



City of Montebello

Update on City Financial Condition

**Presented December 14, 2011 by:
*Kosmont Companies, Interim City Administrator***

Kosmont Companies Approach to the Interim City Administrator Assignment



- Primary focus was to review the City's financial condition on an expedited basis & to generate a responsive & effective short term turnaround while laying the base for long term recovery

Weeks ~ 1 through 6
(Mid-May through June)

- Focus on understanding and stabilizing cash flow (rev. & exp.)
- Moving toward a balanced budget pegged to previous year cash flow
- Manage cash flow based on available General Fund ("GF") reserves that had not been spent (e.g. insurance & water)
- Draft 5-Yr Financial Recovery Plan
- Focus on *immediate* financial turnaround

Weeks ~ 7 through 23
(July through October)

- Initiate systemic overhaul of financial system
- Concurrently observe and determine other necessary organizational "fixes" (while preserving employee base)
- Work through various audits
 - State Controller (4 of 4)
 - HUD
 - Transportation ("FTA")
 - Bond Insurer
- Initiate short-term borrowing ("TRAN") efforts
- Improving City's credit rating with Moody's and S&P
- *Generate positive media exposure*

Weeks ~ 24+
(November onward)

- Provide Management Summary Report as summary of observations and recommendations
- Offer direction for ongoing financial management improvement and organizational enhancements (while restoring employee compensation to competitive levels)
- Prescription for implementation for new City Administration
- Kosmont agreement extended to December 31, 2011
- *Key objective is to adhere to 5-Year Financial Recovery Plan ("FRP" or "The Plan")*

Financial Recovery: What's Been Accomplished



- ✓ **Adopted 5-Year Financial Recovery Plan (“FRP”), including balanced 2011/12 budget (w/ \$1 million in reserves) and Guiding Financial Principles**
- ✓ **Corrected some inappropriate past practices and begin implementing qualified procedures**
- ✓ **Improved Cash Flow Management**
- ✓ **Successfully dealing with numerous identified “Buckets of Peril”:**
 - Working on or completed 7 Audits in 6 months (e.g. HUD, Bond Insurer, State Controller, FTA)
 - Filed continuation of redevelopment & appeal to reduce annual payment to the State
 - **\$1.24 million reduction approved = more RDA funds for City Economic Dev. Efforts**
- ✓ **Continued execution on “Buckets of Opportunity” (e.g. user fee updates, Costco, oil extraction, economic development projects):**
- ✓ **Retained firm to assist in the pursuit of grant opportunities (multiple applications in process)**
- ✓ **Short term cash flow financing (TRAN)**
 - **Obtained investment-grade credit rating (Moody’s – MIG 2)**
 - **Negative outlook removed from City as an issuer (revised to “neutral”) by Moody’s**
 - **Closed \$2.5M TRAN on Thursday November 10, 2011 at 4.85%**
 - **“CreditWatch” warning lifted from Redevelopment Agency by Standard and Poor’s (“S&P”)**

Moody's and S&P Credit Update



- On May 4, 2011, Moody's downgraded its rating of the City's 2000-series capital project bonds by two notches to Ba1 and downgraded City's outlook as a bond issuer from stable to negative
- On October 21, 2011, Moody's assigned the TRAN an investment-grade credit rating (MIG 2) and removed the negative outlook from the City as an issuer (revised to "neutral")
- On November 16, 2011, Standard and Poor's ("S&P") affirmed the A-rating on the Redevelopment Agency Tax Allocation Bonds and removed the rating from CreditWatch

Removal of downgrade warning and rating improvements reposition Montebello, especially after TRAN is paid off, which is primary goal of the Financial Recovery Plan

TRAN Closed – Integral to Cash Flow



- With a TRAN in place (Plan A), City now operates on a productive and strategic basis. Ability to execute on key economic development / redevelopment projects in timely pursuit of 5-year Financial Recover Plan
- TRAN placement enables City to avoid management and operational focus on streamlining/deferring costs; time consuming and dilutes recovery efforts
- Focus on implementing Management Recovery Plan, resolving audit findings & compliance issues, managing cash flow, and preparing for February Mid-Year Financial Review

Cash Flow Summary



CITY OF MONTEBELLO APPROVED 2011-12 BUDGET ESTIMATED MONTHLY CASH FLOW

WITH Tax and Revenue Anticipation Note (TRAN)

Cash Receipts	<i>Actual</i>									
	Jul-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	TOTAL
Sales Taxes	511,100	687,500	1,091,400	901,433	893,287	2,093,680	895,400	733,900	763,100	10,577,433
Property Taxes	114,533	127,327	1,028,140	340,067	0	43,776	1,087,288	429,728	86,886	3,419,963
Other Revenues	1,069,091	1,152,098	2,279,234	3,841,270	1,435,368	1,283,973	2,234,621	4,410,838	1,664,180	22,816,121
Transfers (Retirement & Gas Tax)	128,984	133,333	3,583,333	133,333	133,333	133,333	133,334	3,808,333	141,834	9,039,746
TRAN Proceeds (Net)	0	2,340,000	0	0	0	0	0	0	0	2,340,000
	0	0	0	0	0	0	0	0	0	
Total	1,823,708	4,440,258	7,982,106	5,216,102	2,461,988	3,554,762	4,350,643	9,382,799	2,656,000	48,193,263

Cash Disbursements	<i>Actual</i>									
	Jul-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	TOTAL
Operating and Capital Expenses	2,765,366	3,459,564	3,299,626	3,301,257	3,320,223	4,600,466	3,437,098	3,573,802	3,638,378	42,690,168
Debt Service & Adv. to Other Funds	0	0	0	(996,511)	0	0	323,409	0	401,043	817,986
Repay HUD on behalf of CRA	0	0	0	0	0	0	0	(1,300,000)	0	0
HUD Section 108	409,104	0	0	135,403	0	0	0	0	0	544,507
TRAN Repayments	0	0	0	1,500,000	0	0	0	0	1,061,389	2,561,389
Risk Management	0	0	290,000	0	0	0	155,000	300,000	0	745,000
Total	3,174,470	3,459,564	3,589,626	3,940,149	3,320,223	4,600,466	3,915,507	2,573,802	5,100,810	47,359,050

Surplus (Deficit)	(1,350,762)	980,694	4,392,480	1,275,953	(858,235)	(1,045,704)	435,136	6,808,997	(2,444,810)	
Beginning Cash Balance	9,578,807	868,508	1,849,203	6,241,683	7,517,636	6,659,402	5,613,698	6,048,834	12,857,831	
Ending Cash Balance	8,228,046	1,849,203	6,241,683	7,517,636	6,659,402	5,613,698	6,048,834	12,857,831	10,413,021	

Seven Audits in Six Months



Overview of Various Audits – All Audits Focus on Past Years and Practices (2005 to 2010)



Audit	When Received	Outcome	Next Steps
Federal Transportation Administration (“FTA”)	April 2011	<ul style="list-style-type: none"> Concerns about City’s overall financial condition and Transportation Department systems and controls Initial response issued by City on June 15, 2011 Revised and final response issued on July 21, 2011, including update on financial turnaround and extensive list of actions being taken to address concerns (e.g. appropriation of funds for emergency generator for City information technology center) 	<ul style="list-style-type: none"> City Administration is committed to full compliance with all FTA requirements on an on-going basis
Bond Insurer – National Public Finance Guarantee (“NPF”)	June 2011	<ul style="list-style-type: none"> Response to negative media (e.g. bank accounts) Proactive meeting and follow-up – No further action 	<ul style="list-style-type: none"> Continued follow-up as appropriate
Department of Housing & Urban Development (“HUD”)	June 2011	<ul style="list-style-type: none"> 31 “Findings” and 2 “Concerns” regarding the management and oversight of the CDBG and HOME programs by the City City submitted corrective Action Plan, completed 13 corrective actions, completed \$2.6 million in repayments 	<ul style="list-style-type: none"> City Staff will continue to execute corrective Action Plan City will collaborate with HUD-provided technical assistance Status and go-forward process meeting held with HUD in December

Overview of Various Audits – All Audits Focus on Past Years and Practices (2005 to 2010)



Audit	When Received	Outcome	Next Steps
State Controller Office (“SCO”): 1.RDA 2.Gas Tax 3.Fed & State Exp. 4.Internal Controls	1. RDA: Final Report Received Sept. 2011 2. Gas Tax: Final Report Received Oct 2011 3. Fed & State Exp.: Draft Report Received Oct 2011 4. Internal Controls: Draft Report Received Nov 2011	<ul style="list-style-type: none"> • Certain practices of Agency are not acceptable and need correction (e.g. expenditure policies regarding conferences, networking, related items) • Montebello’s new management team has consistently acknowledged the need to make comprehensive financial and accounting improvements, and is in process of implementing • City experts (Auditors & RDA CPA specialists, City Attorney) disagree with certain findings • RDA Audit does not materially affect the Gen. Fund • Gas Tax Account was not impaired (accounting process revised) • Fed & State Funds Report discussed “unsupportable admin costs” (addressed by cost allocation model update in progress), ineligible Transit Fund costs (reimbursed) , Transit Fund cash impairment (changes to accounting practices initiated to correct appearance of impairment), and an engineering services contract issue (recommendation to bid contract and consult external engineering expert) • Administrative and Internal Accounting Controls Draft report received 11/29/11 – Final pending • RDA Audit and SCO’s press release included misleading data, which resulted in headlines that were received negatively by the financial community 	<ul style="list-style-type: none"> • City Staff will implement major findings when all audit reports are received and concluded (e.g. major contracts and service agreements will be competitively bid and reviewed, bidding engineering contract) • Some findings have been corrected (e.g. funds reimbursed for Transit Fund costs) • Cost allocation model in process

Mid-Year Financial Review (February 2012)



- **Evaluation of audits and financial review**
- **Mid-year Review of FRP/Budget**
 - Target: Continue balanced, timely City budgets with reserves
 - Proactively manage City cash flow, gauge based on revenue production & savings from operations
 - Pay back TRAN
- **Meet requirements of all audits**
- **State Redevelopment reporting requirements per SCO audit**
 - Timely preparation of annual budget
 - Statement of Indebtedness
 - Annual Report
 - Independent Auditor's Report
 - Five Year Implementation Plan
 - Mid-year review of Implementation Plan
 - Low and moderate income housing database
 - Cash flow projections
- **Review and application of Wildan cost allocation study**
- **Upgrade financial systems (e.g. accounting systems, receipt/collections module)**

Montebello's Future is Bright – The Turnaround is Underway



- **Montebello can be fixed...is in process...takes time, leadership, and \$\$**
- **Turnaround has started**
 1. **Adopted 5-Year Financial Recovery Plan (“FRP”), including balanced 2011/12 budget**
 2. **Eliminated debt obligation between RDA and City (payment made prior to June 30)**
 3. **Clarified misleading prior issues such as “rogue, off-the-book” bank accounts**
 4. **Negotiation of a two-year extension of oil extraction levy**
 5. **Opened discussions with Costco on lease renewal and/or purchase options**
 6. **Filed continuation of Redevelopment for Montebello, filed appeal and reduced annual payment to State by \$1.24 million = more RDA funds for City Economic Dev. efforts**
 7. **Various audits are being addressed with resolutions in process**
 8. **Positive credit rating and removal from negative watch from Moody’s (City) and S&P (Redevelopment Agency)**
 9. **TRAN is sold and cash flow is improving**
 10. **Mid-Year Financial Review on track for February 2011**

Next Steps



- **Adopt City Council Code of Ethics (Agenda Item #30)**
- **Recruit Permanent City Administrator (in process)**
- **Complete responses to various audits (ongoing)**
- **Prioritize and implement operational improvements**
 - Focus on financial management (**Agenda #29**) and other select improvements (e.g. engineering contact competitive bidding – **Agenda #24**)
 - Most other items can wait for permanent City Administrator
- **Prepare for Mid-Year budget review in February**
 - Will have completed audits, including City’s own management audit, and obtained necessary feedback
 - Review revenues, expenses, status of execution on 5-yr FRP, including key economic development projects
 - Consider adjustments (e.g. tax increases, service cuts) as necessary to stay on track in advance of FY 2012-2013
 - Work on next iteration of FRP (“The Plan”) – it is a dynamic document



Review of Management Summary Report

Purpose of the Management Summary Report



Serve as a blueprint for the next permanent City Administrator and current management team and consultants to ensure the City's financial success through a *comprehensive organizational approach*:

- Progress with improved financial management, accounting controls and cash flow measures
- Maintain pace of execution of the 5-year Plan, including key economic development projects
- Continue systemic organizational & operational improvements
- Revenue generating projects must be prioritized (resolution of Supreme Court challenge on Redevelopment due by Jan 15, 2012)
- Set agenda for February Mid-Year Financial Review

Montebello Must Focus on Economic Development



- **Real Estate Projects** (private sector & public-private) – new property taxes or tax increment from “RDA”
- **Retail** – sales tax & jobs (entry level)
- **Relocation / Expansion** – business tax & commercial jobs
- **Rooms** – hotel transient occupancy tax (TOT)



Montebello has used Redevelopment as the primary tool to increase the City's job base and taxes

Must now act on Economic Development opportunities beyond the scope of Redevelopment

5-Year Plan Execution – Key Projects



- **Montebello Enterprise Funds**
 - Hilton Garden Inn Management Contract
 - Quiet Cannon finances
 - Golf Course management and finances
- **Costco Gas Station**
- **Montebello Hills**
- **SR-60 Transportation Corridor Projects (Long Term)**

Organizational & Operational Improvements – Near Term



- **Installation of stand-alone Public Works Dept. with functions that are staffed and contracts competitively bid out**
 - **Competitively bid all major contracts & service agreements (>\$50,000) within a 3-yr period**
 - **Creation of 5-year Capital Improvement Program**
 - **Infrastructure investment and maintenance**
 - **Fleet management**
 - **Facilities maintenance**
 - **Equipment and vehicle replacement**

Improved Communication – Near Term



- **City Council and Staff cooperation**
 - Improved and standardized agenda staff reports
 - Agendas and minutes from commission meetings
 - Agendas from regional entities' meetings
- **Upgraded City website**
 - Easier to find important and timely information
 - Transparency regarding City issues and actions
 - Increased interaction with the community (e.g. complaint system)
- **Interdepartmental coordination**
- **City Council Code of Ethics**

Upgrade Financial Systems – Near Term (Partial List)



- Replacement / upgrade of the City's accounting system
- Implement cash receipts module and standardize cash collection procedures
- Consider alternative banking services provider to better serve City needs
- Consider new auditing services provider and standardize auditing
- Update petty cash controls
- Implement processes to ensure that payroll transactions are recorded in a timely manner
- Implement policies and procedures to segregate incompatible functions
- Establish and implement policies to restrict employee access to human resources and payroll systems as appropriate

Org. & Operational Improvements – Longer Term (Partial List)



Longer-Term

- Departmental budget management
- Improved quality & consistency of reports
- Upgrade in technology throughout the organization (initial focus on Finance Department)
- Restore employee compensation to competitive levels
- Determine appropriate staffing to meet needs & develop administrative analyst team to work across departments
- Restore, create, and improve services to the community



Status of Grant Opportunities



Grant	Purpose	Amount	Status
HUD Disaster Recovery Initiative	Update Safety Element of General Plan, including Local Hazard Mitigation Plan	\$250,000	Pending - Submitted 9/14/11
Cal Recycle Tire Derived Product	Replace sand and woodchips with 100% recycled rubber mulch at multiple playgrounds in Public Parks	\$150,000	Pending - Submitted 9/28/11
U.S. Soccer Foundation	Soccer equipment, goals, and program and operational support for the soccer programs	\$12,643	Pending - Submitted 11/18/11
EPA Brownfields Grants	Brownfields Assessment at the Chapin Road Landfill	\$400,000	Pending - Submitted 11/28/11
WaterSmart	Projects that seek to conserve and use water more efficiently or other activities to address climate-related impacts on water or prevent water-related crisis or conflict	Up to \$300,000	Due 1/19/12
Sustainable Communities Planning & Implementation Grant	Adopt land use plans and integrating strategies in order to transform communities and create long term prosperity	Up to \$1,000,000	Due 2/25/12
Safe Routes to Schools (State)	Construction projects to improve the safety of students who walk or bike to school	TBA	TBA