featured police officers and firefighters that were cross-trained and deployed as public safety officers. For example, Sunnyvale, California (140,081) has a unified public safety department with cross-trained officers performing police, fire and EMS responsibilities. A more common model, however, centralizes back-office functions but operates police and fire/EMS functions separately.

In Petersburg, the FY 2017 budget provides funding for a total of 15 positions in the Bureau of Police and the Fire Department to deliver administrative, logistical, and/or personnel-related services. Across the country, public safety agencies are increasingly examining consolidation of back office resources as a way of achieving savings and improving operational capacity and effectiveness. The City of Petersburg has already implemented aspects of this idea in its combined system for emergency dispatch and communications.

Additional studies would have to be conducted to determine the exact savings that could be captured through consolidation in Petersburg. The City should investigate this concept, with the aim of implementing it in FY 2018. In conjunction with consolidating back office functions, the City should also examine opportunities for reducing the number of sworn FTEs that perform purely administrative functions by replacing them with civilians. In the Bureau of Police, for example, civilians only comprise 7% of the employees, which is much lower than the national average of 21%²¹.

Additional Opportunities for Consolidation

The City should also examine the viability of consolidating the Library and remaining Parks and other youth focused programs into a single department. And there may be opportunities for consolidation across multiple offices that deal with various aspects of the City's finances.

²¹ U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics. "Local Police Departments, 2013: Personnel, Policies, and Practices." <<http://www.bjs.gov/content/pub/pdf/lpd13ppp.pdf>>

Develop a Shared Services Plan with Petersburg Schools and Other Local Governments

Petersburg also needs to identify other governmental partners to explore shared services. Petersburg does this to a considerable extent already. The Riverside Regional Jail Authority, the planning district and other regional entities and funding of Petersburg Area Transit by the City of Hopewell are all examples of shared services.

Significant additional opportunities exist – particularly with respect to some of the City's back office and support activities. In particular, the City should examine whether savings could be achieved by reducing duplication in areas such as finance, accounting, purchasing and human resources. For example, both the City and Petersburg Schools have staff in each of these areas. In some cases, it may make sense for the school system to take on the function and in other cases, it may make sense for the City to take on the function. Accrued savings through shared services may be one way to restore funding to the school system.

The City should also pursue additional opportunities for shared services, such as a regional approach to 911, with other local governments.

Privatization of Operations and Assets

The City should explore whether there are opportunities for savings or improvements in service through privatization or managed competition of City operations. For example, security services, janitorial services, street maintenance and grounds maintenance may all be areas where use of private contractors may result in savings.

The City also needs to develop and implement a policy related to the sale of City assets. The City holds and maintains significant real estate assets – more than most cities of its size. These include vacant properties, City facilities and other buildings. Recently, as a means of generating one time cash, the City announced a sale of some of that property for \$1.3 million.

The sale of City assets is an important and legitimate means of generating revenue. The City, however, should proceed with caution. First, any sale of City assets generates non-recurring revenue – in other words, the City cannot sell the same property every year. Second, the City should always make sure that it is obtaining a fair price for any property or asset that it sells: sometimes local governments, seeking immediate revenue, move forward with sales that are for less than market value. Third, the City should always consider whether the sale of an asset may have long term costs.

As a first step, the City should develop a policy as to when asset monetization or other asset sales are appropriate, how the proceeds of asset monetization should be budgeted, such as differences in operating costs and capital costs and the need to avoid non-recurring revenue being dedicated to recurring costs.

In addition to its real estate portfolio, the City should also consider the sale or privatization of certain assets that are underperforming. The Dogwood Trace Golf Course is one example of a candidate for sale or private operation as a means of generating one time revenue, relieving the City of outstanding debt and eliminating the need for subsidy.

Evaluate Subsidy Levels for Petersburg Area Transit

The FY 2017 budget calls for a subsidy of \$224,484 for the operation of the local transit system. Petersburg Area Transit also serves Colonial Heights and Hopewell and provides connection transit service to Richmond. As is the case with most smaller transit systems, it is difficult to generate substantial operative revenue from fares and service efficiency is equally challenging.

Comparative data from the Federal Transit Administration database highlight these challenges in Petersburg.

Municipality	Fare Revenue as % of Operating Funds	Bus Operating Expense per Unlinked Passenger Trip	Bus Trips per Vehicle Revenue Hour
Danville (2013)	22.0%	\$3.02	14.5
Hampton Roads (2014)	18.7%	\$4.88	19.3
Petersburg (2014)	15.3%	\$7.40	10.5
Richmond (2014)	24.8%	\$4.45	22.1
Roanoke (2014)	24.7%	\$3.02	21.7

The City should consider several steps to potentially reduce its subsidy for service, including increased subsidies from Colonial Heights and Hopewell, service reductions, fare increases and potentially contracting out for the operation of transit.

Reduce Energy Use and Costs

While Petersburg's energy costs have declined 18% from a high of approximately \$548,000 in FY 2013, the cost of energy remains one of the City's highest non-personnel related costs. The City should consider a focused effort to continue the reduction in energy – potentially in partnership with Petersburg Schools and other local governments.

Strategies might include behavioral activities such as turning off lights when leaving a room and adjusting thermostats, and structural changes such as installing new HVAC systems, more efficient lights, and window film.

The Environmental Protection Agency estimates that cities can save about 5% (about \$22,000 from FY 2016 spending) from their energy costs by enacting behavioral changes, such as turning off unused lights, and increasing thermostats during the summer and lowering them during winter months. More systems related changes could produce significantly greater savings.

Eliminate funding for the Petersburg Generals

The City of Petersburg owns the Petersburg Sports Complex and has provided over \$100,000 annually in subsidies for the Petersburg Generals baseball team. In FY 2018, the City should end subsidies to the Petersburg Generals and consider turning the City Sports Complex over to a non-profit organization, Virginia State University or Petersburg Public Schools.

Petersburg Generals are poorly attended. The Sports Complex can seat up to 2,500, although the average attendance per game has not reached capacity since at least 2011. The Generals have had the lowest or second lowest attendance record in the Coastal Plains League since 2013.²²

Year	Attendance (total)	Attendance Per/Game
2011	6,682	278
2012	22,146	852
2013	7,291	317
2014	22,501	900
2015	7,593	304

Although the City's adopted FY 2017 budget calls for just \$64,000 in subsidies, the City has provided more than \$100,000 in annual subsidies in each of the last three years.

	2012	2013	2014	2015
Sports Complex Revenue	39,909	17,376	15,498	8,665
General Fund Subsidy	87,300	129,708	163,023	147,011
Attendance	22,146	7,291	22,501	7,593

Because Petersburg Public Schools use the Sports Complex for high school games, the City may want to consider simply turning it over to the school system for operation. Alternatively, the City may want to engage VSU as an operating partner in the facility.

Opportunities for Additional Revenue

The City should also consider undertaking a comprehensive analysis of fees to ensure that user revenues are maximized and that fee levels have been adjusted to increases in cost over time.

²² Riechard, Kevin, "2015 Summer Collegiate Attendance by League, <<http://ballparkdigest.com/2015/08/10/2015-summer-collegiate-attendance-by-league/>>

The Need for Partnerships

While the City of Petersburg needs to take these recommended actions to address the current fiscal crisis, it also needs to begin long term partnerships with the Commonwealth, neighboring local governments and civic stakeholders. Petersburg needs to show leadership in addressing its fiscal challenges, but it will only emerge from this crisis with the assistance of others.

This needs to start with an honest assessment of existing relationships. Neighboring local governments and City-funded entities like the local school system have been directly affected by the City's inability to make timely payments on its outstanding obligations. The \$18.8 million in outstanding unpaid obligations identified by the Commonwealth technical assistance team includes more than \$8.5 million in unpaid obligations to other governmental entities.

These government entities have a direct interest in working with the City to overcome its challenges. But they also have a legitimate expectation that the City will take all necessary actions to make payments on outstanding obligations in a timely manner.

The Commonwealth has already provided significant assistance to the City through its technical assistance team. But once the City takes necessary action on the PEG, it should ask the Commonwealth for additional assistance. As the City has less capacity in areas such as planning, economic and community development and tourism, it should work with agencies of the Commonwealth to see if additional resources could be applied in those areas to assist the City – both to fill the short term gap in capacity and to prioritize economic development in Petersburg to begin to grow its tax base.

The Commonwealth can also be asked to takeover certain assets of the City. For example, the Commonwealth may be better positioned to own and operate museums than the City. The City should also explore whether an enhanced partnership with the State Police could supplement local police activity.

The Commonwealth has also provided critical support to the City by advancing certain state aid. Continued support of this type will be essential to address continuing cash flow issues.

There are also critical stakeholders within and near the City of Petersburg. The Southside Medical Center is the City's largest employer and its largest taxpayer. The City already has partnerships with local philanthropy, such as the Cameron Foundation, and major higher education institutions, such as Virginia State University and Richard Bland College. And Fort Lee, though located outside of the city, is an important employer of Petersburg residents. Throughout this report, we have made recommendations on how these stakeholders can provide support or take over roles where the City no longer has adequate capacity.

To foster these partnerships, we would encourage the City – through the City Manager – to set a series of regular, no less than monthly meetings, with officials from:

- Hopewell and Colonial Heights on opportunities for shared services and to report on the status of joint funding agreements
- Petersburg Public Schools on opportunities for shared services and to report on the status of funding

- The Commonwealth on economic and community development, tourism, public safety and finance issues
- Civic stakeholders on opportunities for takeover of management and ownership of assets

Management and Budget Best Practices

Adoption of the FY 2017 PEG is an essential step toward righting the City's fiscal ship. Without action, the City will remain on an unsustainable budgetary course – with revenues continuing to outpace expenditures. Simply put, the City will run out of money and lose its ability to pay workers to deliver the most basic City services.

The City must also proceed with a series of practices to both ensure that adopted budgetary changes are implemented and to begin to identify further opportunities for budget reduction and improvements to overall local government efficiency and effectiveness.

Some of the most basic steps that the City should take include:

- Creating a regular process of monitoring budget implementation by comparing actual revenue and expenditures to budget. The City Manager and Finance Director should hold monthly meetings with departments to go over to budget to actual data and take steps to control spending.
- Establishing a permanent vacancy control process whereby no hiring – whether budgeted or unbudgeted – occurs without the sign off of the City Manager, Finance Director and HR Director. Vacancy control can produce savings beyond those contemplated in the recommended PEG.
- Providing regular – at least monthly – reporting to all department heads, the City Council and the public on overtime spending, hiring, cash flow and budget to actual data. This level of transparency will both build confidence in the City's operations and promote a public conversation about additional steps that can and should be taken to achieve fiscal sustainability.
- Creating an Audit Committee and appointing – or engaging a CPA by contract – to act as the City's Internal Auditor. The internal auditor would have the ability to review and regularly report on finance and performance issues in City government. The Internal Auditor would not be responsible for preparing the City's annual financial report. Instead, they would seek to identify improvements in financial controls and opportunities for savings and new revenue.
- Supporting budget implementation by hiring two budget managers who report directly to the City Manager. The budget managers would assist in budget development, prepare the regular reports on the budget and spending, assist in implementation of budget initiatives and identify additional potential savings and revenue opportunities on an ongoing basis.

**Budget Synopsis
FY17**

Recommend Department/Agency	Dept#	FY16	FY17	FY17	FY17	FY17
		Adopted	Request	Recommend	Adopted	Amended
City Council	11010	\$ 231,555	\$ 221,063	\$ 298,050	\$ 296,050	\$ 296,050
City Manager	12110	\$ 659,179	\$ 634,480	\$ 566,578	\$ 566,578	\$ 539,330
Hispanic Liaison	12130	\$ 107,697	\$ 104,651	\$ 108,414	\$ 106,414	\$ 26,606
City Attorney	12210	\$ 341,355	\$ -	\$ 320,762	\$ 320,762	\$ 291,735
Human Resources	12220	\$ 318,384	\$ 306,263	\$ 299,156	\$ 299,156	\$ 273,061
Com of Revenue	12310	\$ 351,928	\$ 340,862	\$ 428,044	\$ 426,044	\$ 426,044
Assessor	12320	\$ 490,115	\$ 471,491	\$ 471,141	\$ 471,141	\$ 531,248
Treasurer	12410	\$ 482,421	\$ 464,089	\$ 420,536	\$ 420,536	\$ 400,219
Finance	12420	\$ 686,936	\$ 660,832	\$ 586,573	\$ 586,573	\$ 548,000
Purchasing	12470	\$ 299,041	\$ 287,677	\$ 287,677	\$ 299,775	\$ 278,772
Information Systems	12510	\$ 1,107,281	\$ 1,065,204	\$ 870,654	\$ 870,654	\$ 833,632
Fleet & Equip Management	12520	\$ 1,802,003	\$ 1,733,527	\$ 547,522	\$ 596,590	\$ 596,590
Registrar	13700	\$ 320,951	\$ 348,108	\$ 324,721	\$ 324,721	\$ 324,721
Judge- Circuit Court	21100	\$ 75,008	\$ 104,639	\$ 104,639	\$ 104,639	\$ 104,639
Gen- District Court	21200	\$ 52,800	\$ 50,700	\$ 40,700	\$ 40,700	\$ 40,700
Magistrate	21300	\$ 39,400	\$ 41,584	\$ 41,584	\$ 41,584	\$ 41,584
Juv Justice	21400	\$ 89,288	\$ 85,836	\$ 88,636	\$ 88,636	\$ 88,636
J & DR Court	21500	\$ 12,765	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000
Clerk - Circuit Court	21600	\$ 704,366	\$ 691,150	\$ 677,650	\$ 677,650	\$ 677,650
Juv Court Services	21700	\$ 189,040	\$ 180,461	\$ 157,607	\$ 157,607	\$ 157,607
Commonwealth Attorney	22100	\$ 1,083,048	\$ 1,091,467	\$ 1,085,247	\$ 1,085,247	\$ 1,085,247
Police	31100	\$ 9,072,178	\$ 8,727,389	\$ 8,341,393	\$ 8,341,393	\$ 7,066,251
Emergency Communications	31200	\$ 1,784,761	\$ 1,823,369	\$ 1,705,549	\$ 1,705,549	\$ 1,606,430
Fire	32100	\$ 6,382,229	\$ 6,670,380	\$ 6,143,589	\$ 6,143,589	\$ 4,922,393
Code Compliance	32200	\$ 844,698	\$ 798,775	\$ 783,598	\$ 783,598	\$ 195,900
City Jail	33100	\$ 1,439,430	\$ 1,384,732	\$ 1,409,322	\$ 1,409,322	\$ 1,409,324
Animal Warden	35100	\$ 310,725	\$ 331,372	\$ 298,940	\$ 298,940	\$ 279,333
Engineering	41100	\$ 142,141	\$ 141,541	\$ 212,978	\$ 212,978	\$ 195,216
Refuse Collection	42300	\$ 1,580,000	\$ 1,519,960	\$ 1,519,960	\$ 1,519,960	\$ 1,519,960
Grounds	43100	\$ 771,471	\$ 742,155	\$ 691,333	\$ 691,333	\$ 652,841
Fac Management	43200	\$ 2,353,090	\$ 2,245,586	\$ 2,181,848	\$ 2,181,848	\$ 2,118,335
Health	51200	\$ 603,258	\$ 562,206	\$ 562,206	\$ 562,206	\$ 562,206
Soc Services	53501	\$ 8,488,906	\$ 8,165,178	\$ 8,108,111	\$ 8,108,111	\$ 8,108,111
CSA	53801	\$ 3,093,826	\$ 2,970,169	\$ 2,976,259	\$ 2,976,259	\$ 2,976,259
Parks & Leisure Svcs.	71300	\$ 957,595	\$ 911,038	\$ 904,742	\$ 904,742	\$ 704,186
Cemeteries	71400	\$ 157,789	\$ 151,793	\$ 142,573	\$ 142,573	\$ 136,048
Public Library	73100	\$ 1,005,989	\$ 967,760	\$ 1,005,989	\$ 1,005,989	\$ 781,635
Economic Development	81500	\$ 519,978	\$ 502,422	\$ 641,323	\$ 862,570	\$ 862,570
Museums Visitor Svcs	81600	\$ 680,125	\$ 664,280	\$ 672,386	\$ 310,244	\$ 310,244
Special Events	81700	\$ 384,667	\$ 269,631	\$ 114,537	\$ 114,537	\$ 109,958
Risk Management	91400	\$ 1,415,433	\$ 1,325,626	\$ 1,647,389	\$ 1,647,389	\$ 1,638,601
Non Departmental	92101	\$ 6,544,179	\$ 5,432,606	\$ 5,135,893	\$ 4,256,655	\$ 4,689,222
Debt Service	95101	\$ 4,580,327	\$ 4,657,469	\$ 4,847,477	\$ 4,847,477	\$ 4,847,477
Schools	99250	\$ 11,662,512	\$ 11,662,512	\$ 11,895,762	\$ 11,895,762	\$ 7,755,762
Petersburg Generals	555	\$ 108,011	\$ -	\$ 64,616	\$ 64,616	\$ 64,616
Municipal Golf Course	550	\$ 248,219	\$ 172,289	\$ 143,467	\$ 143,467	\$ 143,467
Mass Transit	575	\$ 246,592	\$ 236,591	\$ 224,484	\$ 224,484	\$ 224,484
		\$ -	\$ -	\$ -		
Total Fund 100		\$ 74,822,691	\$ 71,932,913	\$ 70,107,616	\$ 69,148,649	\$ 61,454,900
Total Special Fund					\$ 13,320,228	
Total CDBG					\$ 596,163	
Total Utilities					\$ 10,320,112	
Total Transit					\$ 3,191,593	
Total Generals					\$ 89,616	
Total Golf					\$ 856,000	
Total Amended Budget					\$ 89,828,612	
Total Original Budget					\$ 102,312,073	
Difference					\$ 12,483,461	