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Report Highlights

Local Government Fiscal Distress Monitoring

March 2018

The Financial Assessment Model

Chapter 836 of the 2017 Virginia Acts of Assembly directs the Auditor of Public Accounts (Office) to establish a prioritized early warning system and annually monitor data and information from this system to identify potential fiscal distress within local governments across Virginia. During 2017, the Office developed criteria for making a preliminary determination of potential fiscal distress based on an analysis of calculating ten key financial ratios using audited financial statement data, along with considering other nonfinancial and qualitative factors, for the 171 localities required to annually report to our Office. This analysis, referred to as the Financial Assessment Model (FAM), ranks each locality's ten ratio results in the model to determine an overall composite FAM score for each locality.

The Office analyzed all cities, counties, and the two towns having a separate school system in one model, and we analyzed the other 36 towns required to annually report audited financial statements in a separate model. The Office evaluated each locality's ratios and FAM score results over a three-year trend for fiscal years 2014, 2015, and 2016. Using the fiscal year 2016 FAM score results, we developed an internal threshold to use as an indicator, or starting point, for making a preliminary determination of the need to perform further follow up with a locality that appeared to show signs of potential fiscal distress. For all cities, counties, and the two towns having a separate school system, we set this threshold at a FAM score of less than or equal to 16 percent.

Notification to Localities for Follow Up

The Financial Assessment Model is used as a starting point to make a preliminary determination of the need for our Office to perform further follow up with a locality. The primary objective of our follow up is to determine whether or not a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. For the eight localities identified in the FAM analysis where we made a determination to follow up, the Office sent written notification to inform the local governing body and chief executive officer of our identification and preliminary determination to perform further review based on the results of the 2016 FAM analysis. This notification explained that the locality must notify our Office regarding its decision to allow our additional review through completion of the financial assessment questionnaire and further discussions with our Office.

Localities Identified for Additional Follow Up

Based on the results of the FAM analysis, the Office identified the following eight localities for additional review.

Four localities were identified based on their FAM scores meeting the 16 percent threshold.

- City of Bristol
- City of Richmond
- County of Page
- County of Richmond

Two localities were identified due to their FAM scores showing a significant downward trend from the prior years.

- County of Giles
- County of Northumberland

Two localities were identified based on qualitative factors, as they remain delinquent in submitting their fiscal year 2016 annual financial reports and; therefore, could not be evaluated as part of the FAM model.

- City of Hopewell
- City of Manassas Park



See the full report at
www.apa.virginia.gov

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Results of Follow Up with Localities

Additional Follow Up Review

The Office's follow up process focuses on qualitative factors impacting a locality's situation using the financial assessment questionnaire, including:

- *budget processes;*
- *debt and borrowing;*
- *expenses and payables;*
- *revenues and receivables;*
- *staffing and other external variables contributing to a locality's financial position.*

The questionnaire is a key component of our follow up process, as it is designed to examine qualitative and external factors unique to each locality that are not easily measured in a financial ratio, along with understanding policy and procedural aspects that contribute to a locality's FAM score result in the ratio analysis. If necessary, after completion of our follow up with a locality, the Office then formally notifies the Governor, Chairmen of the Money Committees, and the locality's governing body, in writing, concerning any specific issues at the locality that may require further Commonwealth assistance. At that point, the process is administered by the Governor's office and the Money Committees for further consideration of any plan and action by the Commonwealth to help address the locality's fiscal distress situation.

The Office performed review of the completed questionnaires and held additional follow up discussions with locality officials for the Cities of Bristol and Richmond, and the Counties of Giles, Northumberland, and Richmond. The Office did not perform additional follow up with the County of Page, as the county declined our request to complete the questionnaire at the time and allow our further review. In addition, the Office has deferred further review and follow up with the Cities of Hopewell and Manassas Park, as they have not yet submitted their fiscal year 2016 and 2017 annual financial reports. Accordingly, we encouraged the cities to continue to focus their efforts on completing their outstanding financial reporting requirements, prior to completing our assessment questionnaire.

During our follow up process with the City of Richmond and the Counties of Giles, Northumberland, and Richmond, the Office obtained an understanding of the specific issues and factors that contributed to their low FAM score results or significant downward trends in the ratio analysis, and discussed the policies and plans they have in place to continue to move forward and improve their financial position. As a result of our follow up, the Office concluded that these four localities do not appear to be experiencing a situation of fiscal distress that would warrant further assistance or intervention from the Commonwealth; accordingly, our Office made no further notification or recommendation relating to fiscal distress.

During follow up with the City of Bristol, our Office observed two primary issues that we concluded are contributing to a situation of fiscal distress at the city: issues specific to the operational sustainability of its solid waste disposal fund and the debt and future revenues related to The Falls commercial development project. Accordingly, the Office issued written notification to the Governor, Money Committees, Secretary of Finance, and city officials, detailing these specific issues and recommending that Bristol may warrant further assistance from the Commonwealth to help assess and stabilize these areas of concern with the city's financial situation. Members of the offices of the Governor and Secretary of Finance have recently been in contact with our Office to discuss additional information on our recommendation regarding the city's situation of fiscal distress, and to arrange further discussions with Bristol officials to follow up on the city's progression since our initial review performed last year, to further evaluate what Commonwealth assistance may be most appropriate to support the City of Bristol.

