

City Council Work Session

Capital Budget Utilities

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

March 29, 2017

City of Petersburg Fiscal Year 2018 – 2022 Capital Improvement Plan

Stabilizing the Future



Agenda

Working Session to Review FY 18 Capital Budget and 5-Year CIP:

- Capital Budget Overview
- Financial Constraints
- Highlights of Capital Budget
- Utilities

Transparency

1. Presentations available on City website:
<http://www.petersburgva.gov/index.aspx?NID=846>

The Capital Budget & CIP

- The Capital Budget addresses critical infrastructure projects that have a long useful life.
- The projects are generally funded by bonds (borrowings) with terms of 20-30 years that match the useful lives of the projects.

Capital Projects

Capital Projects include:

- acquisition,
- design,
- construction,
- replacement,
- renovation or
- extension of the useful life of a capital asset.

Capital Project Eligible Expenditures

- Architectural design, engineering, planning, programming and contract management
- Major maintenance projects costing more than \$25,000 with a useful life of at least 10yrs.
- Major vehicles such as buses and fire apparatus with a useful life of at least 10yrs. years
- New construction, renovation, expansion or replacement projects costing in excess of \$50,000
- Land acquisition for public purposes.
- Major equipment such as radio systems and information technology systems

Capital Spending Depends on Ability to Borrow Money

Controlling factors are:

- Amount of Outstanding Debt
- Ability to fund debt service
- Credit rating (will you pay it back?)

Petersburg's Long Term Debt Burden is Low

Debt Ratios

	<u>Policy</u>	<u>Actual</u>
Debt Service as a % of General Fund Budget	$\leq 10.00\%$	5.49%
Outstanding Debt as % of Assessed Value of Real Estate	$\leq 4.50\%$	2.19%

How much new debt can Petersburg afford?

- General Fund-Supported
 - Davenport says about \$24 million over 10 years or \$10 million over 5 years (about \$2M /year)
- Utility Revenue-Supported
 - Depends on willingness to raise rates

Strategic Funding Approach

General Fund

- Roughly \$2 million / year
- No funding in Budget Year for any projects, while we stabilize Petersburg's finances

Utilities

- Based on \$52.5 infrastructure needs over 5 years per Timmons Report
- Budget Year (FY18) financing relies on unused VRA allocation of \$5.3M, and \$750,000 from DEQ
- Remaining 4 years of CIP assumes City can issue revenue bonds, which is very uncertain

Stormwater

- Monthly fees are already allocated for operations and debt payments on Capital One loan, so no new projects in near term.

Transit

- Based on FTA Grant Allocation

Major Impacts of Funding Limitations

Schools

- All Budget Year (FY18) projects delayed to FY19 or beyond
- Petersburg High School **Field House** delayed beyond 5-year Plan (\$1.2 million)
- Design and Construction of **Walnut Hill, Westview** and **J.E.B. Stuart** Elementary Schools delayed beyond 5-Year Plan (\$67.6 Million)
- Design and Construction of **Vernon Johns Middle** School classroom and multi-purpose room addition delayed beyond 5-Year Plan (\$6.0 million)
- No replacement buses in FY18

City of Petersburg Proposed 5-Year Capital Improvement Program

V100817

	TOTAL PROJECT BUDGET	PROPOSED BUDGET FY 18	FY19	FY20	FY21	FY22
Facilities						
McKenney Library Interior and Exterior Repairs	60,000			60,000		
Wilcox Lake Irrigation System	70,000				70,000	
Replacement Vehicles - Facility Management Div.	90,000					90,000
Historic Resources Building - Roof Repairs	50,000					50,000
Animal Shelter Roof, Fence and Interior Repairs	50,000		50,000			
FACILITIES SUBTOTAL	320,000	0	50,000	60,000	70,000	140,000
Schools						
A.P. Hill Elementary School Upgrade Bathrooms	46,500		46,500			
A.P. Hill Elementary School Window Replacement	256,000			256,000		
J.E.B. Stuart Boiler Replacement	0					
J.E.B. Stuart ES Upgrade Restroom	71,300				71,300	
J.E.B. Stuart Window Replacement	201,800	201,800				
Petersburg High School Replace Gym Floor	130,000			130,000		
Petersburg High School Boiler Replacement	180,000				180,000	
Petersburg High School Roof Replacement	681,981				681,981	
Petersburg High School Field House	1,200,000				1,200,000	
Petersburg High School Exterior Door Replacement	70,000		70,000			
New Elementary School Design - Walnut Hill, Westview, J.E.B. Stuart	3,100,000			3,100,000		
New Elementary School Walnut Hill Elementary School	21,095,000				21,095,000	
New Elementary School Westview & J.E.B. Stuart Elementary Schools	44,370,000					44,370,000
Robert E. Lee ES Window Replacement	288,400				288,400	
Vernon Johns Middle School Design Classroom Addition/Multi-purpose Room	1,000,000	1,000,000				
Vernon Johns Middle School Construct Classroom Addition/Multi-purpose Room	5,000,000		5,000,000			
Westview Early Childhood E.C. Parent Drop-off Loop	250,000	250,000				
Westview Early Childhood E.C. Window Replacement	340,000		340,000			
ES New School Buses	1,593,550	288,450	201,800	530,000	222,600	350,700
SCHOOLS SUBTOTAL	78,952,531	1,740,050	5,658,300	3,116,000	23,717,481	44,720,700

Major Impacts of Funding Limitations

Facilities

- Siege Museum limited to \$100,000 in FY19
- McKenney Library repairs limited to \$50,000 in FY20 and \$60,000 in FY22

Fire

- Training Facility delayed beyond 5-Year Plan
- Radios and CAD upgrade scheduled for FY19

Utilities

- \$12 million recommended by Timmons in FY18 reduced to \$6M
- Remainder of \$52.5M CIP spread over following 4 years

FY 18 Capital Budget Highlights

- Total FY18 Budget is \$6,658,000
- Includes \$6,050,000 for Utilities
- Includes \$608,000 for Transit (Buses and Equipment)
- No other projects budgeted in FY18
- No School projects included in FY18
- Total for 5-Year CIP is \$64,388,300 (mostly for Utilities)

CIP for Utilities

These are the most urgent repairs funded in FY18.

Utilities - Key Projects	PROPOSED BUDGET FOR FY18
Water Utility	
Lock's Water Line Replacement	\$2,160,000
Mount Vernon Pump Station Rehab and Upgrade	\$400,000
SCADA Implementation	\$130,000
WATER SUBTOTAL	\$2,690,000
Wastewater Utility	
Poor Creek Force Main Replacement Design	\$250,000
Main Station Upgrade Health and Safety	\$250,000
Main Pump Station pumps and motors	\$300,000
Poor Creek Force Main Phase I	\$1,750,000
SCADA Implementation	\$430,000
Infiltration and Inflow Reduction Projects	\$280,000
Flow Monitoring	\$100,000
WASTEWATER SUBTOTAL	\$3,360,000
UTILITIES TOTAL	\$6,050,000

Sources of Funding include \$5.3M in VRA bonds and a \$750K DEQ no interest loan that will be paid back through rate increases.

5-Year CIP

Proposed Financing Plan (Sources & Uses)

	Total Project	Proposed Budget				
	Budget	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
USES						
GENERAL FUND TOTAL	10,300,300	-	2,477,500	2,469,900	2,629,900	2,723,000
STORMWATER TOTAL	1,000,000	-	-	-	500,000	500,000
UTILITIES TOTAL	52,480,000	6,050,000	18,305,000	10,025,000	9,300,000	8,800,000
TRANSIT TOTAL	608,000	608,000	-	-	-	-
TOTAL USES	64,388,300	6,658,000	20,782,500	12,494,900	12,429,900	12,023,000
SOURCES						
GENERAL OBLIGATION BONDS (for General Government and Schools)	8,318,400	-	1,315,000	1,902,000	2,378,400	2,723,000
QUALIFIED ZONE ACADEMY BONDS (QZAB) for Schools	1,981,900	-	1,162,500	567,900	251,500	-
STORMWATER UTILITY FEES	1,000,000	-	-	-	500,000	500,000
VRA BONDS (Approval Required for Utilities)	5,300,000	5,300,000	-	-	-	-
FEDERAL TRANSIT ADMINISTRATION (FTA)	278,000	278,000	-	-	-	-
STATE TRANSIT GRANT	289,000	289,000	-	-	-	-
LOCAL TRANSIT SHARE-TRANSFER FROM PAT	41,000	41,000	-	-	-	-
DEQ LOAN (for Utilities)	8,750,000	750,000	2,000,000	2,000,000	2,000,000	2,000,000
UTILITY REVENUE BONDS	38,430,000	-	16,305,000	8,025,000	7,300,000	6,800,000
TOTAL SOURCES	64,388,300	6,658,000	20,782,500	12,494,900	12,429,900	12,023,000

Capital Improvement Program Process

- **November** – City Manager determines availability of CIP funding based on financial policies established by City Council.
- **December** – City Departments submit capital project requests, with priority given to projects that have already been included in the 5-Year Capital Improvement Program.
- **January** – City manager’s team compiles requests, reviews and prioritizes projects, and develops a draft plan.
- **February** – City Manager completes Proposed Budget and CIP and submits it to the City Planning Commission for its review and recommendations.
- **March** – The Proposed Budget and CIP is presented to Council.
- **March** – City Council holds work sessions on the Capital Budget with the City Administration.
- **April** – City Council Holds a public hearing on the Proposed Budget.
- **May** – City Council adopts the Capital Budget Ordinance and CIP as part of the annual financial plan.
- **July** – The Capital Budget becomes effective on the first day of the new fiscal year.

The City of Petersburg's financial policies described in this section were adopted by City Council in September 2014 with additional changes adopted by motion in January 2017. During the budget process, City leadership will bring forward ordinances for Council to adopt related to these policies.

Financial policies are the tools to ensure that the City is financially able to meet its immediate and long-term service objectives. The policies are guidelines for both the financial planning and internal financial management of the City. The City is accountable to its citizens for the use of public dollars. These funds must be carefully used and managed to ensure adequate funding for the programs, services, and infrastructure needed to meet the community's current and future needs.

The policies below are those related to the capital budget only. To see the City's financial policies in their entirety, see the Financial Policies section of the FY 2018 Proposed Operating Budget.

Capital Improvement Budget Policies

The City will develop a five-year Capital Improvement Plan which will serve as the basis for planning and prioritizing the City's capital improvement needs based on affordability and compliance with Debt and Reserve Policies. The Capital Improvement Plan will only include projects with identified and known realistic funding sources. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

1. The City will consider all capital improvements in accordance with an adopted Capital Improvement Plan.
2. The City, in consultation with the City of Petersburg Public School System, will develop a five-year Capital Improvement Plan that includes funding sources and uses and review and update the plan annually.
3. The City will enact an Annual Capital Budget based on the five-year Capital Improvement Plan. The first year of the Capital Improvement Plan will be used as the basis for the Annual Capital Budget.
4. The City will coordinate development of the Annual capital Budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
6. The City will project its equipment replacement and maintenance needs in conjunction with the five-year Capital Improvement Plan and will develop a maintenance and replacement schedule to be followed.

7. The City will attempt to determine the least costly and most flexible financing method for all new projects.
8. The City will target a minimum amount of equity (e.g. cash pay-as-you-go) funding of 5% of the General Fund-supported Capital Improvement Plan on a five-year rolling average after reaching the Unassigned Fund Balance Policy Goal.

Debt Policies

The City will take on, manage and repay debt according to the following debt policies:

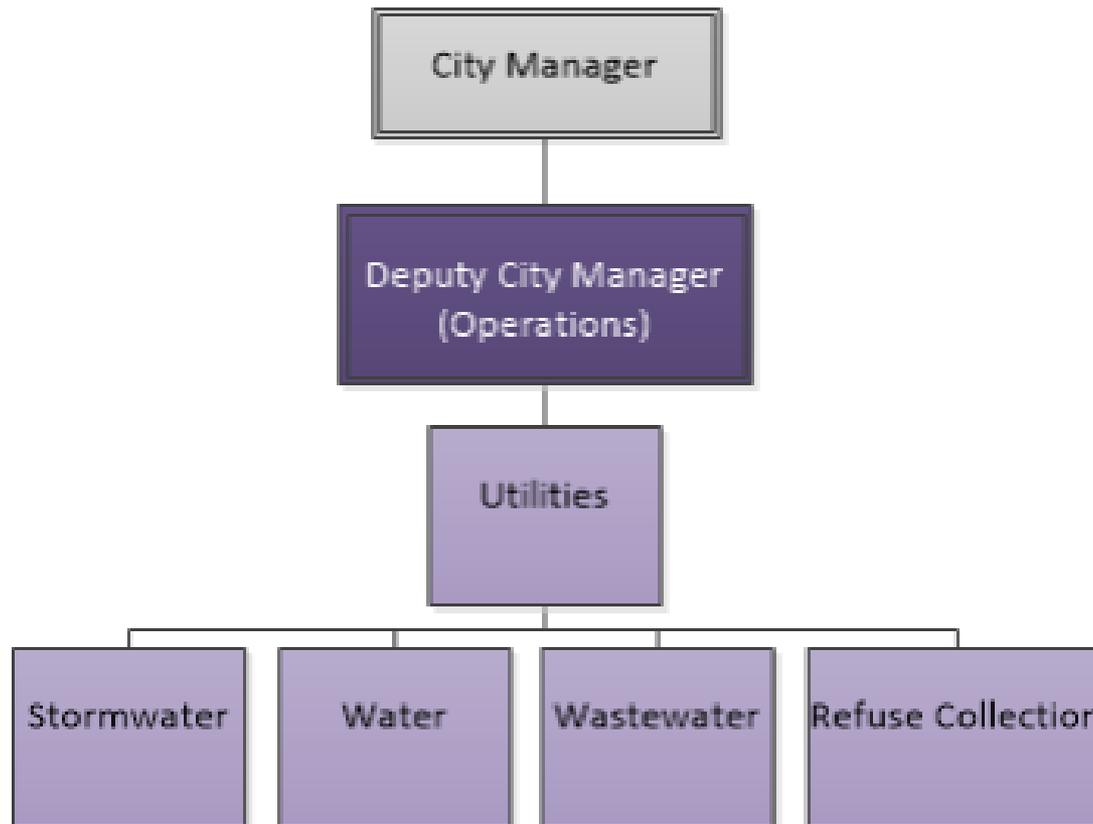
1. The City will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Direct Net Debt as a percentage of estimated market value of all taxable property shall not exceed a range of 4.0% to 4.5%. Direct Net Debt is defined as any and all debt that is tax-supported. This ratio will be measured annually.
4. The ratio of Direct Net Debt Service expenditures as a percent of Total Governmental Fund Expenditures should not exceed 10%. Direct Net Debt Service is defined as any and all debt service that is tax-supported. Utility Fund debt service that is self-supporting shall be excluded. Total Governmental Fund Expenditures includes the General Fund and School Component Unit Expenditures less the local government transfer. This ratio will be measured annually.
5. Payout of aggregate outstanding tax-supported Direct Net Debt principal shall be no less than 50% repaid in 10 years.
6. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.
7. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
8. The City will retire tax anticipation debt, if any, annually.

Questions / Comments

Department of Public Utilities

- Creation of new department
- Largest department (\$14,784,311)
- Revenue Generating / Self Supporting
- New department will include:
 - Water
 - Wastewater
 - Refuse
 - Stormwater

Organizational Structure



Key Functions:

- Operations: Essential services on a daily basis
- Infrastructure: Investing and renewing
- Intergovernmental: (ARWA, SCWWA, CVWMA)
- Financing
- Billing and Collections
- Customer Service

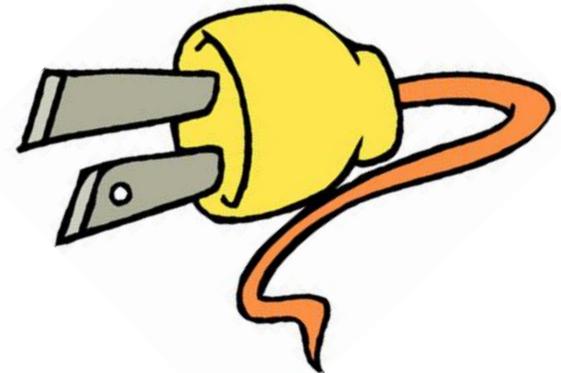
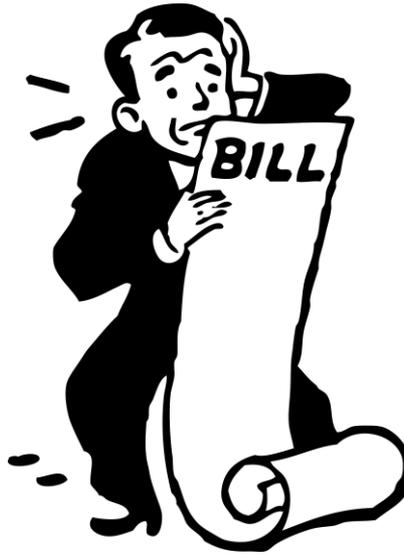
Keep the Main Thing the Main Thing

- Biggest opportunities / issues / problems:
 - PPEA
 - ARWA (Opportunity to sell excess capacity)
 - SCWWA (Regulatory Issues = \$42M /\$78M)
 - Infrastructure (\$52.5M)
 - Environmental (sewer overflow)
 - **BILLING AND COLLECTIONS**

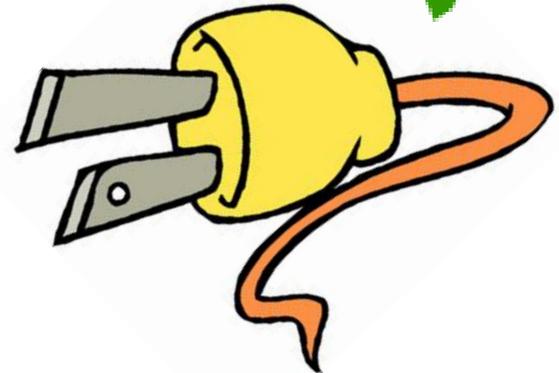
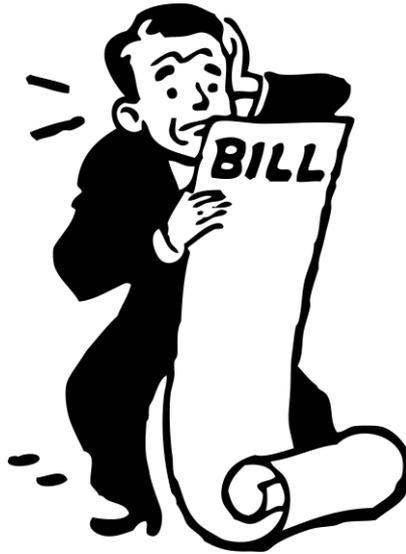
Billing and Collection Problems are Huge

- Rate of uncollected bills is excessive by industry standards
- Petersburg does not charge a delinquent fee (this must change)
- The lag in processing payments has made it difficult to impose delinquent fees
- Only 192 customers have been cut off from November to March
- 1,483 accounts are 90+ days delinquent
- 507 customers are on payment plans for past due amounts
- Total outstanding past due is currently \$1.9 million including Utilities, Refuse and Stormwater
- About 1,000 active accts. per month have zero usage readings
- About 1,100 old, cubic-foot meters (about 10% of total) still are manually read (and need to be replaced)

Which Bill Would You Pay?

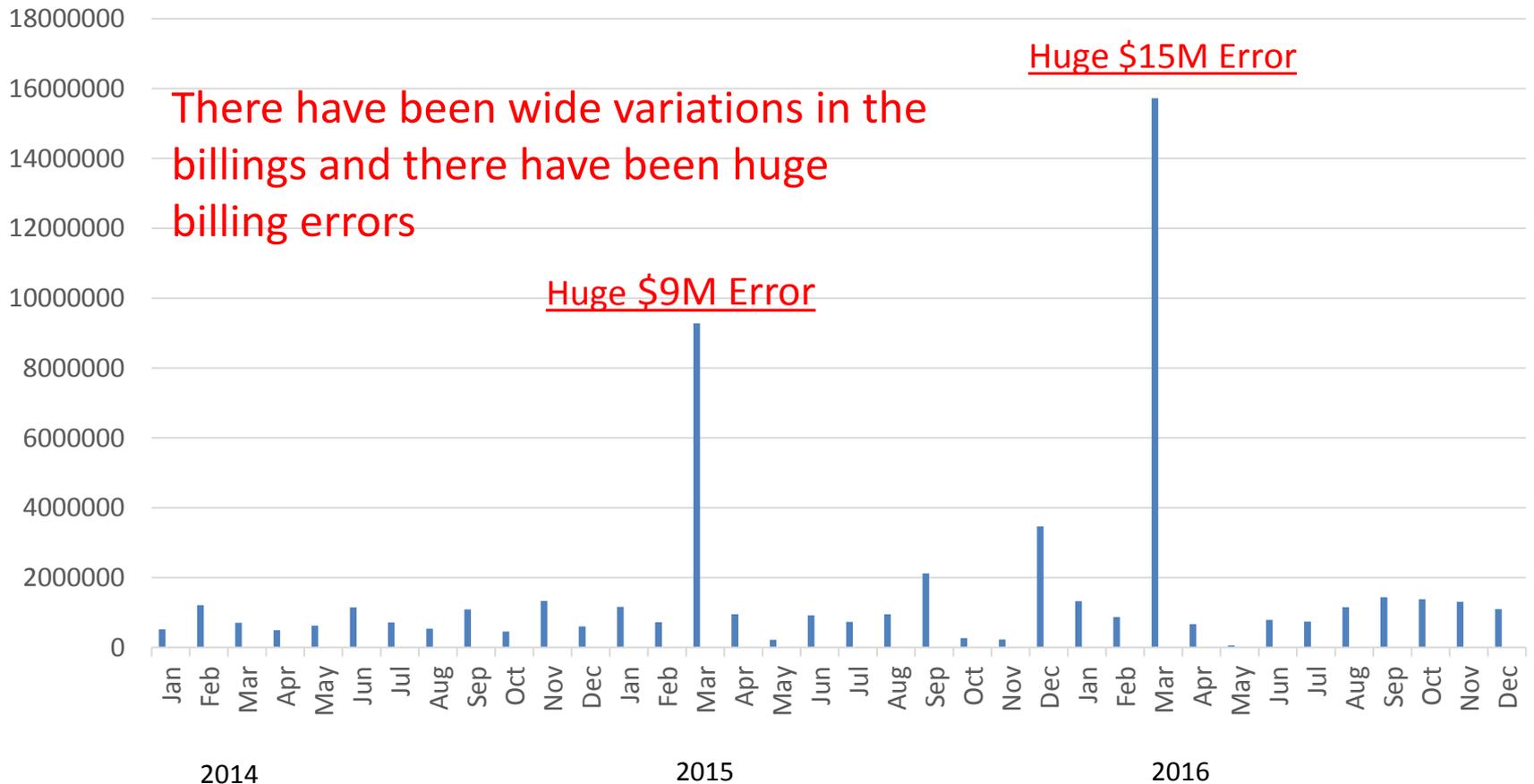


Which Bill Would You Pay?

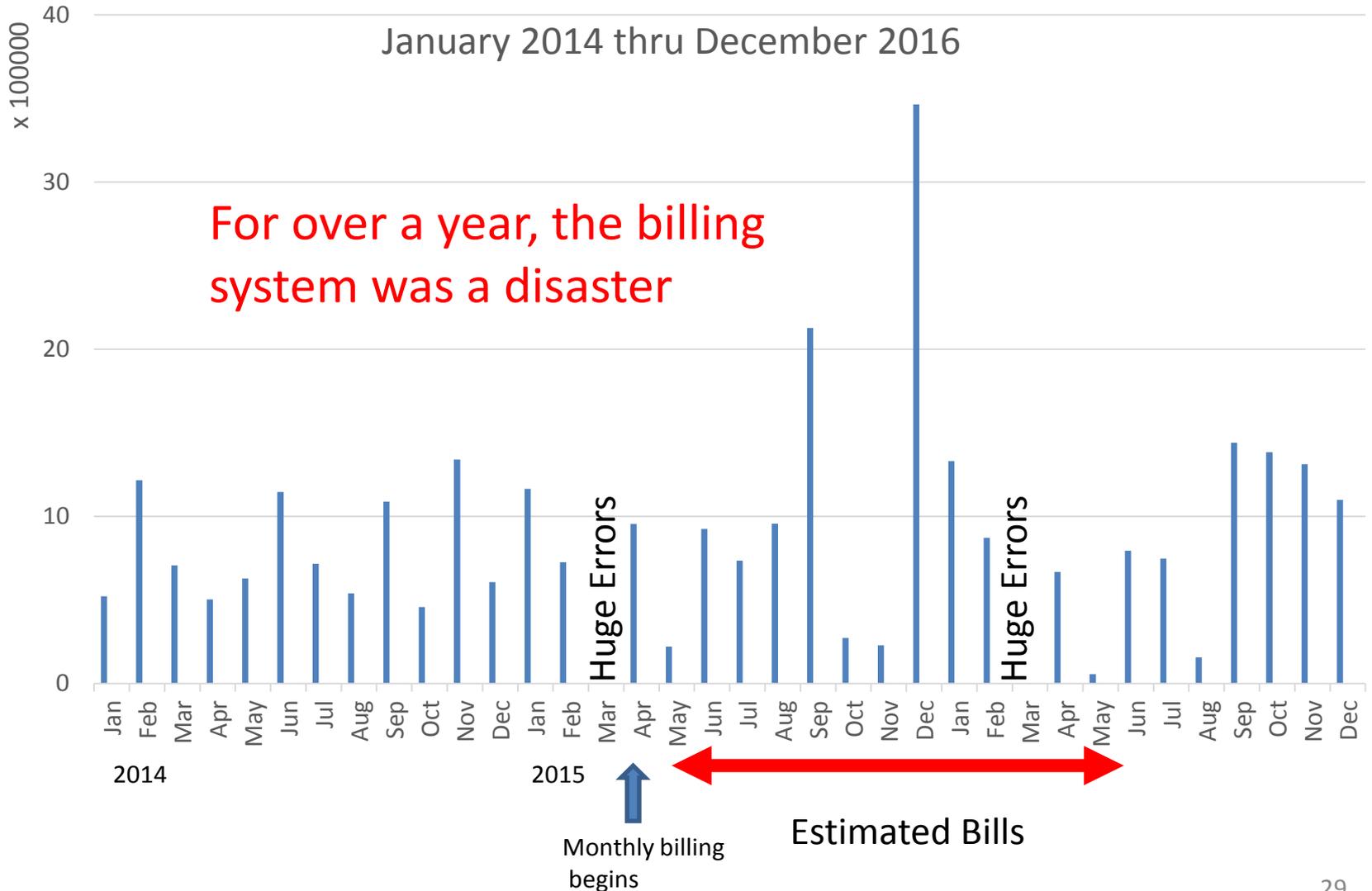


Monthly Utilities Billings (\$)

January 2014 thru May 2016

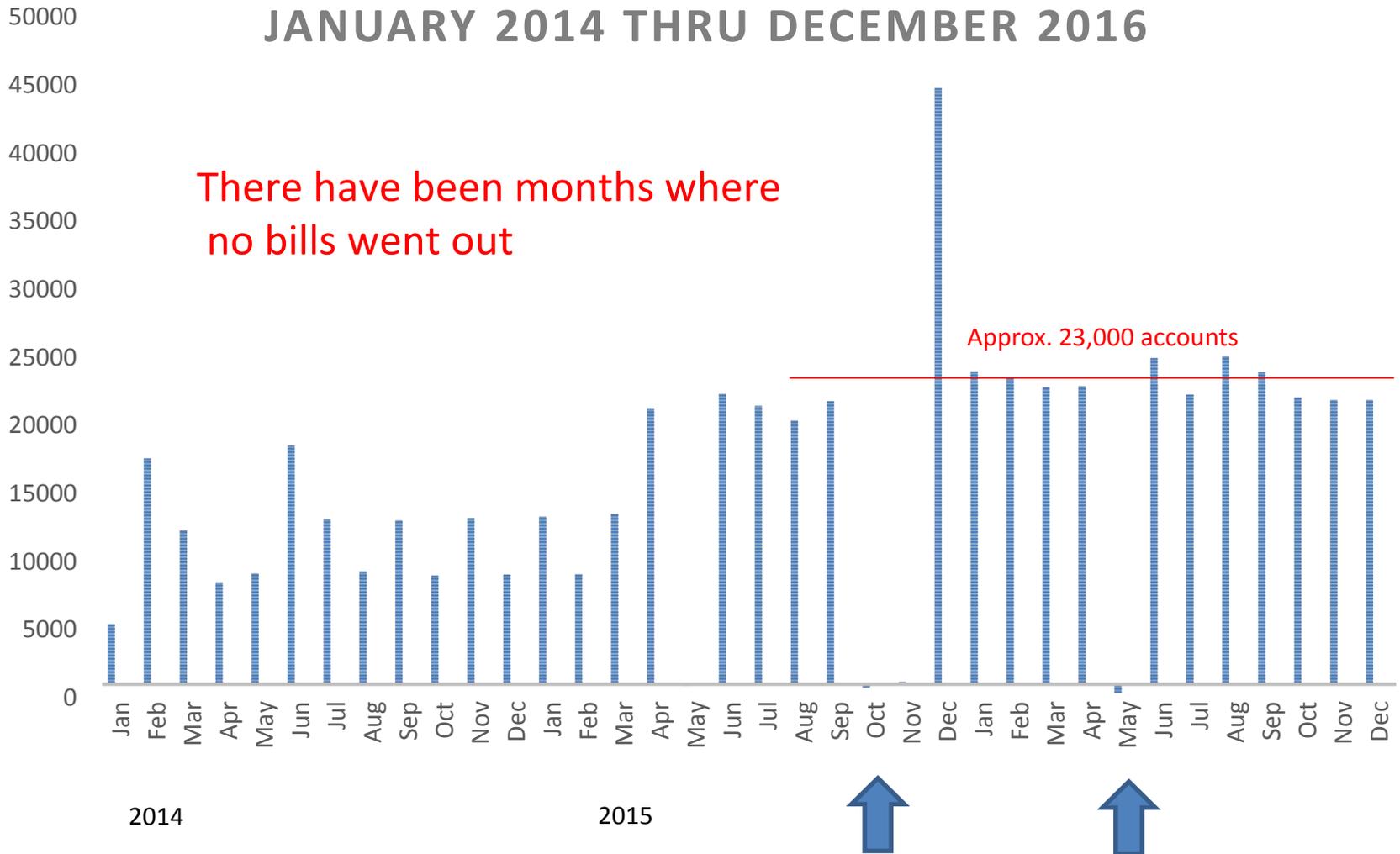


Monthly Utilities Billings (\$)



Number of Monthly Bills Sent Out

JANUARY 2014 THRU DECEMBER 2016



Collection Rate of 70%

	<u>Budget</u>
• Residential	\$6,522,600
• Industrial	573,300
• Commercial	5,165,300
• Recoveries	67,275
• Cutoff Fees	59,817
• Delinquent	250,000
• Connection Fees	-0-
• TOTAL	\$12,639,291



Operating budget should
Not depend on connection
fees

Debt Service Coverage (1.5X) Example

• Revenues	10,000,000	
• Operating Expenses	<u>8,500,000</u>	
• Net (Available for Debt Service)	1,500,000	
• Less: Debt Service	(1,000,000)	1.5 X
• Net Income	500,000	



Petersburg Rate Increase History

	Approved Plan (4/21/15)	Rate Ord. Adopted	Rate Increase Implemented
• FY13	↓	14.3%	14.3%
• FY14		11.9%	11.9%
• FY15		-0-*	-0-*
• FY16	14.1%	-0-	14.1% ^(3/16)
• FY17	13.4%	-0-**	-0-**
• FY18	3.2%	TBD	
• FY19	4.9%	TBD	
• FY20	5.0%	TBD	

New Plan

* 9.7% increase tabled by City Council 5/20/14

** 13.4% increase tabled by City Council on rec. of City Mgr. 7/19/16



New Rate Study

Assumes 70% collection rate, ramping up to 80% over 3 years and a debt coverage rate of 1.5x

- FY2018 14.3%
- FY2019 15.0%
- FY2020 15.0%
- FY2021 15.0%
- FY2022 15.0%



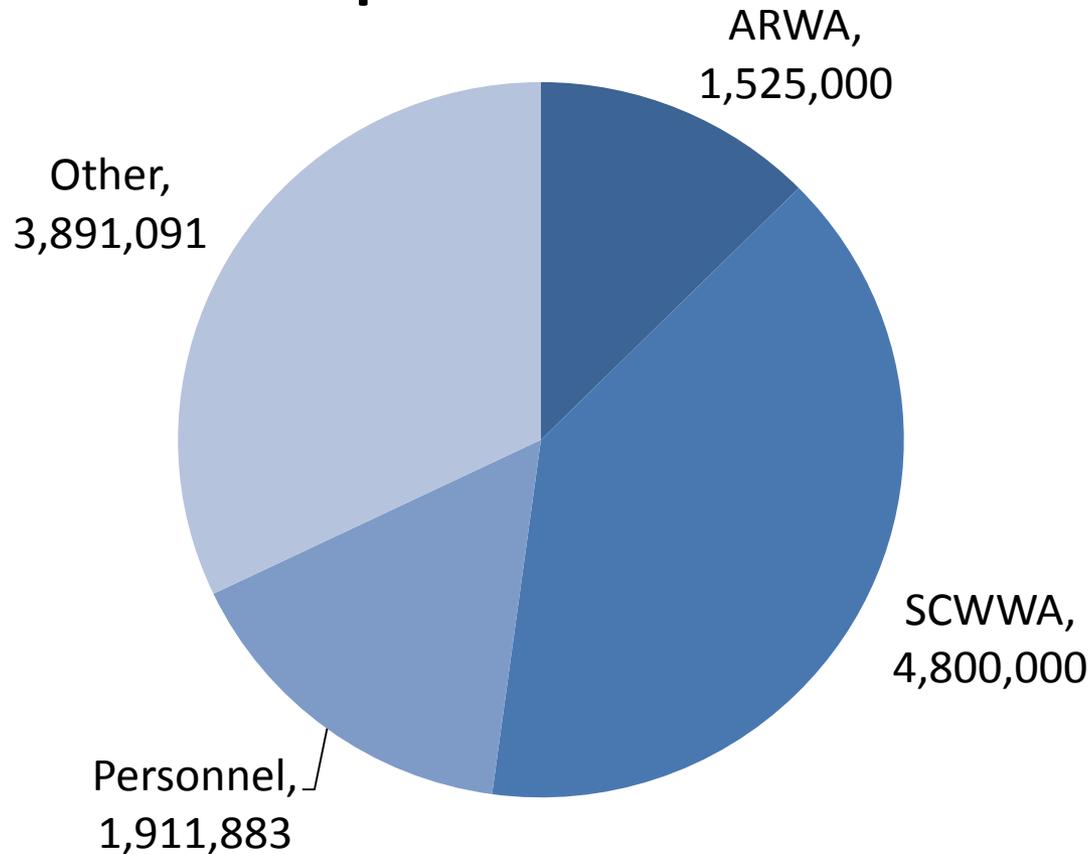
FY17 and FY18 Rate Increases on Typical Residential Customer (7.4ccf or 5,559 gallons)

	FY17 and FY18		
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
• Water	16.78	21.75	4.97
• Wastewater	<u>38.05</u>	<u>49.32</u>	<u>11.27</u>
• TOTAL	54.83	71.07	16.24



Water/Wastewater Revenues	
Residential (8060)	6,522,600
Industrial (8061)	573,300
Commercial (8062)	5,165,300
Recoveries and Rebates	68,275
Cutoff Fees	59,816
Delinquent Charges	250,000
Connection Fees	-
Total Revenue	12,639,291
Water/Wastewater Expenditures	
Personnel Costs	1,699,151
Wastewater Treatment Service	4,800,000
Water Purchased for Resale	1,525,000
Repayment Schedule from SCWWA	513,036
Repairs – Machinery and Motors	165,000
Construction Materials	145,000
Water & Sewer Materials	100,000
Other Contractual Services	100,012
Repairs – Streets and Sidewalks	100,000
Other Operations Costs	771,610
Capital Reserve	878,091
Debt Service	1,080,841
Total Expenditures	11,915,242
Net Income	724,049

Utilities: Water/Wastewater Expenditures



Total: 11,915,242

Refuse and Stormwater

REFUSE COLLECTION	FY 2016	FY 2017 2nd Amendment	FY 2018 Proposed	Percent Change
Personnel Costs	-	-	-	0%
Non-Personnel Costs	1,500,000	1,915,310	1,628,014	-15%
Total	1,500,000	1,915,310	1,628,014	-15%

STORMWATER	FY 2016	FY 2017	FY 2018 Proposed	Percent Change
<i>Revenue</i>				
Stormwater Fees	1,138,845	1,138,845	1,181,967	4%
Total Revenues	1,138,845	1,138,845	1,181,967	4%
<i>Expenditures</i>				
Personnel	*	*	212,731	
Non-Personnel (O&M)	1,156,715	1,182,146	1,028,324	-13%
Total Expenditures	1,156,715	1,182,146	1,241,056	5%

*In FY 2016 and FY 2017, personnel costs were budgeted as part of the total program budget. The non-personnel line item includes both personnel and non-personnel

Questions / Comments

Next Work Session

**Monday, April 10, 2017:
Police, Fire & Emergency Communications**

**Wednesday, April 12, 2017:
Social Services Agencies & Health Department**

Transparency

- All presentations are available on the City's website:

<http://www.petersburgva.gov/index.aspx?NID=846>

- All City financial data is publicly available on the City's OpenGov website:

<https://petersburgva.opengov.com/transparency#/>

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