

# Technical Assistance Project with the City of Petersburg

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# Presentation Overview

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

# 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.

# 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

- State Team On-Site 45 Days and Made Several Contacts
- Reviewed All Financial Funds
- Helped City Avoid Loan Defaults
- Compiled List of Unpaid Bills as of June 30, 2016 (\$18.8M)
- Identified Historic Overspending
- Focused Attention on Structural Budget Imbalance
- Developed Framework of FY2016 Revenues and Bills  
Supplemented with Available FY2017 Data
- Presented Formal Report to City Council on August 3, 2016
- Helped Organize Plan for Meeting Ongoing Debt Obligations

# Key Findings and Observations

- Long-Term Structural Imbalance and Budgeting Issues
  - Nearly \$16M cumulative overspending FY2012 – FY2016, based on City’s general ledger financial information
  - Pattern of significant mid-year budget amendments and inconsistent budget reporting
- FY2017 Adopted Budget Imbalance
  - Estimated \$12M budget gap, based on City’s general ledger financial information
  - Little change in total, all funds FY2017 Adopted Budget as compared to prior year

# Key Findings and Observations, Cont'd

- Liquidity Challenges (Cash)
  - 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
  - The City will have extreme difficulty paying essential bills (including payroll) in the latter part of 2016, perhaps as early as mid-August
  - Securing short-term financing will be difficult, if not impossible, in the absence of action to structurally balance the budget for FY2017 and beyond

# Key Findings and Observations, Cont'd

- Financial Management and Reporting
  - There were minimal checks and balances and inadequate monthly cash flow tracking in the City's financial management systems
  - The City has relied 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
  - It is unclear the extent to which the external auditor's full report, including Management Letters, were reviewed with the City Council, and responses do not appear to have been submitted to the annual Management Letters
  - The City's general ledger financial information was difficult to tie to the City's annual adopted and amended budgets and annual audited financial reports

# Recommendations

- Immediate Actions – “Stop digging”
  - 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)
  - 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
  - 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

# City Actions in Response to Technical Assistance Recommendations

- Acting City Manager centralized spending approvals and instituted process to closely monitor daily cash and develop monthly cash flow analysis
- City Council Actions Since August 2016:
  - August 3<sup>rd</sup>: Adopted resolution to take corrective budget actions on August 23<sup>rd</sup> to lower the budget \$10 - \$15 million
  - August 23<sup>rd</sup>: Adopted resolution to accept PFM FY2017 program recommendations to reduce budget almost \$12.5 million and to advertise necessary public hearings on September 6<sup>th</sup> for budget amendments and tax and fee increases
  - September 6<sup>th</sup>: Held six public hearings and adopted revised budget amendments and tax and fee increases that produced an almost \$12.4 million total budget reduction

# Questions