City of Petersburg
Virginia
www.petersburgva.gov

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

SPECIAL CITY COUNCIL MEETING AGENDA

August 3, 2016
Multimodal Transit Station
2nd Floor Conference Room
100 West Washington Street
2:00pm

1. **Call to Order**
2. **Roll Call**
3. **Purpose:**
   a. **Presentation from the State Technical Assistance Team**
4. **Closed Session (if necessary)**
5. **Adjournment**

Technical Assistance Project with the City of Petersburg

Richard D. Brown
Secretary of Finance
Commonwealth of Virginia

August 3, 2016

Presentation Overview

- Overview of City of Petersburg Request for Technical Assistance
- Overview of State Technical Assistance Role
- Technical Assistance Provided Since June 13, 2016
- Key Findings and Observations
- Recommendations

Overview of City of Petersburg's Request for Technical Assistance

City of Petersburg's Request for Technical Assistance

- May 27, 2016: Informal request received from Petersburg Acting City Manager for technical assistance
- June 10, 2016: Formal request for assistance in three areas received from Petersburg Acting City Manager with copy to City Council
- June 13, 2016: State team began work on-site with City staff
  - State Finance Team:
    - Dr. Sheryl Bailey, Office of the Secretary of Finance
    - Deborah Eggleston, Office of the State Inspector General
    - Eris Jones, Office of the State Inspector General
- June 30, 2016: City Council passed ordinance authorizing City Manager on behalf of City Council to request additional technical assistance past June 30, 2016, from the Governor's Office. Governor's Office granted assistance through July 29, 2016.

Overview of State Technical Assistance Role

State Technical Assistance Role

- Technical assistance areas per Petersburg request of June 10, 2016:
  - Help determine and catalog all City liabilities and obligations and recommend prioritization of City's plans in order to satisfy those liabilities and obligations
  - Help determine historical causes for City's liabilities and obligations that created the significantly imbalanced budget the City faces today
  - Help identify any structural problems with the City's budget and develop solutions in order for the City to have structurally balanced budget
- State team worked at request of City and in collaboration with City staff and existing consultants
- City Management and City Council maintain full responsibility for all management, operational and payment decisions
  - State has no authority to direct or implement the City's management, operational or payment decisions

Technical Assistance Provided Since June 13, 2016 (45 Days)

Overview of Technical Assistance Provided

- State Team Made Several Contacts
- Reviewed All Financial Funds
- Helped City Avoid Loan Default
- Compiled List of Unpaid Bills as of June 30, 2016
- Identified Historic Overspending
- Focused on FY2016 Structural Budget Imbalance
- Focused on FY2017 Structural Budget Imbalance
- Developed Framework of FY2016 Bills Supplemented with Available FY2017 Data

State Team Made Several Contacts*

- City of Petersburg Personnel
- Petersburg City Public Schools Personnel
- Davenport & Company, Financial Advisor
- Public Financial Management (PFM), Consultants
- Sands Anderson, Bond Counsel
- Mary K. Earhart, PLLC, Accounting Consultants
- Robinson Farmer Cox, External Auditor

* Full contact list included in Appendix A

Reviewed All Financial Funds

- Governmental Funds
  - General Fund
  - Capital Projects Fund
  - Community Development Block Grant Fund
  - Special Revenue Fund
- Proprietary Funds (Business Activities)
  - Mass Transit Fund
  - Municipal Golf Fund
  - Petersburg Generals Fund
  - Public Utility Fund

Helped City Avoid Loan Default

- Helped City's management and finance staff develop strategy to fully repay $4.5 million Tax Anticipation Note (TAN) on June 30, 2016 deadline
- Advised City to assemble team to closely monitor cash and approve disbursements daily
- Advised Acting City Manager to institute clear, effective citywide spending controls (centralize spending approval process)
  - Acting City Manager issued Citywide Restrictive Spending Freeze Policy Amended memo on July 21, 2016

Compiled List of Unpaid Bills as of June 30, 2016

- Helped City compile master list of total unpaid bills from FY2016:
  - Estimated $18.8 million as of June 30, 2016, after TAN paid
    - Approximately $14.7 million unpaid obligations to external entities
    - Approximately $4.1 million internal loans from other funds (repayment due to other funds)
- Provided City Council Members and Acting City Manager a detailed list of payees

Identified Historic Overspending

- Helped City identify historic overspending during FY2012 to FY2016 (based on available City data)
- Total expenditures exceeded total revenues in all funds most years, based on City's general ledger financial information:

FY12	FY13	FY14	FY15	FY16	Total FY12-FY16
($5.6M)	($2.7M)	$1.3M	($3.7M)	($5.3M)	($16.0M)

- Overspending accumulated to nearly $16 million excess total expenditures over total revenues in all funds in FY2012 to FY2016, based on City's general ledger financial information (See Appendix B)
  - Total revenues include one-time and restricted revenues
  - Structural imbalance could be larger with further analysis of recurring revenues vs. recurring expenditures (exclude one-time and restricted revenues)

Focused on FY2016 Structural Budget Imbalance

- Helped City identify FY2016 structural imbalance, based on City's unaudited general ledger financial information
  - Total expenditures $99 million in FY2016, but total revenues only approximately $94 million in all funds, meaning overspent by $5 million, including one-time and restricted revenues
  - Total revenues become approximately $90 million when adjusted for approximately $4 million in internal loans identified since June 13, 2016
  - Thus, approximately $9 million budget shortfall in all funds in FY2016 ($99 million total expenditures vs. $90 million total revenues in all funds)

Focused on FY2017
Structural Budget Imbalance

- Helped City identify structural imbalance for FY2017, based on City's unaudited general ledger financial information and FY2017 Adopted Budget
  - FY2017 Adopted Budget: $102 million for all funds (see Appendix C-Revenues and Appendix D-Expenditures)
  - Approximately $90 million total revenues for all funds in FY2016 (less internal loans identified since June 13, 2016, unaudited)
  - Approximately $12 million gap between FY2016 total revenues (unaudited) and FY2017 total expenditures for all funds

Developed Framework of FY2016 Bills Supplemented with Available FY2017 Data

- Helped City organize FY16 bills for all funds with updated FY17 debt service, Schools and rent payments, based on City's unaudited general ledger financial information and data provided by City Finance
  - Expenditure framework identifies FY2016 major recurring vendor payments across all funds, along with approximately $1 million monthly average of miscellaneous operating expenses
  - Will help City target expenditure reductions and track results, and first step toward monthly cash flows

Key Findings and Observations

Overview of Key Findings and Observations

- Long-Term Budgeting Issues
- Current Budget Imbalance
- Liquidity Challenges (Cash)
- Financial Management and Reporting

Long-Term Budgeting Issues

- Long-term structural budget imbalance
  - Total annual expenditures exceeded total annual revenues repeatedly over several years, accumulating over time
  - Succeeding budgets not adjusted sufficiently to address prior year's budget shortfalls
- Annual budgets are amended significantly mid-year, complicating the City's true overall budget position
- Budget reporting appears inconsistent, with different versions of the annual adopted budget presented in different documents and the financial system
- Total budgets for all funds are not reported consistently, thereby omitting the full budget picture (separate funds reported separately at different times)

Current Budget Imbalance

- Historical structural imbalance persists with FY2017 Adopted Budget, per City's annual budget documents
  - FY2015 Adopted Budget (Spring 2014): $101.0M, Overspent ~$3.7M all funds
  - FY2016 Adopted Budget (Spring 2015): $103.9M, Overspent ~$5.3M all funds
  - FY2017 Adopted Budget (Spring 2016): $102.3M
- FY2017 Adopted Budget still exceeds FY2015 Adopted Budget by nearly $1.3M
- Adopted budgets have changed little overall in FY2015 – FY2017 since reductions in the General Fund have been more than offset by significant increases in the Special Revenue Fund (See Appendix E)
  - General Fund and Special Revenue Fund include similar areas, including public works, public safety, criminal justice, community and economic development, human services, etc.

Liquidity Challenges (Cash)

- The City will have extreme difficulty paying essential bills (including payroll) in the latter part of 2016, perhaps as early as mid-August
- The City has operated with little to no cash reserves for several years, using annual tax anticipation notes to help with insufficient liquidity
- The City has not secured short-term financing in FY2017, presenting a severe cash crunch in the coming months
- Securing short-term financing will be difficult, if not impossible, in the absence of action to structurally balance the budget for FY2017 and beyond

Financial Management and Reporting

- There are minimal checks and balances in the City's financial management and systems
- The City does not track its month-to-month cash flow needs for managerial purposes
- The City relies on an external consultant to prepare the City's financial records, which are used as the basis for the City's audit by its external auditor. This is not a typical practice of a City of Petersburg's size.
- The external auditor's full report, including Management Letters, do not appear to have been provided to the City Council, and responses do not appear to have been submitted to the annual Management Letters
- The City's general ledger financial information is difficult to tie to the City's annual adopted and amended budgets and annual audited financial reports

Recommendations

Overview of Recommendations

- Immediate Actions
- Existing Liabilities
- Additional Actions

Recommendations

- Immediate Actions – "Stop digging"
  - City Council take specific actions to structurally balance and amend FY2017 Adopted Budget with assistance of PFM (estimated $10-12M structural imbalance)
  - Limit mid-year amendments to Adopted Budget and present "All Funds" budget at all times
  - Centralize expenditure controls and approvals citywide and closely monitor daily cash and disbursements (construct cash flow statements for several months in advance and track actuals vs. those statements)
  - Management review all revenues and expenditures vs. budget monthly, with monthly reporting to City Council
  - Supplement personnel, as necessary, to assure proper execution of budget balancing actions
  - Pursue short term financing to ease cash crunch based on structurally balanced FY2017 budget and improved accounting and budget practices, with assistance of Financial Advisors

Recommendations

- Existing Liabilities – "Plug old holes"
  - Improve accounting and budget practices necessary to pursue additional financing (cash flow statements, centralized spending controls, structurally balanced FY2017 budget, etc.)
  - Pursue financing to address FY2016 unpaid obligations with assistance of Financial Advisors
  - Pursue restructuring of existing debt with assistance of Financial Advisors to facilitate efforts to maintain structural balance in the budget

Recommendations

- Additional Actions – "Avoid digging new holes"
  - Establish long-term fiscal plan with assistance of PFM
  - Reform management, budgeting and financial practices and policies with assistance of PFM
  - Provide transparency in audited financial reporting to City Council and the public, including Management Letters issued by the external auditor and City responses to Management Letters
  - Limit mid-year amendments to Adopted Budget and present "All Funds" budget at all times
  - Management review all revenues and expenditures vs. budget monthly, with monthly reporting to City Council

Questions

Appendix A
State Team Contacts

- City of Petersburg Personnel
  - Dironna Belton, Acting City Manager
  - Mark Flynn, Acting City Attorney
  - Richie McKeithen, Assessor
  - Curtis Finney, Acting Finance Director
  - Lorraine Henderson, Payroll Supervisor
  - Tangela Innis, Purchasing Agent
  - Elsie Jarmon, Risk Manager
  - Janelle Sinclair, Billing Supervisor
  - Debbie Lee, Accountant
  - Lisa Scott, Purchasing Specialist
  - Melissa Bassett, AP Clerk
  - Carnita Winston, Accounting Clerk
  - Gerritt VanVoorhees, IT Director
  - Janet Turner, IT Specialist
- City of Petersburg Constitutional Officers
  - Kevin Brown, Treasurer
  - Janet Schwalm, Chief Deputy Treasurer
  - Paul Mullin, Deputy Treasurer
  - Pam Hairston, Commissioner of Revenue
- Petersburg City Public Schools Personnel
  - Dr. Marcus Newsome, Superintendent
  - Kathryn Kitchen, Interim Business Manager
  - Dr. Linda Shiflette, Acting Superintendent
  - Donna Fields-Duvall, Accountant
- Davenport & Company, Financial Advisor
  - David Rose, Senior Vice President and Co-Head of Public Finance
  - Roland Kooch, Senior Vice President
- Public Financial Management (PFM), Consultants
  - David Eichenthal, Managing Director
  - R. Erich Caulfield, Consultant
  - Lynn Evans, Consultant
  - Christa Payne, Consultant
- Sands Anderson, Bond Counsel
  - Daniel M. Siegel, Shareholder
- Mary K. Earhart, Accounting Consultants
  - Mary Earhart, Owner
- Robinson Farmer Cox, External Auditor
  - David Hughes, Member
  - David Foley, Member

Appendix B
Revenue and Expenditure Variance
FY2012 to FY2016

Source: Revenue and Expenditure amounts were obtained from General Ledger Reports provided by City of Petersburg Finance Staff

	FY12	FY13	FY14	FY15	FY16	Total FY12-FY16
Total Revenues - All Funds	$ 97,041,194	$ 106,623,444	$ 101,289,160	$ 103,148,863	$ 94,156,149	$ 502,258,811
Total Expenditures - All Funds	$ 102,677,803	$ 109,322,541	$ 99,987,081	$ 106,815,580	$ 99,424,584	$ 518,227,589
Difference Positive (Negative)	$ (5,636,609)	$ (2,699,097)	$ 1,302,080	$ (3,666,716)	$ (5,268,435)	$ (15,968,778)
Cumulative Difference Positive (Negative)	$ (5,636,609)	$ (8,335,706)	$ (7,033,627)	$ (10,700,343)	$ (15,968,778)	

Amounts do not include schools

Appendix C
FY2017 Adopted Budget Revenues

CITY OF PETERSBURG, VIRGINIA
Budget Recap
for Fiscal Year Ending June 30, 2017

REVENUES		
General Property Taxes		$ 33,578,988
Other Local Taxes		14,587,928
Licenses, Permits and Privilege Fees		672,763
Fines and Forfeitures		864,304
Revenue from Use of Money and Property		380,706
Revenue from Other Agencies		17,117,760
Charges for Current Services		2,738,529
Recovered Cost		385,266
Miscellaneous Revenues		164,271
Total General Fund Revenue		$ 70,490,514
Mass Transit	$ 3,191,593	
CDBG	596,163	
Municipal Golf Course	969,467	
Petersburg Generals	89,616	
Special Revenue	16,204,609	
Utility	10,770,112	31,821,560
TOTAL REVENUES		$ 102,312,073

Source: FY2016-2017 Adopted Budget Document, Supplied by Acting City Manager's Office

Appendix D
FY2017 Adopted Budget Expenditures

CITY OF PETERSBURG, VIRGINIA
Budget Recap
for Fiscal Year Ending June 30, 2017

EXPENDITURES

General Government		
Legislative	$ 296,050	
Executive	672,993	
Legal Counsel	320,762	
Financial Administration	4,710,013	
Human Resources	299,156	
Board of Elections	324,721	
Planning and Economic Development	1,024,221	$ 7,647,916
Judicial		2,208,063
Public Safety		18,682,391
Health and Human Services		11,646,576
Public Works		5,296,214
Parks and Leisure Services		904,742
Libraries		1,005,989
Museums and Visitor Services		786,923
Debt Service		4,847,477
Contingencies		0
Mass Transit		3,191,593
Municipal Golf Course		969,467
Petersburg Generals		89,616
Public Utilities		10,770,112
Special Funds		16,204,609
Non-Departmental		5,568,460
CDBG Projects		596,163
Education		11,895,762
2% Attrition Rate		0
TOTAL EXPENDITURES		$ 102,312,073

Source: FY2016-2017 Adopted Budget Document, Supplied by Acting City Manager's Office

Appendix E
Budget Comparison FY2015 to FY2017

	FY2015 Adopted Budget (1)	FY2016 Adopted Budget (1)	FY2015 vs. FY2016 Difference	FY2017 Adopted Budget (2)	FY2016 vs. FY2017 Difference	FY2015 vs. FY2017 Difference
General Fund	$ 80,475,714	$ 75,227,328	$ (5,248,386)	$ 70,490,514	$ (4,736,814)	$ (9,985,200)
Mass Transit	$ 3,006,735	$ 3,020,592	$ 13,857	$ 3,191,593	$ 171,001	$ 184,858
CDBG	$ 636,640	$ 641,490	$ 4,850	$ 596,163	$ (45,327)	$ (40,477)
Municipal Golf Course	$ 1,057,713	$ 1,086,982	$ 29,269	$ 969,467	$ (117,515)	$ (88,246)
Petersburg Generals	$ 147,011	$ 138,011	$ (9,000)	$ 89,616	$ (48,395)	$ (57,395)
Special Revenue	$ 6,032,905	$ 12,819,678	$ 6,786,773	$ 16,204,609	$ 3,384,931	$ 10,171,704
Utility	$ 9,699,114	$ 10,999,257	$ 1,300,143	$ 10,770,112	$ (229,145)	$ 1,070,998
Total Budget	$ 101,055,832	$ 103,933,338	$ 2,877,506	$ 102,312,074	$ (1,621,264)	$ 1,256,242

Sources: (1) FY2015 and FY2016 Adopted Budgets published on City website, (2) FY2017 Adopted Budget Document supplied by the Acting City Manager's Office

DAVENPORT & COMPANY

Background/ Summary of Davenport's 2012 Financial Review/ & Preliminary Plan(s) of Finance

Presentation to the City of Petersburg, Virginia City Council

August 3, 2016

Member NYSE | FINRA | SIPC

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1 Background

2 Summary of Davenport's 2012 Financial Review – Key Observations

3 Preliminary Plan(s) of Finance & Next Steps

Goals & Objectives

- Provide a background of Davenport & Company LLC's relationship as Financial Advisor and our historic involvement with the City of Petersburg.

- Provide Key Observations from Davenport's 2012 Financial Review which was presented to the City Council Advance on August 3, 2012 – four years ago.
  - We have also provided updated financial trends through FY 2015 which are based on information from the City's FY 2012 through FY 2015 audited financial statements.

- Outline the Plan(s) of Finance for the City of Petersburg to consider in addressing its current financial situation. Below we have identified the Short-Term and Long-term Plan(s) of Finance for the City's consideration.
  - Short-Term Plan of Finance:
    - Tax Revenue Anticipation Note (TAN) Cash flow borrowing for the City to pay its operating bills.
    - Bond Anticipation Note (BAN) to pay the most immediate liabilities/due bills from FY 2016.
  - Long-Term Debt Restructuring/Consolidation:
    - Comprehensive Restructuring of existing debt and Consolidation (i.e. permanent financing) of the above BAN and the City's outstanding liabilities/due bills from FY 2016.

1. Background

Background

- In 2011, Davenport was selected by the City of Petersburg (the "City") through a formal, competitive procurement process to provide the City with a written "Financial Review" at the request of the then new City Administration.
  - Davenport was neither the day-to-day Financial Advisor to the City, nor were we directly involved with the City Administration prior to 2011.

- Davenport delivered our Financial Review dated July 9, 2012 to City Staff and provided our report to City Council on August 3, 2012 at its "Advance" meeting.
  - Our report contained several key observations with respect to declining performance in the General, Mass Transit, Golf and Utility Funds.
  - We recommended to pro-actively establish communication with the National Credit Rating agencies to provide complete disclosure of the City's financial position.
  - In addition, we provided key recommendations for "turning around" the City's financial condition.

- In 2014, Davenport was selected to serve in the capacity of Financial Advisor to the City through a formal, competitive procurement process. As Financial Advisor, Davenport assisted the City with:
  - Pro-active Rating Agency communication with Standard & Poor's in order to provide fully transparent information about the City's historic and most recent financial condition.
    - In 2014, the City notified S&P of its actual Fund Balance (i.e. liquidity) position, which was overstated in S&P's prior 2011 analysis.
    - As a result of S&P's review, the City's bond rating was downgraded from "A+" to "BBB".
  - Debt Policy Guidelines (adopted in 2014) that provided for thresholds for the management of Debt;
  - Fund Balance Policy Guidelines and a funding approach for rebuilding the City's Unassigned Fund Balance;
  - Financing of planned capital improvement needs through Virginia Resources Authority; and
  - Evaluation of City capital and/or economic development projects that might involve debt financing.

Background (cont.)

- In March, 2016:
  - At the request of the City, Davenport as Financial Advisor, was asked to provide a 2016 Update of our 2012 Financial Review, which was provided to the City in draft form, but not presented to City Council.

- On April 20, 2016, Davenport was invited to meet with the City and SunTrust (a creditor and provider of the Tax Revenue Anticipation Note (TAN) due on June 30, 2016).
  - From April 20 through June 9, Davenport had not been contacted by the City with respect to its financial crisis. We have not been a part of the City's FY 2017 budget or cash flow management processes during this time period.

- On June 9, 2016, Davenport was contacted by the City to assist with updating the City's debt portfolio model and assist in future financings which included a potential Short-Term Tax Revenue Anticipation Note (TAN) for working capital needs and Long-Term Debt Restructuring/Consolidation.

- From June 28 through present, Davenport has participated in several meetings with the City and the Commonwealth of Virginia, reviewed the City's indebtedness and advised the City on the prerequisite items that are necessary in order to potentially implement the Plan(s) of Finance herein, which include the Short-Term TAN.

- NOTE: Davenport has not been involved with the City with respect to:
  - The previous annual TAN financings from SunTrust;
  - The annual Budget formation and decision making process each year; and
  - Lease Financings and recent Storm Water Revenue Bond financing completed on or about October, 2015.

2. Summary of Davenport's 2012 Financial Review – Key Observations

Summary of Davenport's 2012 Financial Review
Key Observations

- The 2012 Financial Review was based on the City's FY 2006 through FY 2011 audited financial statements and information provided by the City's Department of Finance. Our Key Observations were as follows:
  - The City's General Fund contributed significant amounts of cash on an annual non-budgeted basis to the Mass Transit and Golf Funds.
    - This practice indicated that the City's overall budget that included all funds was not structurally balanced.
  - The City's financial performance appeared to be declining as early as FY 2009 with Expenditures exceeding Revenues and cash balances beginning to decline from FY 2009.
  - The City's total fund balance was comprised primarily of land, internal loans to the Mass Transit, Golf and Utility funds – essentially non liquid (i.e. cash) fund balance.
  - The lack of liquid (i.e. cash) fund balance resulted in the City historically relying on Short-Term Tax Revenue Anticipation Note (TAN) financings to pay its bills during the year.
  - The City needed to implement and maintain structurally balanced and sustainable budgets on a going forward basis.
  - In 2011, Standard & Poor's (S&P) upgraded the City's bond rating to "A+" on the understanding that it had a total fund balance of $21.4 million, $15.4 million of which was unreserved – all of which S&P considered liquidity or "Cash Reserves".
    - Note: Upon our selection as Financial Advisor in 2014 and as a result of the need, as identified by Davenport, to notify S&P that the City's fund balance was overstated in S&P's analysis, the City's bond rating was downgraded to its current rating of "BBB".

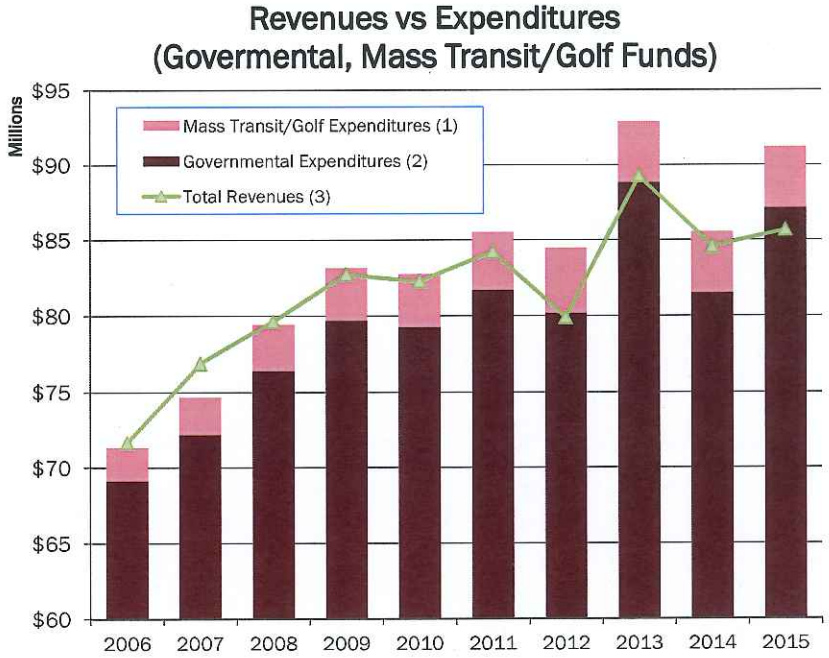
Structural Balance/Imbalance
(Updated with financial information through FY 2015)

- When evaluating the Structural Balance/Imbalance of the City, the Governmental (General & Non-Major), Mass Transit and Golf Funds have been viewed collectively, as a whole.
  - Capital Projects Fund has been excluded due to one time revenues (i.e. bond proceeds) or one time expenditures.
  - Utility Fund has been excluded due to self supporting nature of the fund.

- The City began to have Structurally Unbalanced finances starting on or about FY2009 (shown highlighted in red), when considering the Governmental Funds (General & Non-Major) in combination with the Mass Transit and Golf Funds.

Governmental, Mass Transit and Golf Funds

Fiscal Year	Expenditures Mass Transit/Golf (1)	Expenditures Governmental (2)	Total Revenues (3)	Surplus (Deficit)
2006	2,207,103	69,117,310	71,635,381	310,968
2007	2,500,457	72,158,936	76,829,525	2,170,132
2008	3,049,122	76,375,348	79,596,926	172,456
2009	3,460,204	79,668,879	82,692,844	(436,239)
2010	3,505,975	79,214,494	82,239,230	(481,239)
2011	3,834,946	81,657,871	84,186,793	(1,306,024)
2012	4,299,727	80,140,067	79,878,828	(4,560,966)
2013	4,032,005	88,798,157	89,238,273	(3,591,889)
2014	4,025,575	81,483,802	84,553,700	(955,677)
2015	4,107,319	87,076,939	85,653,894	(5,530,364)



(1) Net of Depreciation
(2) Excludes Capital Projects Fund
(3) Includes Net Other Financing Sources (Uses) for the General and Non-Major Governmental Funds and Net Non-Operating Revenue for the Mass Transit and Golf Funds.

Source: City CAFRs

Use of Cash/Decline in Unassigned Fund Balance
(Updated with financial information through FY 2015)

- In order to financially address the Structural Imbalance in a given year, the City drew down cash reserves. The total operating imbalance is difficult to determine due to the use of cash, but is reflected in declining cash balances (i.e. liquidity) and Fund Balance.
  - The table below shows the cash balances in the General Fund. As the cash balance declines from FY 2009 to FY 2012, Unassigned Fund Balance declines as well.
    - It is important to note that Unassigned Fund Balance prior to FY 2011 ***includes*** Due from Other Funds/Interfund Loans amounts and is inflated by such amounts.
  - By FY 2013 the cash levels were insufficient to cover additional Structural Imbalances and a Reconciled Overdraft appears for the first time in the City CAFR.

General Fund

Fiscal Year	Cash Balance	Reconciled Overdraft	Unassigned Fund Balance(1)	Due from Other Funds/ Interfund Loans(1)
2006	3,157,180	0	10,447,674	5,109,057
2007	1,355,272	0	10,227,794	6,919,812
2008	2,764,547	0	11,935,086	9,611,785
2009	4,623,797	0	14,837,698	7,777,243
2010	3,034,728	0	15,403,526	7,324,395
2011	2,792,940	0	6,552,487	8,225,957
2012	649,102	0	4,615,214	9,148,704
2013	0	1,737,655	1,725,979	9,148,704
2014	0	1,182,980	174,507	9,148,704
2015	0	7,049,166	(5,011,152)	9,148,704

(1) Note Beginning in FY 2011 Interfund loans are reported separately from Unassigned Fund Balance. In prior years Interfund loans were included in Undesignated Fund Balance.

Source: City CAFRs

3. Plan(s) of Finance

City Plan(s) of Finance

- Goals & Objectives – to provide both:
  - Short-Term working capital for cash flow needs within a structurally balanced corrected budget for FY 2017; and
  - Long-term Debt Restructuring and Consolidation within sustainable structurally balanced budgets for FY 2018 and beyond.

- Pre-requisites to the Plan(s) of Finance:
  - The City will need to finalize its FY 2016 obligations that are due and payable and develop Cash Flows for FY 2017.
  - The City will need to implement immediate corrective budget actions for FY 2017 based on the recommendations of PFM.
  - The City will need to implement sustainable structurally balanced budgets for FY 2018 based on the recommendations of PFM.

- Based on the above, as Financial Advisor to the City, Davenport can develop:

  1. A Short-Term Plan of Finance consisting of:
     - Working Capital (TAN) for cash flow operational needs; and
     - Bond Anticipation Note to address most immediate FY 2016 obligations that are due and payable.

  2. A Long-term Plan of Finance consisting of:
     - Restructuring of existing indebtedness and Consolidation (permanent financing of the Bond Anticipation Note above and financing of the remaining FY 2016 obligations) to fit within a sustainable structurally balanced FY 2018 budget.

City Plan(s) of Finance (cont)

- What is required for the above Plan(s) of Finance:
  - A. Final accounting/itemization of FY 2016 obligations that are due and payable.
  - B. Immediate corrective FY 2017 Budget Actions (combination of budget reductions and revenue increases) to be taken by City Council and are necessary to close an estimated $10 to $15 million structural budget gap.
  - C. Cash flow forecast of both Revenue and Expenditures for FY 2017 (based on corrective FY 2017 Budget Actions).

- ***If the above actions are not taken***, then the City is not in a position to obtain financing.

- The Short-Term financing is anticipated to take approximately 90 days from today's August 3, 2016 presentation if a potential bank/financing institution is willing to provide a direct loan.
  - If the City needs to obtain financing through a limited public offering via the credit markets, then the financing could take longer than 90 days.

- Immediately subsequent to this August 3, 2016 meeting and prior to the implementation of the Plans(s) of Finance, Davenport recommends formal notification of the City's financial position to Standard & Poor's, which is the National Credit Rating Agency that currently rates the City's debt.
  - Potential consequences of this notification may be a negative outlook or rating downgrade or both in the short-term.

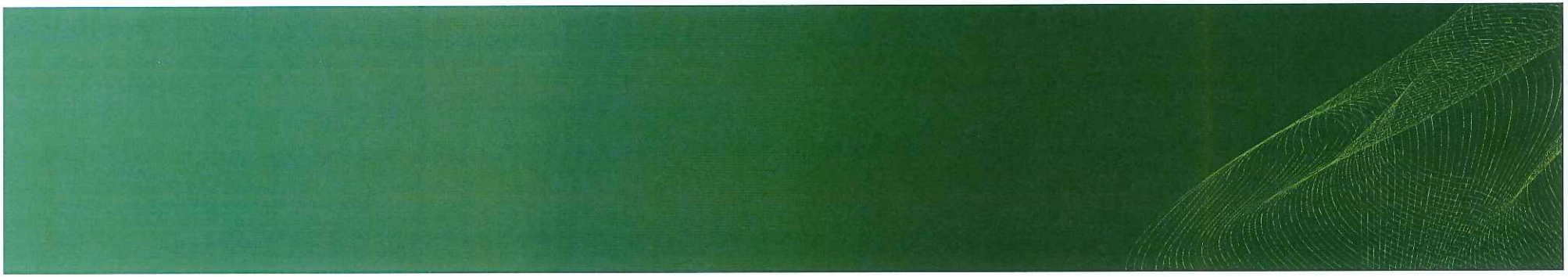
- A preliminary timetable for implementing the Plan(s) of Finance is included herein.

Preliminary Time Table for the Plan(s) of Finance

Date	Activity	Council Action
August 3	Presentation to City Council of the City's current financial condition.	None to be taken. Opportunity for Questions and Answers and discussion of next steps.
August 17	PFM to deliver FY 2017 Budget Corrective Actions for City Management and Council to review.	None to be taken. Information to be provided for review prior to August 23
August 23	PFM presents FY 2017 Budget Corrective Actions to City Council at a formal meeting for consideration and adoption.	City Council to accept PFM recommendations and proceed with implementation.
August 24	Davenport to send Short-Term Plan of Finance request package to potential banks/lending institutions consisting of FY 2016 results, FY 2017 Budget Corrective Actions and finalized cash flow forecast based on the Revised FY 2017 Budget.	None to be taken.
Aug 28/Sept 7	Publication dates for Public Hearing on Sept 23.	None to be taken.
September 13	**City Council Meeting and Public Hearing:** Adoption of Revenue increases included in the 2017 Budget Corrective Actions	Public Hearing and City Council adoption of revenue increases.
Sept 13/20	Publication dates for Public Hearing on Sept 27.	None to be taken.
September 15	Receive responses from bank/financing institutions.	None to be taken.
September 27	**City Council Meeting and Public Hearing:** Responses presented to City Council for consideration and approval of best financing proposal.	Public Hearing and City Council adoption of authorizing resolution.

Preliminary Time Table for the Plan(s) of Finance (cont)

Date	Activity	Council Action
Sept 28-Oct 18	Close on Short-Term Plan of Finance (TAN and BAN)	None to be taken.
First Quarter CY2017	Davenport to finalize Long-term Plan of Finance Debt Restructuring and Consolidation in conjunction with FY 2018 Budget process.	Various Council Actions are needed. Timing to be determined.



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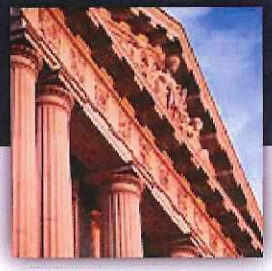


City of Petersburg
Five Year Financial Planning Process

Presentation to City Council
August 3, 2016

PFM® 40 Years of Independent Advice
The PFM Group
Financial & Investment Advisors

Focus on Fiscal Sustainability

- Combination of structural and cyclical challenges
- Slow economic growth, high unemployment, foreclosures have all resulted in no revenue growth/revenue declines
- Structural pressures – wages, pension and health costs – have all driven expenditures as revenues have not been able to keep up
- Fiscal stability and strong local government management are essential to economic competitiveness
- Fiscal imperative for local governments to "do more with less" and "think outside of the box"
  - Do what they do differently
  - Do different things

Cleveland, Ohio: Management & Efficiency Study

- PFM was retained by Cleveland to complete a management and efficiency study in 2009.
- The City faced a budget gap of over $50 million for 2010, and sought a broad menu of ideas to eliminate the shortfall.
- PFM identified over 175 potential expenditure reductions and revenue enhancements valued at $81.6 million in 2010 and almost $700 million over five years.
- Initiatives covered reorganization, modification and elimination of selected services, identification of new revenues and better collection of existing revenues, and workforce changes.

"To help address the 2010 budget gap, I commissioned a management and efficiency study early in 2009. In the fourth quarter of last year, the report was received, containing 175 recommendations on how to increase cost savings, increase revenue and increase efficiency. We acted immediately on a few of the recommendations … These measures, along with employee-approved furlough days and reductions in employee benefits and minimal layoffs, helped balance the 2010 budget."
City of Cleveland Mayor Frank Jackson, 2010 State of the City Address.

Overview and Goals of the Project

- Identify creative and innovative ideas and best practices to help City address immediate and long term fiscal challenges – close the structural deficit
- Define the problem – developing a five year forecast
- Understand the current condition – analyze the operational factors that led to the structural deficit
- Assess opportunities for cross-cutting savings and efficiencies and new revenues
- No sacred cows in the process – everything is on the table
- Focus on initiatives that both address the structural deficit **and** help to close the FY 2017 budget

Overview and Goals of the Project

- Analysis is based on our expertise in working with cities, best practices and benchmarking
- Best practices are strategies designed to maximize efficiency and effectiveness that have been deployed successfully in other local governments. These are practices that we have identified – and in some cases developed – in other cities.
- Benchmarking is a process that compares Petersburg with other cities, looking across revenue, spending and operational indicators.
  - Provides context to thinking through how to look at what Petersburg is doing (e.g. level of staffing, level of service, etc.)
  - Currently comparing to 8 other cities in the Commonwealth – including Colonial Heights, Hopewell, Richmond and five other cities with comparable economic challenges – adjusting for population differences.

Overview and Goals of the Project:

- Department level reviews and recommendations with assessment of feasibility and order of magnitude estimate for five years
- Areas of review will include :
  - More strategic allocation of departmental resources
  - Potential for consolidation of different departments or functions
  - Better alignment of departmental capacity and resources with actual utilization
  - Shared services, programs and funding with other governmental entities
  - Greater use of partnerships with for-profit and non-profit organizations to deliver services and programs
  - Improved use of performance measurement in department management
  - Increased use of technology
  - Maximizing competition on procurements for goods and services

FY 2017: Program to Eliminate the Gap (PEG)

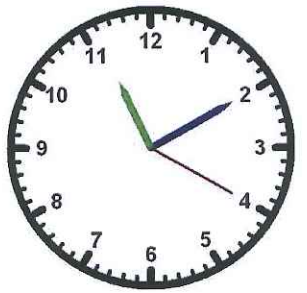
- PFM will still be looking at opportunities for savings and revenue over a five year period, but the Commonwealth TA team and Davenport have made it clear that the City must close the FY 2017 gap
- Some things to consider:
  - If the structural gap in FY 2017 is $12 million, the City would need to adopt a package of $16 million in cuts and increases that takes effect by October 1 to close that gap. Time is of the essence.
  - There will likely need to be both revenue increases and expenditure savings to close the gap.
  - Not all cuts are equal. Reductions in spending on revenue generating activity or non-City funded programs will have no impact – or a negative impact
  - Across the board cuts can also be counterproductive – it assumes that current service levels across departments are all equal in the degree to which they meet service demand – that's part of the benefit of benchmarking
  - Not all of the budget is in your control. The 2015 CAFR reported $49.9 million in locally generated General Fund revenue.
  - Some funding levels are mandated. For example, minimum levels of school funding and the rate of spending for pensions is set by the Commonwealth

What We Have Done

- Requested more than 70 documents and data reports and, so far, cooperation has been good
- Conducted interviews with most – if not all – of the department heads or heads of City funded government entities
- Collected benchmark data for comparable cities
- Reviewed budget documents, CAFRs and other operational reports
- Met with the Commonwealth technical assistance team, Financial Advisor, Bond Counsel and City Attorney

Our Plan

- Develop and submit a proposed PEG to Acting City Manager by August 17
- Proposed Council meeting on August 23 and action on PEG
- Proposed Council meeting on September 13 and action on revenue components of PEG
- Develop and submit full report to Acting City Manager by September 22
- Final report to City in October



PFM Team

- Engagement Manager: David Eichenthal, Managing Director
- Subject Matter Experts:
  - Lynn Evans (V. Lynn Evans, CPA) , Finance
  - Erich Caulfield (Caulfield Consulting), Public Safety and Justice
  - Patrick Jordan (Enterprise Community Partners), Community Development, Transit and Public Works
  - Christa Payne, Schools and Youth
  - Alyssa Mehalick, Workforce
- Project Support:
  - Kevin Rotty, Managing Director
  - Jay Fullenwider, Senior Analyst
  - Ian Tyson, Analyst
  - R.J. Griffin, Analyst