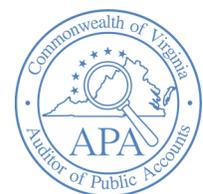




MONITORING FOR LOCAL GOVERNMENT FISCAL DISTRESS 2019 REPORT

AS OF APRIL 2020

Auditor of Public Accounts
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EXECUTIVE SUMMARY

The 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. As part of this system, the Office performs a ratio analysis that calculates 12 financial ratios using data from the localities' audited financial reports, then we analyze the results of each locality's ratio performance using a points-based methodology. We apply a threshold of total, cumulative ratio points to determine the need to perform further review of a locality in our additional qualitative analysis, which involves an assessment of demographic and other external, qualitative factors as part of our final evaluation. During the 2019 analysis, we increased the level of total, cumulative points from a 30-point threshold to a 40-point threshold as the indicator to apply our further review. Based on the results of the ratio and qualitative analyses, we classify each locality into either one of two categories: designated as needing further follow-up through our financial assessment questionnaire review process, or designated as not needing any further follow-up for the current monitoring process.

For the 2019 monitoring process, we completed our review of the ratio analysis based on data from the fiscal year 2018 financial reports for the cities, counties, and towns required to have an audit and annually report to our Office. Based on our review and assessment of total points for the localities evaluated in the 2019 ratio analysis, we did not identify any new localities that exceeded our 40-point threshold, nor any localities

Based on our review of the 2019 analysis, the Office did not identify or designate any new locality as needing further follow-up with our review and questionnaire process.

showing significant or unexpected trends or increases in total ratio points; therefore, we determined no further qualitative analysis for a locality was warranted during the 2019 process. Accordingly, based on our review of the 2019 analysis, the Office did not identify or designate any new locality as needing further review and follow-up with our assessment questionnaire process.

In addition, as part of our 2019 analysis, the Office performed additional review of three localities deferred from the 2018 analysis: City of Buena Vista, County of Cumberland, and Town of Big Stone Gap. We noted that these localities either showed improvement based on the performance of certain financial ratios or remained consistent and within our expectations based on the ratio analysis. We sent additional correspondence to these localities about our further consideration of their results in the 2019 analysis and our overall conclusion that it was optional for these localities to participate further in our follow-up questionnaire process. As noted in the prior year, the Office was not able to evaluate the City of Hopewell, as the city remains delinquent in completing its annual financial reports. Lastly, the Office continued our monitoring and review of the City of Bristol. Based on the city's continued improvements in our ratio analysis and progress to strengthen its financial position, we concluded that the city is no longer designated in our early warning system as showing signs of being in a situation of fiscal distress that warrants further Commonwealth assistance, oversight, or intervention.

- TABLE OF CONTENTS -

	<u>Pages</u>
EXECUTIVE SUMMARY	
BACKGROUND	1
SUMMARY OF 2017 AND 2018 ANNUAL MONITORING PROCESS	2-5
Summary of 2017 Process and the City of Bristol	2-3
Summary of 2018 Process	3-5
METHODOLOGY AND ANALYSIS FOR THE EARLY WARNING SYSTEM MODEL	5-6
RESULTS OF 2019 ANALYSIS AND ANNUAL MONITORING PROCESS	6-10
Review of Deferred Localities from 2018 Analysis	7-8
City of Buena Vista	8-9
County of Cumberland	9-10
Town of Big Stone Gap	10
TRANSMITTAL LETTER	11
APPENDIX A: Ratio Calculations and Interpretation	12-14
APPENDIX B: Financial Ratio Results by Locality	15-17
APPENDIX C: Demographic and Qualitative Analysis	18
APPENDIX D: Qualitative Measure for Designating Localities	19
APPENDIX E: Follow-Up Review and Assessment Questionnaire Process	20

LOCAL GOVERNMENT FISCAL DISTRESS MONITORING

Background

Chapter 2 of the 2018 Virginia Acts of Assembly, Item 4-8.03, (Chapter 2) sets out the requirements and parameters for Virginia's early warning monitoring system focused on identifying local government fiscal distress. The definition of *fiscal distress*, as defined in the context of Item 4-8.03, refers to a local government's situation where the provision and sustainability of public services is threatened by various administrative and financial shortcomings, including but not limited to:

- cash flow issues, structurally imbalanced budgets, debt overload, deficit spending, and inability to pay expenses;
- revenue shortfalls and billing and revenue collection inadequacies and discrepancies;
- inability to meet obligations to authorities, school divisions, or political subdivisions of the Commonwealth; and/or
- lack of trained and qualified staff to process administrative and financial transactions.

Chapter 2 directs the Auditor of Public Accounts (Office) to develop criteria for making a preliminary determination of local government fiscal distress based on audited financial statements, other financial data, and nonfinancial factors. Further, the Office is charged with establishing a prioritized early warning system based on the established criteria and monitoring the data and information on an annual basis to identify potential fiscal distress within localities across Virginia. Should the Office make a preliminary determination of potential fiscal distress at a locality, we are required to notify the local governing body and chief executive officer of our preliminary determination. Based on the request from the local governing body or chief executive officer, the Office will perform a more detailed review of the locality in order to determine the extent of any fiscal distress. This detailed review will consider such factors as budget processes, debt, borrowing, expenses and payables, revenues and receivables, staffing, and any other external variables contributing to a locality's financial position. If the Office determines that a locality is experiencing a situation of fiscal distress, we are required to notify the Governor, the Chairs of the House Appropriations and Senate Finance and Appropriations Committees (Money Committees), and the local governing body regarding the specific areas our Office has evaluated and concluded that state assistance, oversight, or targeted intervention may be needed to further assess, help stabilize, or remediate a locality's situation.

Summary of 2017 and 2018 Annual Monitoring Process

Summary of 2017 Process and the City of Bristol

During our first year of implementation in 2017, we initially developed criteria for making a preliminary determination of fiscal distress based on an analysis and score ranking methodology from calculating ten key financial ratios using audited financial data from the localities' annual financial reports, as well as considering other qualitative factors. As detailed in our first annual report, [2017 Local Government Fiscal Distress Monitoring Report](#) as of March 2018 (2017 Report), we describe further specifics on the methodology and ratio analysis that our Office first implemented when developing an early warning monitoring system. This report also provides extensive detail on our 2017 follow-up process, to include specific information and factors that we discovered and discussed with the identified localities based on their individual performance in our analysis.

As discussed in our 2017 Report, the Office identified the City of Bristol as being in a situation of fiscal distress based on the results of our prior ratio model and follow-up review we performed with city management during the 2017 monitoring process. Accordingly, we issued a formal notification to the Governor, Money Committees, and Secretary of Finance, recommending that the city receive assistance from the Commonwealth to help further assess and stabilize the city's financial situation specific to the operational sustainability of its solid waste disposal fund and the outstanding debt and future revenues related to The Falls commercial development project. In April 2018, the Governor and the Money Committees approved providing Commonwealth assistance to the City of Bristol in the form of funding to support the costs of hiring two professional consultants to provide an assessment of the city's solid waste fund, along with a long-term financial assessment of The Falls commercial development project. To date, the City of Bristol remains the only locality that the Office has identified as being in a situation of fiscal distress that warrants further Commonwealth assistance.

As part of our second annual report, [2018 Local Government Fiscal Distress Monitoring Report](#) as of June 2019 (2018 Report), the Office provided updated information about the assistance the City of Bristol received and the continual work and outcomes the city has achieved related to the consultants' studies on the landfill and The Falls commercial development project. Through our continued review of the city's audited financial statements and the city's governing body meetings, we observed that City Council and management have implemented budgetary and financial policies and strategies to continue to monitor and work toward improving the city's financial position. Further, our Office has monitored the city's progress and improvements as part of subsequent ratio and qualitative analyses that we have performed in our annual monitoring process over the past two years, as further described below. Therefore, as a result of the city's continued progress to strengthen its financial position, the Office has concluded that the City of Bristol is no longer designated in our early warning system as showing signs of being in a

Based on our continued monitoring and review of the City of Bristol and the city's continued progress to strengthen its financial position, the Office has concluded that the city is no longer designated in our early warning system as showing signs of being in a situation of fiscal distress that warrants further Commonwealth assistance, oversight, or intervention.

situation of fiscal distress that warrants further Commonwealth assistance, oversight, or targeted intervention.

As mentioned above, the Office has noted various improvements in the City of Bristol’s financial situation since 2017 based on the results of our updated ratio and qualitative analyses, which is described in further detail at the [Methodology and Analysis for the Early Warning System Model](#) section of this report. When evaluating the outcome of the 12 financial ratios in our updated ratio analysis, the city received 33.33 ratio points in total for the current year’s 2019 analysis, which is an improvement from the 41.67 total ratio points the city received in the prior year 2018 analysis. Appendices [A](#) and [B](#) at the end of this report give additional information about the ratio calculations and points methodology, and a summary of each locality’s ratio results for the 12 ratios calculated in our 2019 analysis.

As shown in Table 1, we have noted continued improvement in the performance of several ratios for the city. Ratios one, two, and three show improvement related to the city’s available, unrestricted reserves on an overall governmental and business-type activities level. Ratios six, seven, and ten show improvement when reviewing the city’s unrestricted fund balance reserves in the general fund, as well as the change or increase in the city’s unrestricted fund balance.

In addition, our Office has noted improvement specific to the outstanding debt and related bond ratings for the City of Bristol. Although the city continues to receive a high number of points in our analysis for ratio five, which measures the city’s total debt burden by comparing total tax supported debt outstanding to the fair market value of total taxable real estate and personal property, the specific ratio performance continues to show improvement each year, as further noted in Table 1. Additionally, from a qualitative perspective, the city has seen three consecutive bond rating upgrades since 2017, the most recent occurring in 2019 by Moody’s Investors Service, who upgraded the city’s outstanding general obligation debt to A3 from Baa2. [The September 2019 Rating Action Report from Moody’s Investors Service](#) states the following rationale for the upgrade: *“The upgrade to A3 reflects the city’s improved financial position with healthy fund balance and liquidity as well as a manageable overall fixed cost burden following the restructuring of debt. The rating also reflects the city’s moderately-sized and growing tax base, below average resident income levels, above-average debt and pension burdens, and progress toward reducing the reliance of the solid waste fund on the city’s general fund.”*

Summary of 2018 Process

During the 2018 analysis and monitoring process, we updated our model and methodology to calculate 12 financial ratios based on the audited fiscal year 2017 financial report data for the localities required to have an audit and annually report to our Office. We then performed a second qualitative analysis over applicable localities identified in the ratio analysis as coming above a 30-point threshold,

City of Bristol Specific Ratio Results

Table 1

	2019 Analysis		2018 Analysis	
Ratio 1	17.06%	0 points	9.68%	6.67 points
Ratio 2	12.58%	5 points	10.04%	5 points
Ratio 3	10.29%	5 points	8.50%	10 points
Ratio 5	8.56%	10 points	8.79%	10 points
Ratio 6	26.06%	0 points	15.26%	0 points
Ratio 7	26.94%	0 points	23.38%	0 points
Ratio 10	70.71%	0 points	12.95%	0 points

which was the level of total maximum points we set for the 2018 analysis based on our overall review of the ratios and application of professional judgment. After completing the 2018 ratio and qualitative analyses, we identified the following 14 localities as needing further review through our follow-up process:

- the Cities of Buena Vista, Manassas Park, Martinsville, and Norton;
- the Counties of Cumberland, Page, Patrick, and Russell; and
- the Towns of Big Stone Gap, Bridgewater, Broadway, Marion, Richlands, and Tazewell.

In addition, we again qualitatively identified the City of Hopewell during the 2018 analysis. We were not able to evaluate Hopewell in our updated model and analysis, as the city remained delinquent in completing its 2017 and 2018 annual financial reports as of the issuance of last year's June 2019 report. The City of Hopewell has since completed and submitted its 2017 audited financial report; however, the city remains delinquent in completing its 2018 and now 2019 annual financial reports as of the date of this report. Accordingly, we continue to defer our follow-up process with Hopewell until the city submits its outstanding financial reporting requirements, which is discussed in further detail at the [Results of 2019 Analysis and Annual Monitoring Process](#) section of this report.

For the 14 localities identified for follow-up during our 2018 analysis, the Office reviewed completed financial assessment questionnaires and held additional follow-up discussions with 11 localities, which included the Cities of Manassas Park, Martinsville, and Norton; the Counties of Page, Patrick, and Russell; and the Towns of Bridgewater, Broadway, Marion, Richlands, and Tazewell. Based on completion of our final reviews and follow-up process, the Office concluded that these 11 localities do not appear to be in a situation of fiscal distress that would warrant Commonwealth assistance or intervention. Accordingly, the Office made no further notification or recommendation for any new locality relating to fiscal distress. In August 2019, the Office issued its second annual 2018 Report. This report expands on the detail about the refinements made to improve and enhance our early warning monitoring system, along with providing further detail on our 2018 analysis and follow-up process, to include specific information and factors that we discussed with these identified localities based on their individual performance in our analysis.

Based on our final reviews and follow-up process completed with the 11 localities identified during the 2018 analysis, the Office concluded that the localities do not appear to be in a situation of fiscal distress that would warrant Commonwealth assistance or intervention.

As described in our 2018 Report, the Office deferred the follow-up review process with the City of Buena Vista, the County of Cumberland, and the Town of Big Stone Gap. Officials for these three localities responded to our initial inquiries and conveyed their desire to participate in our process; however, various factors contributed to delay with the localities' completion of the financial assessment questionnaires. The Office performed additional review of these three localities during our 2019 monitoring process and sent additional correspondence to their governing body and management, as

discussed in further detail at the [Results of 2019 Analysis and Annual Monitoring Process](#) section of this report.

Methodology and Analysis for the Early Warning System Model

During 2018, the Office worked on several areas to improve and enhance the ratio methodology and overall approach to our fiscal distress monitoring model. Our 2018 Report provides further information about the Office's considerations and evaluations when updating the methodology for our ratio model, along with expanded detail about the various enhancements made to each component of our early warning system model. Our revised ratio analysis focuses on using a methodology to analyze each locality's ratio performance on an individual basis, and not compare the ratio results from one locality to another. The current model calculates 12 financial ratios and assigns a points-based evaluation according to each ratio's result. Points are assigned for each ratio according to how the ratio performs in general at a level of either strong, adequate, or weak. Overall, a higher number of points for each ratio, and in total for all ratios combined, indicates the locality is generally showing a weak or undesirable performance in the ratio analysis. After analyzing each locality's points cumulatively for all ratios, we then determine the need to perform further qualitative analysis on the localities that are scoring a high number of points according to our judgmentally selected threshold of total ratio points. This maximum point threshold will vary from year to year depending on the performance of the ratios, along with any other external factors that may affect our analysis. [Appendix A](#) at the end of this report gives additional information on the ratio weighting and points assigned for each ratio based on applicable levels of performance, along with detailed calculations and further descriptions for each ratio.

During 2018, the Office revised the ratio analysis to calculate 12 financial ratios and assign a points-based evaluation according to each ratio's result. The updated model also includes a second component that focuses on an additional assessment of demographic and other qualitative factors as part of the final evaluation to identify a locality for our follow-up process.

In addition to the changes made to the ratio analysis described above, the updated model includes a second component, which involves an additional assessment of demographic and other external, qualitative factors as part of our final evaluation to identify a locality for further review as part of our financial questionnaire and follow-up process, which is discussed in [Appendix E](#) at the end of this report. The qualitative evaluation focuses only on those localities we have identified in the ratio analysis as coming above our established threshold of total cumulative points for the 12 ratios. The qualitative analysis reviews trends in demographic factors, such as growth or decline in population, median household income, unemployment rate, poverty rate, and the assessed value of a locality's real estate and personal property. In addition, our qualitative analysis incorporates trends from other local government assessments performed by state entities to meet other monitoring objectives, such as the analyses from the Commission on Local Government and the Virginia Department of Education. Lastly, the qualitative analysis incorporates any external, economic, or other qualitative information that may come to our attention about a specific locality. [Appendix C](#) at the end of this report shows an example of the overall factors included in our demographic and qualitative analysis. As part of our updated

model, the Office then applies a qualitative evaluation, instead of a quantitative or numerical score, as the overall measure for making a preliminary determination of potential fiscal distress at a locality and the need to perform additional review. In making this determination, we use two color categories, *yellow* and *green*, to illustrate the results of our analysis, which is shown in [Appendix D](#) at the end of this report. Based on the results of both the ratio analysis and the qualitative analysis, we classify each locality into either one of two categories: designated as needing further follow-up through our financial assessment questionnaire review process, or designated as not needing any further follow-up.

Results of the 2019 Analysis and Annual Monitoring Process

For the 2019 monitoring process, we completed our final calculations and review of the ratio analysis based on fiscal year 2018 audited financial statement data for the cities, counties, and towns required to have an audit and annually report to our Office. As discussed at the [Methodology and Analysis for the Early Warning System Model](#) section of this report, a component of our ratio analysis and methodology is to apply a threshold of total ratio points to determine the need to perform further review of a locality in our qualitative analysis. Based on the second year of applying our updated ratio methodology and further development of our professional judgment in the current year 2019 analysis, we increased the level of total, cumulative points from a 30-point threshold to a 40-point threshold as the indicator to apply our further review. Applying a 40-point threshold represents 32 percent of the total cumulative ratio points that all ratios could cumulatively score, which is a maximum of 125 points for all 12 ratios. Accordingly, the Office determined this 40-point threshold continues to remain a conservative evaluation of total ratio points for our analysis.

Based on our review and assessment of total points for the localities evaluated in the 2019 ratio analysis, we did not identify any new localities that exceeded the 40-point threshold, nor any localities showing significant or unexpected trends or increases in total ratio points; therefore, the Office determined no further qualitative analysis for a locality was warranted during the 2019 process. Accordingly, based on the results of our 2019 analysis and monitoring process, the Office did not identify or designate any new locality as needing further review and follow-up with our assessment questionnaire process. [Appendix B](#) at the end of this report provides a summary of each locality's ratio results for the 12 ratios calculated in the 2019 analysis.

Based on the results of the 2019 analysis and our assessment of total ratio points for the localities, the Office did not identify or designate any new locality as needing further follow-up with our review and questionnaire process.

Additionally, based on our assessment of the 2019 ratio analysis for the 11 localities reviewed in the prior year, as summarized at the [Summary of 2018 Process](#) section of this report, the Office noted improvements in the performance of certain ratios for several of these localities; and for other localities, we noted no significant fluctuations or results that are outside of our expectations based on our follow-up review and discussion process with the localities. Further detail is included in our 2018 Report to describe the preliminary results of the 2019 ratio analysis for the 11 localities, as the Office began calculating the 2019 ratio analysis while we were finalizing our follow-up process with these localities. Based on our final evaluation for the 2019 monitoring process, we noted no changes with the results for

these 11 localities in our final 2019 analysis. The Office will continue to monitor future ratio trends and any other qualitative factors for these localities as part of subsequent annual monitoring processes.

Review of Deferred Localities from 2018 Analysis

As part of our 2019 analysis, the Office continued our review of the localities that were deferred from the prior year monitoring process. As noted above, the Office was not able to evaluate the City of Hopewell in our updated model for both the prior year and the current year's analyses, as the city remained delinquent in completing its annual financial reports. Hopewell officials informed the Office that the city's delinquency with completing its financial reporting requirements over the past several years is primarily due to issues with implementing a new financial system in September 2014. In addition, the City of Hopewell experienced turnover in key management positions in the area of finance and budget over these years, resulting in a significant loss of accounting and financial reporting

knowledge. Both of these areas have contributed to material weaknesses in internal controls related to accounting and financial reporting, as reported in the last several annual financial reports for Hopewell.

While the city has filled key finance and budget management positions, Hopewell continues to work through the post system implementation and staff turnover and transition issues, which continue to affect completion of the city's financial reporting requirements. Our Office again emphasized to the City of Hopewell that completion of its reporting requirements takes precedence over our fiscal distress follow-up assessment questionnaire. In early 2020, our Office received an [updated audit delay notification](#) from Hopewell officials that the city's 2018 and 2019 financial audits are still ongoing, with expected completion during 2020. As soon as Hopewell completes and submits its 2018 and 2019 financial reporting requirements, we will continue to evaluate the city's data in our updated ratio and qualitative analyses as part of our annual monitoring process. We will then evaluate Hopewell's need to complete the assessment questionnaire for our further follow-up process and notify City Council and management accordingly.

Additionally, the Office deferred the follow-up process with the City of Buena Vista, County of Cumberland, and Town of Big Stone Gap due to various circumstances that caused delay with their completion of the financial assessment questionnaire for our 2018 monitoring and review process. After completing our final 2019 ratio analysis this year, we noted that these localities either showed improvement based on the performance of certain financial ratios or remained consistent and within our expectations based on the 2019 analysis, which is discussed in further detail below for each locality.

As part of our 2019 analysis, the Office continued our review of the deferred localities from the 2018 analysis. We again emphasized that the City of Hopewell's completion of its delayed 2018 and 2019 reporting requirements takes precedence over our follow-up process. The City of Buena Vista, County of Cumberland, and Town of Big Stone Gap, either showed improvements with the performance of certain financial ratios or remained consistent and within our expectations based on the 2019 analysis. Accordingly, we concluded that it was optional for these localities to participate further in our follow-up questionnaire process.

Additionally, our Office did not identify any other qualitative factors specific to these localities. In early October 2019, we sent additional correspondence to the governing body and management for the City of Buena Vista, County of Cumberland, and Town of Big Stone Gap, to provide an update and our consideration of their results in our 2019 analysis. Based on these results, the Office communicated our conclusion that it was no longer necessary for these localities to participate in our financial assessment questionnaire and formal follow-up review for the 2019 monitoring process. However, the Office communicated that we will defer to the discretion of each locality’s governing body and management regarding its decision to participate in our follow-up process, and requested that the locality provide our Office confirmation on its final decision of whether to participate in our follow-up questionnaire and review process.

City of Buena Vista

After completion and review of our 2019 ratio analysis for the City of Buena Vista, the Office noted no significant downward trends and observed that the city remained mostly consistent in the ratio results. When evaluating the outcome of the 12 financial ratios in our ratio analysis, the results of several ratios consistently contributed to the city’s total ratio points in both the 2019 and 2018 analysis, as shown in Table 2. The city received 36.66 ratio points in total for the current year’s 2019 analysis, which remains under the 40-point threshold set for our 2019 analysis, and the city received 31.66 total ratio points in the prior year 2018 analysis. The difference in the city’s total cumulative ratio points in the 2019 analysis primarily relates to the results of ratio three, as further discussed below. Appendices [A](#) and [B](#) at the end of this report give additional information about the ratio calculations and points methodology, and a summary of each locality’s ratio results for the 12 ratios calculated in our 2019 analysis.

As noted in Table 2, the city’s results in the 2019 and 2018 ratio analysis overall remain consistent and within our expectations given information about the golf course enterprise fund that city officials previously shared with our Office, and as further disclosed in the city’s annual financial reports. Specifically, the negative result at ratio one and the decrease, lower result at ratio three indicate the city’s decrease in its available, unrestricted reserves and decline in net position on an overall governmental and business-type activities level. The low performance seen in ratios one and three primarily results from the significant, negative unrestricted net position in the golf course fund, which correlates to the results of ratio 12 when reviewing the self-sufficiency of the city’s business-type enterprise funds. Specifically, the results of ratio 12 continue to show that the city’s golf course enterprise fund is not self-supporting and not adequately recovering the full costs of service through charges for services or other non-transfer revenues. As reported in the city’s [fiscal year 2018 annual financial report](#), page 16 of the management’s discussion and analysis and page 27 of the proprietary funds statement of net position, since its inception in 2004, the golf course has

City of Buena Vista Specific Ratio Results

Table 2

	2019 Analysis		2018 Analysis	
Ratio 1	(83.45)%	10 points	(78.25)%	10 points
Ratio 2	13.51 %	5 points	13.81%	5 points
Ratio 3	11.66%	5 points	15.01%	0 points
Ratio 10	(12.76)%	3.33 points	(8.33)%	3.33 points
Ratio 12	(71.40)%	5 points	(70.76)%	5 points

continued to have an increasing operating loss each year. The continued operating loss has resulted in the golf course fund’s total negative net position of \$4,647,479 as of the fiscal year 2018. In addition, the city’s general fund has continued to significantly subsidize the golf course with a transfer in of funds each year. Based on the 2019 analysis, the city’s fund balance reserves in the general fund remain at optimal levels, as measured at ratios six and seven in our analysis. However, the results of ratio ten, as shown in Table 2, indicate that the city’s fund balance reserves continue to decline, which can be attributed to the general fund’s support of the golf course operations.

As previously discussed, during 2019, the Office communicated with the governing body and management for the City of Buena Vista regarding our conclusion that the city did not need to participate in our financial assessment questionnaire and formal follow-up review process at that time, based on the consistent results seen in our 2019 analysis and our knowledge of the primary issue relating to the city’s golf course fund. Based on further discussion the Office had with the City Manager in early 2020, the city continues to consider participating in our follow-up process when they have available resources to dedicate to our process; the city is currently focused on managing other priorities specific to the budget season and working through recent finance turnover and other management staffing developments. The Office will continue to monitor the city’s future ratio trends and any other factors as we finalize our 2020 ratio and qualitative analyses later this year, and we will communicate further with the city’s governing body and management regarding the results of our 2020 analysis and future participation in our follow-up review process.

County of Cumberland

After completion of the 2019 ratio analysis, the Office noted improvement with various ratio results for the County of Cumberland. When evaluating the outcome of the 12 financial ratios in our updated analysis, the county received 20 ratio points in total for the current year’s 2019 analysis, which is under the 40-point threshold set for our 2019 analysis and shows an improvement from the 38.33 total ratio points in the prior year 2018 analysis. Appendices [A](#) and [B](#) at the end of this report give additional information about the ratio calculations and points methodology, and a summary of each locality’s ratio results for the 12 ratios calculated in our 2019 analysis. As shown in Table 3, our ratio analysis shows improvement in the performance of several ratios for the county. Ratios one and four show growth related to the county’s available, unrestricted reserves and increase in net position on an overall governmental and business-type activities level. Ratios five and nine show improvement related to the county’s overall debt level and annual debt service payments. The decrease or positive change in ratios five and nine is primarily due to debt restructuring that occurred during fiscal year 2017 and how bond refunding is presented for financial reporting purposes, which reflected one-time higher debt activity in the 2018 analysis.

County of Cumberland Specific Ratio Results

Table 3

	2019 Analysis		2018 Analysis	
Ratio 1	16.63%	0 points	13.88%	3.33 points
Ratio 4	12.28%	0 points	(58.92)%	10 points
Ratio 5	2.58%	0 points	3.16%	5 points
Ratio 9	18.45%	5 points	58.95%	10 points

As previously discussed, during 2019, the Office communicated with the governing body and management for the County of Cumberland regarding our conclusion that the county no longer needed to participate in our financial assessment questionnaire and formal follow-up review process, based on the results of our 2019 analysis. County management responded that because of the improvement noted in our ratio analysis and our related conclusions, they agreed that it was not necessary to participate further with our follow-up process. Accordingly, our Office performed no further review of the county as part of our 2019 monitoring process. The Office will continue to monitor future ratio trends and any other qualitative factors for the county as part of subsequent annual monitoring processes.

Town of Big Stone Gap

After completion of the 2019 ratio analysis, the Office noted improvement with various ratio results for the Town of Big Stone Gap. When evaluating the outcome of the 12 financial ratios in our updated analysis, the town received 18.33 ratio points in total for the current year’s 2019 analysis, which is under the 40-point threshold set

Town of Big Stone Gap Specific Ratio Results

Table 4

	2019 Analysis		2018 Analysis	
Ratio 1	23.60%	0 points	6.73%	6.67 points
Ratio 6	15.73%	0 points	11.99%	5 points
Ratio 8	102.28%	0 points	92.99%	5 points
Ratio 10	(8.11)%	3.33 points	(34.17)%	10 points

for our 2019 analysis and shows significant improvement from the 46.67 total ratio points in the prior year 2018 analysis. Appendices [A](#) and [B](#) at the end of this report give additional information about the ratio calculations and points methodology, and a summary of each locality’s ratio results for the 12 ratios calculated in our 2019 analysis. As shown in Table 4, our ratio analysis shows improvement in the performance of several ratios for the town. Ratios one and six show growth related to the town’s available, unrestricted reserves on an overall governmental and business-type activities level and its unrestricted fund balance reserves in the general fund. Ratio eight shows improvement when evaluating that the town’s annual revenues were sufficient to pay for annual operational costs in the general fund. Lastly, the results of ratio ten indicate some improvement specific to measuring the change in unassigned fund balance in the town’s general fund. While the negative ratio results indicate that the town’s fund balance still decreased in the current year 2019 analysis, it was a less significant decrease from the prior year, as the town continues to work each year toward building up fund balance reserves.

As previously discussed, during 2019, the Office communicated with the governing body and management for the Town of Big Stone Gap regarding our conclusion that the town no longer needed to participate in our financial assessment questionnaire and formal follow-up review process, based on the results of our 2019 analysis. Town management responded that they would still like to participate in our follow-up process when they have more availability during 2020. Accordingly, the Office will perform our follow-up process with the town later this year and will report any pertinent information as part of our 2020 analysis and monitoring process. The Office will also continue to monitor future ratio trends and any other qualitative factors for the town as part of subsequent annual monitoring processes.



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Commonwealth of Virginia

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April 30, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Luke E. Torian
Chair, House Appropriations Committee

The Honorable Janet D. Howell
Chair, Senate Finance and Appropriations Committee

The Honorable Aubrey L. Layne, Jr.
Secretary of Finance

We are pleased to submit our third annual **Local Government Fiscal Distress Monitoring Report**, which describes the results from the legislation directing our Office to establish an early warning system to monitor fiscal distress at Virginia's local governments. This report provides you an overview regarding the legislative requirements and a summary of the Office's current model for the early warning system. This report further provides a summary of the analysis and results for the Office's 2017 and 2018 annual monitoring process, along with the results of our most recently completed 2019 analysis.

We would like to express our appreciation to the many individuals whose efforts continued to assist in providing valuable feedback and information as we continue to refine and improve our analysis and process for an early warning system. We also express our appreciation to the various locality officials and staff for their responsiveness and cooperation to our additional inquiries.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

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The following information describes the 12 financial ratios used in our ratio analysis to provide the specific ratio calculations, further interpretation from the Office related to the outcome of each ratio, and the weighting and points assignment for each ratio based on applicable levels of performance.

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
1	Cash and Cash Equivalents + Investments - Current Liabilities/ Charges for Services + General Revenues <i>(Government-wide Activity)</i>	This ratio measures the sufficiency of unrestricted reserves relative to the locality's normal revenue (non-grant revenue). By comparing the locality's unrestricted liquid assets (net of current liabilities) to its normal revenue, we can see the locality's ability to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation.	<ul style="list-style-type: none"> A higher ratio percentage suggests a locality is in a desirable position to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation. A lower ratio percentage suggests that a locality may not be in a desirable position to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation. A negative ratio percentage indicates that a locality does not have any unrestricted reserves. 	Ratio is weighted at 10% <ul style="list-style-type: none"> Ratio result is negative or less than 5%: 10 points Ratio result is between 5% and 10%: 6.67 points Ratio result is between 10% and 15%: 3.33 points Ratio result is equal to or greater than 15%: 0 points
2	Cash and Cash Equivalents + Investments/ Total Liabilities <i>(Government-wide Activity)</i>	This ratio measures the sufficiency of unrestricted reserves relative to the locality's total liabilities. By comparing the locality's unrestricted liquid assets to total liabilities, we can see its ability to pay total liabilities without needing additional revenue. <i>Note: This ratio removes the effect of the pension and other post-employment liabilities.</i>	<ul style="list-style-type: none"> A higher ratio percentage suggests that a locality is in a desirable position to meet its obligations. A lower ratio percentage suggests that a locality may not be in a desirable position to meet its obligations without obtaining additional revenues. 	Ratio is weighted at 5% <ul style="list-style-type: none"> Ratio result is less than 30%: 5 points Ratio result is between 30% and 60%: 2.5 points Ratio result is equal to or greater than 60%: 0 points
3	Net Position Unrestricted/ Total Expenses <i>(Government-wide Activity)</i>	This ratio measures the sufficiency of unrestricted reserves relative to the locality's expenses. By comparing the locality's unrestricted net position to its total expenses, we can see to what extent the locality can fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. <i>Note: This ratio removes the effect of the pension and other post-employment liabilities.</i>	<ul style="list-style-type: none"> A higher ratio percentage suggests that a locality is in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. A lower ratio percentage suggests that a locality may not be in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. A negative ratio percentage indicates that a locality has a deficit unrestricted net position. 	Ratio is weighted at 15% <ul style="list-style-type: none"> Ratio result is negative or less than 5%: 15 points Ratio result is between 5% and 10%: 10 points Ratio result is between 10% and 15%: 5 points Ratio result is equal to or greater than 15%: 0 points
4	Change in Net Position (Ending - Beginning)/ Net Position Beginning <i>(Government-wide Activity)</i>	This financial performance ratio shows the magnitude of how the locality's financial position improved or deteriorated as a result of resource flow. The percent change in net position provides the magnitude of how the beginning resource level changed as a result of resource flow during the fiscal year. <i>Note: This ratio removes the effect of the pension and other post-employment liabilities.</i>	The desirable change should be positive rather than negative. <ul style="list-style-type: none"> A positive ratio percentage indicates that a locality's net position has improved from the prior year. A negative ratio percentage indicates that a locality's net position has deteriorated from the prior year. The higher the percentage decrease indicates a more negative downward trend. 	Ratio is weighted at 10% <ul style="list-style-type: none"> Ratio result is negative with a high decrease equal to or greater than (40)%: 10 points Ratio result is negative with an intermediate decrease between (15)% and (40)%: 6.67 points Ratio result is negative with a low decrease between (.01)% and (15)%: 3.33 points Ratio result is positive or no change: 0 points
5	Total Tax Supported Debt /FMV of Taxable Real Estate + Assessed Value of Tangible Personal Property + Assessed Value of Public Service Corporations <i>(Government-wide Activity)</i>	This ratio reviews a locality's total debt burden by measuring total direct, tax supported debt outstanding for governmental and business-type activities to the locality's fair market value (FMV) of total taxable real estate, plus the assessed values of tangible personal property and public service corporations. City and county valuation data is obtained from Table 6.2 and Table 6.4 of the Virginia Department of Taxation's Annual Report, as of the most recent tax year. Town data is not published in this annual report; therefore, it is obtained from the town's audited annual financial report, if available.	The Office uses a standard methodology in measuring this ratio comparable to how other professionals examine trends for this ratio, such as the Virginia Resources Authority, International City/County Management Association (ICMA), and bond rating agencies, along with other state's fiscal monitoring systems. An increase in net direct long-term debt as a percentage of real property valuation can indicate that a locality's ability to repay its obligations is trending negatively. The Office uses the following trends when evaluating this ratio: <ul style="list-style-type: none"> Ratio percentage less than 3% is strong Ratio percentage between 3% and 6% is adequate Ratio percentage equal to or greater than 6% is weak 	Ratio is weighted at 10% <ul style="list-style-type: none"> Ratio result is greater than 6%: 10 points Ratio result is between 3% and 6%: 5 points Ratio result is less than 3%: 0 points

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
6	Unassigned + Assigned Fund Balances (+ other Committed reserves where applicable) / Total Expenditures <i>(General Fund Activity)</i>	This ratio measures the sufficiency of unrestricted reserves, plus any applicable reserves specifically set aside, relative to the locality's operating expenditures. By comparing the locality's fund balance reserves to its operating expenditures, we can see to what extent the locality can fund operating expenditures from reserves in the event of a revenue shortfall or unforeseen situation.	<ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A lower ratio percentage suggests that a locality may not be in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A negative ratio percentage indicates that a locality has a deficit unassigned fund balance in its general fund. 	Ratio is weighted at 15% <ul style="list-style-type: none"> • Ratio result is negative or less than 5%: 15 points • Ratio result is between 5% and 10%: 10 points • Ratio result is between 10% and 15%: 5 points • Ratio result is equal to or greater than 15%: 0 points
7	Total Fund Balance/ Total Revenues <i>(General Fund Activity)</i>	This ratio measures the sufficiency of reserves relative to the locality's general fund revenue. By comparing the locality's reserves to its revenue, we can see to what extent the locality can make up revenue shortfalls with reserves.	<ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in a desirable position to have sufficient reserves in the event of a revenue shortfall. • A lower ratio percentage suggests that a locality may not be in a desirable position to have sufficient reserves in the event of a revenue shortfall. 	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is negative or less than 5%: 10 points • Ratio result is between 5% and 10%: 5 points • Ratio result is equal to or greater than 10%: 0 points
8	Total Revenues/ Total Expenditures <i>(General Fund Activity)</i>	This ratio, known as the Service Obligation or Operations Ratio, measures whether a locality's annual revenues were sufficient to pay for annual operations. This ratio does not account for Other Financing Sources, such as Transfers In.	This ratio has a natural benchmark of 100 percent or higher. A ratio result under 100 percent means that total expenditures exceeded total revenues in the general fund.	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is less than 60%: 10 points • Ratio result is between 60% and 100%: 5 points • Ratio result is equal to or greater than 100%: 0 points
9	Debt Service Principal and Interest Expenditures/Total Revenues (available to pay the debt service) <i>(General Fund Activity and Debt Service Fund Activity, if applicable)</i>	This ratio measures total debt service expenditures divided by total revenues, primarily from the general fund. It also includes any other applicable governmental funds, since some localities account for debt service in separate debt service fund or capital project fund outside of the general fund. This ratio identifies the percent of the locality's budget that is used or needed for repayment of debt. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for asset repair/ replacement or meeting current service demands. As debt service increases, it adds to a locality's obligations and reduces the locality's expenditure flexibility.	<ul style="list-style-type: none"> • A higher ratio percentage suggests that a locality is in an unfavorable position since the locality spends more of its current budget on debt repayment. • A lower ratio percentage suggests that a locality is in a more desirable, favorable position since the locality is spending less of its current budget on debt repayment. 	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is equal to or greater than 20%: 10 points • Ratio result is between 10% and 20%: 5 points • Ratio result is equal to or less than 10%: 0 points
10	Change in General Fund Unassigned Fund Balance (Current Year Ending - Prior Year Ending/ Prior Year Ending) <i>(General Fund Activity)</i>	This ratio identifies changes (increases or decreases) in unassigned fund balances from the prior year to the current year and is useful in identifying a locality whose unassigned fund balance is deteriorating over time, and how rapidly it may be decreasing.	<ul style="list-style-type: none"> • A positive change indicates a more favorable position since this indicates that unrestricted fund balance is growing. • A negative change could indicate an unfavorable position, particularly over a period of years, as this could indicate the locality is using fund balance reserves due to a fiscal distress situation. 	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is negative with a high decrease equal to or greater than (30)%: 10 points • Ratio result is negative with an intermediate decrease between (15)% and (30)%: 6.67 points • Ratio result is negative with a low decrease between (.01)% and (15)%: 3.33 points • Ratio result is positive or no change: 0 points

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
11	Intergovernmental Operating Revenues/ Total Revenues (General Fund Activity)	This ratio looks at a locality's reliance on revenues coming from other governmental revenues, such as grants and aid coming from federal and state. A key factor is also to determine the locality's vulnerability to reductions of such revenues. The external source may withdraw the funds and leave the locality with the dilemma of cutting programs or having to pay for them with general fund resources.	<ul style="list-style-type: none"> • A higher ratio percentage indicates that the locality has a higher dependence on revenues coming from other sources outside of the locality's own local revenues, and may suggest that a locality is an unfavorable position. • A lower ratio percentage indicates that the locality has a lower dependence on revenues coming from other sources outside of the locality's own local revenues, and may suggest that a locality is in a more favorable position. 	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is equal to or greater than 50%: 10 points • Ratio result is between 25% and 50%: 5 points • Ratio result is less than 25%: 0 points
12	Proprietary Fund Statements- Enterprise Fund Activity: Change in Net Position - Net Fund Transfers To (From)/ Expenses	This ratio is known as the "Business Type Activity Self Sufficiency" ratio, which measures the percent of business-type enterprise fund(s) expenses that were covered by enterprise fund(s) non-transfer revenues. If a locality has an enterprise fund that is not self-sufficient and not self-supporting, but continues to rely on general fund transfers to support the enterprise fund, this could be a sign of distress. While this ratio shows coverage in total for all enterprise funds (as applicable), an important factor to consider is whether any transfers or loans were required for individual enterprise funds.	<ul style="list-style-type: none"> • A ratio result of 100% or greater indicates that enterprise fund activities as a whole were successful in recovering the full costs of service through charges for services or other revenues. • A ratio result of less than 100% indicates that the enterprise fund activities had to borrow from the past (by spending down assets or fund balance), borrow from the future (by increasing liabilities), or be subsidized by governmental funds through transfers, such as transfers from the general fund. 	Ratio is weighted at 10% <ul style="list-style-type: none"> • Ratio result is between 1% and 50%: 10 points • Ratio result is between 50% and 100%: 5 points • Ratio result is equal to or greater than 100%: 0 points

Financial Ratio Results by Locality

Appendix B

The following information provides a summary of the 2019 financial ratio analysis. Appendix A above gives a detailed description of each ratio and the financial statement data that was used to calculate each ratio. Each locality's ratio results are included in summary detail below for the cities, counties, and towns required under statute to have an annual audit and report to our Office. The ratio results are based on data obtained from the localities' audited fiscal year 2018 annual financial reports.

Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
City of Alexandria	56.02%	72.23%	39.14%	26.03%	1.66%	17.64%	17.97%	116.76%	9.22%	19.85%	7.88%	0.00%
City of Bristol	17.06%	12.58%	10.29%	(7.81)%	8.56%	26.06%	26.94%	106.15%	6.33%	70.71%	38.95%	58.51%
City of Buena Vista	(83.45)%	13.51%	11.66%	(10.17)%	0.81%	18.20%	18.97%	104.08%	5.17%	(12.76)%	38.15%	71.40%
City of Charlottesville	28.67%	57.07%	49.76%	5.33%	1.97%	31.76%	28.04%	114.91%	6.43%	(27.26)%	17.74%	113.85%
City of Chesapeake	43.87%	45.17%	46.08%	5.12%	1.35%	23.14%	39.07%	117.67%	7.72%	2.93%	16.02%	109.44%
City of Colonial Heights	7.22%	24.18%	30.46%	(2.57)%	2.18%	18.90%	19.34%	101.25%	7.22%	5.64%	12.46%	103.60%
City of Covington	24.79%	17.09%	10.34%	9.01%	4.50%	24.07%	25.52%	99.29%	10.03%	3.87%	26.56%	131.00%
City of Danville	32.59%	89.94%	63.82%	(1.38)%	3.64%	39.40%	46.19%	91.95%	5.63%	(12.85)%	22.56%	108.96%
City of Emporia	51.88%	45.05%	62.06%	5.68%	1.19%	65.06%	70.37%	102.84%	4.22%	5.44%	24.33%	113.97%
City of Fairfax	13.91%	27.16%	21.00%	27.96%	1.78%	15.66%	24.52%	109.75%	9.47%	6.83%	7.41%	94.75%
City of Falls Church	35.78%	55.39%	63.70%	8.56%	1.97%	22.02%	35.73%	102.38%	7.64%	7.99%	5.81%	142.04%
City of Franklin	9.12%	42.10%	27.78%	17.91%	2.94%	21.01%	25.87%	98.58%	4.63%	(24.47)%	20.96%	129.80%
City of Fredericksburg	41.62%	49.75%	52.44%	3.34%	2.36%	23.11%	27.85%	117.33%	9.23%	6.88%	10.23%	111.56%
City of Galax	2.95%	26.64%	15.88%	17.44%	1.65%	18.16%	21.48%	93.10%	4.61%	29.82%	28.98%	123.73%
City of Hampton	49.82%	55.49%	21.59%	1.84%	2.40%	25.79%	30.10%	127.14%	9.67%	13.25%	19.60%	94.97%
City of Harrisonburg	35.00%	36.68%	41.36%	5.90%	4.25%	32.53%	32.77%	103.59%	13.51%	3.35%	9.61%	129.98%
City of Hopewell	N/A	N/A	N/A									
City of Lexington	62.74%	52.30%	79.95%	10.79%	5.11%	51.67%	52.28%	111.13%	11.27%	12.41%	17.95%	127.91%
City of Lynchburg	27.90%	24.78%	31.60%	9.38%	4.50%	20.99%	34.48%	105.23%	9.71%	7.55%	19.76%	120.94%
City of Manassas	50.03%	95.04%	64.94%	6.34%	2.14%	29.37%	29.69%	109.68%	8.28%	2.64%	10.85%	121.30%
City of Manassas Park	3.38%	12.91%	28.79%	19.39%	6.02%	16.69%	13.29%	129.97%	24.56%	31.29%	12.49%	137.33%
City of Martinsville	24.56%	44.70%	34.78%	2.47%	1.70%	14.38%	21.61%	95.85%	5.64%	53.74%	33.12%	110.96%
City of Newport News	3.01%	29.45%	29.36%	15.95%	2.55%	19.83%	20.56%	110.30%	11.36%	9.99%	10.01%	142.47%
City of Norfolk	13.79%	16.93%	40.34%	4.51%	5.18%	20.40%	20.29%	108.84%	13.01%	0.44%	22.16%	134.96%
City of Norton	7.58%	24.66%	21.49%	2.71%	6.05%	24.28%	27.57%	107.30%	6.12%	58.10%	18.56%	86.63%
City of Petersburg	(20.34)%	13.35%	101.62%	13.30%	2.44%	4.10%	20.00%	108.66%	6.92%	2047.81%	26.35%	88.25%
City of Poquoson	12.10%	24.53%	24.69%	5.37%	1.45%	21.72%	27.87%	113.70%	10.05%	22.59%	18.23%	136.02%
City of Portsmouth	43.66%	29.95%	6.15%	13.23%	6.77%	34.59%	32.00%	120.94%	16.79%	(1.15)%	17.54%	126.59%
City of Radford	16.66%	45.61%	19.50%	1.64%	2.31%	11.86%	25.60%	79.70%	10.03%	122.85%	26.31%	119.03%
City of Richmond	7.62%	17.84%	48.98%	9.06%	3.54%	22.63%	20.27%	113.35%	9.63%	0.73%	12.47%	116.26%
City of Roanoke	3.20%	24.71%	78.88%	7.89%	2.93%	13.24%	13.70%	110.49%	9.62%	17.13%	24.92%	100.32%
City of Salem	47.36%	91.95%	71.22%	12.54%	2.82%	44.06%	45.48%	112.83%	5.22%	29.67%	16.03%	126.37%
City of Staunton	56.58%	78.23%	65.90%	4.55%	1.40%	30.64%	27.27%	113.95%	6.85%	74.96%	23.49%	114.63%
City of Suffolk	39.98%	23.21%	53.98%	7.27%	4.31%	38.24%	36.02%	119.45%	12.84%	11.87%	12.28%	109.76%
City of Virginia Beach	38.69%	50.86%	60.59%	3.73%	1.43%	20.21%	20.23%	115.24%	11.50%	(3.46)%	15.99%	126.99%
City of Waynesboro	73.20%	56.30%	47.13%	25.14%	2.32%	24.90%	74.79%	106.97%	6.46%	7.47%	20.03%	121.10%
City of Williamsburg	90.83%	165.18%	74.99%	2.71%	1.21%	68.77%	104.64%	102.15%	2.60%	2.13%	12.72%	125.99%
City of Winchester	6.14%	12.75%	32.52%	3.99%	2.98%	31.48%	31.07%	105.03%	12.04%	(1.68)%	8.05%	120.68%
County of Accomack	33.70%	62.62%	26.38%	10.79%	0.40%	50.76%	46.08%	110.99%	10.73%	(45.80)%	18.64%	83.20%
County of Albemarle	26.40%	45.49%	31.36%	118.53%	1.12%	23.15%	19.15%	123.68%	8.68%	(7.62)%	12.26%	0.00%
County of Alleghany	16.11%	29.62%	26.37%	0.61%	0.27%	23.57%	47.46%	96.36%	5.86%	(11.38)%	35.88%	90.01%
County of Amelia	45.07%	124.20%	69.13%	6.94%	0.26%	42.36%	46.98%	104.34%	3.36%	12.86%	27.24%	95.83%
County of Amherst	55.17%	52.78%	17.19%	3.82%	0.18%	36.38%	36.44%	105.71%	6.71%	6.19%	20.69%	108.55%
County of Appomattox	62.52%	62.93%	72.72%	48.54%	0.60%	58.27%	51.51%	113.60%	12.33%	30.56%	27.86%	39.08%
County of Arlington	33.89%	49.37%	44.76%	(1.65)%	1.54%	13.45%	14.65%	92.62%	5.73%	0.00%	7.48%	119.32%
County of Augusta	36.56%	51.24%	66.69%	226.80%	1.00%	14.85%	18.15%	120.08%	9.83%	(13.62)%	14.05%	0.00%
County of Bath	47.04%	185.83%	55.50%	4.67%	0.00%	51.35%	50.32%	102.52%	6.70%	1.58%	9.58%	0.00%
County of Bedford	60.98%	78.62%	55.05%	5.41%	0.67%	41.85%	64.44%	81.22%	9.36%	(6.13)%	20.95%	107.84%
County of Bland	28.92%	35.58%	56.63%	12.05%	0.00%	54.92%	49.81%	113.98%	1.81%	8.15%	32.39%	91.58%
County of Botetourt	37.48%	43.10%	22.57%	0.40%	1.31%	38.17%	78.87%	94.52%	5.72%	11.00%	18.36%	0.00%
County of Brunswick	58.80%	87.01%	53.90%	24.77%	0.20%	78.49%	68.31%	120.69%	5.75%	16.77%	17.55%	0.00%
County of Buchanan	39.24%	195.41%	50.82%	20.62%	0.11%	49.47%	74.93%	107.32%	3.50%	7.09%	29.50%	0.00%
County of Buckingham	47.14%	31.52%	60.19%	4.19%	1.02%	46.87%	47.22%	121.41%	15.73%	3.27%	20.83%	138.68%
County of Campbell	44.77%	87.36%	46.98%	3.29%	0.71%	33.13%	40.62%	107.19%	6.24%	(6.04)%	24.41%	0.00%
County of Caroline	24.40%	19.43%	41.22%	12.49%	1.29%	54.54%	51.74%	126.38%	42.11%	5.26%	11.28%	76.30%
County of Carroll	1.80%	18.47%	30.35%	4.40%	0.79%	19.01%	20.80%	100.42%	11.65%	2.13%	25.29%	0.00%
County of Charles City	68.34%	218.39%	73.47%	12.12%	0.24%	55.38%	69.78%	107.35%	3.16%	24.25%	17.56%	50.02%
County of Charlotte	52.99%	41.28%	46.23%	13.17%	1.62%	58.45%	55.56%	105.66%	4.57%	(4.36)%	38.92%	0.00%
County of Chesterfield	82.61%	127.29%	70.81%	7.81%	1.01%	48.51%	47.28%	108.97%	8.97%	0.00%	21.46%	163.37%
County of Clarke	23.69%	32.50%	39.76%	(1.55)%	1.04%	44.87%	39.70%	115.70%	10.93%	(14.44)%	15.79%	0.00%
County of Craig	47.78%	146.57%	55.60%	10.89%	0.33%	51.38%	46.89%	110.09%	6.28%	19.05%	36.36%	0.00%
County of Culpeper	32.62%	44.38%	40.68%	5.11%	1.13%	36.18%	35.39%	108.32%	8.80%	2.37%	20.47%	59.54%
County of Cumberland	16.63%	15.67%	39.78%	12.28%	2.58%	37.94%	37.69%	100.66%	18.45%	8.30%	33.63%	57.54%
County of Dickenson	91.85%	107.95%	25.35%	10.13%	0.62%	23.55%	25.55%	106.27%	4.93%	61.59%	33.52%	0.00%
County of Dinwiddie	16.56%	23.70%	33.71%	7.64%	2.14%	35.72%	31.18%	121.20%	13.65%	(0.88)%	19.92%	0.00%
County of Essex	20.38%	25.84%	24.95%	(0.94)%	1.89%	24.57%	25.49%	96.42%	17.34%	0.74%	24.07%	0.00%
County of Fairfax	23.54%	38.19%	11.29%	1.40%	1.31%	18.77%	11.53%	117.39%	8.30%	(6.34)%	8.56%	125.30%

Financial Ratio Results by Locality

Appendix B

Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
County of Fauquier	19.24%	45.61%	21.42%	11.54%	0.63%	17.81%	16.57%	112.70%	6.34%	(3.62)%	14.69%	98.95%
County of Floyd	33.36%	63.23%	48.28%	2.02%	0.48%	45.96%	52.20%	93.94%	10.40%	13.41%	24.52%	0.00%
County of Fluvanna	21.33%	17.45%	45.17%	(1.91)%	2.86%	31.44%	41.15%	106.50%	20.50%	(8.35)%	19.74%	106.32%
County of Franklin	27.61%	45.48%	24.93%	(2.47)%	0.60%	27.43%	26.22%	106.79%	6.88%	0.00%	23.51%	137.06%
County of Frederick	44.32%	58.39%	49.80%	3.27%	1.32%	29.91%	32.69%	111.31%	10.44%	(8.52)%	14.09%	122.65%
County of Giles	(5.88)%	6.34%	9.31%	(94.35)%	0.23%	6.38%	6.35%	100.55%	8.14%	(48.26)%	28.74%	50.81%
County of Gloucester	23.93%	49.29%	40.00%	7.64%	0.64%	39.87%	37.88%	118.62%	8.98%	3.01%	14.71%	154.26%
County of Goochland	80.22%	42.29%	56.60%	10.56%	0.15%	64.62%	65.17%	110.53%	6.27%	(5.27)%	14.32%	125.90%
County of Grayson	33.50%	43.57%	46.63%	5.08%	0.85%	30.97%	35.51%	93.98%	10.50%	(17.84)%	27.99%	80.34%
County of Greene	17.06%	20.12%	22.70%	2.23%	1.83%	21.22%	47.71%	89.93%	8.43%	(12.96)%	19.97%	0.00%
County of Greenville	38.98%	34.42%	46.29%	15.96%	1.40%	32.79%	35.17%	102.46%	17.09%	8.15%	29.71%	209.96%
County of Halifax	40.48%	37.51%	49.95%	9.54%	1.27%	57.49%	54.91%	108.45%	15.09%	(13.25)%	13.85%	0.00%
County of Hanover	27.95%	57.08%	36.64%	4.24%	0.90%	24.71%	22.27%	114.50%	8.31%	5.17%	14.20%	144.84%
County of Henrico	59.03%	68.74%	27.36%	4.56%	1.03%	31.14%	34.60%	121.96%	7.43%	3.07%	17.42%	127.11%
County of Henry	72.85%	106.78%	63.59%	(11.50)%	0.87%	54.32%	60.72%	98.14%	3.26%	(2.43)%	23.79%	73.49%
County of Highland	110.48%	1069.86%	87.29%	(0.64)%	0.00%	68.01%	80.36%	104.29%	0.35%	(2.87)%	24.66%	99.62%
County of Isle Of Wight	37.98%	23.74%	64.97%	304.69%	3.16%	26.49%	30.48%	119.01%	18.12%	45.11%	9.55%	70.76%
County of James City	39.04%	57.49%	69.02%	6.77%	1.14%	29.58%	23.15%	128.65%	11.35%	6.28%	13.60%	113.60%
County of King & Queen	191.27%	931.85%	176.88%	8.66%	0.00%	115.45%	144.70%	119.52%	0.00%	5.49%	25.42%	94.09%
County of King George	98.93%	54.80%	84.51%	4.22%	2.60%	46.44%	60.98%	92.48%	14.47%	12.44%	18.21%	97.03%
County of King William	32.32%	38.79%	37.86%	(13.67)%	1.62%	47.65%	45.80%	126.72%	11.79%	7.21%	15.92%	0.00%
County of Lancaster	7.71%	51.27%	16.96%	27.65%	0.27%	12.64%	13.14%	96.17%	7.85%	(3.51)%	20.44%	80.04%
County of Lee	45.28%	109.85%	48.72%	5.57%	0.17%	34.63%	47.29%	99.77%	2.73%	12.65%	47.82%	0.00%
County of Loudoun	57.76%	67.72%	14.73%	6.18%	1.36%	25.58%	22.98%	123.66%	10.75%	45.25%	6.20%	0.00%
County of Louisa	99.65%	105.64%	87.25%	8.83%	0.89%	78.04%	71.41%	111.75%	7.85%	39.49%	12.33%	0.00%
County of Lunenburg	81.43%	84.45%	80.54%	4.64%	1.05%	73.21%	72.01%	123.84%	10.77%	22.48%	37.14%	0.00%
County of Madison	53.40%	111.28%	57.65%	3.97%	0.57%	54.56%	55.14%	102.97%	5.52%	(20.34)%	24.93%	0.00%
County of Mathews	30.72%	130.70%	41.42%	8.05%	0.21%	36.88%	43.81%	103.79%	6.51%	14.40%	23.92%	0.00%
County of Mecklenburg	79.07%	93.60%	78.66%	13.67%	0.98%	13.79%	17.51%	118.77%	1.16%	(2.01)%	8.80%	0.00%
County of Middlesex	45.81%	49.06%	70.79%	13.04%	0.51%	43.35%	41.58%	105.09%	11.11%	(2.98)%	18.74%	0.00%
County of Montgomery	29.11%	34.02%	51.29%	9.49%	2.02%	31.87%	38.15%	116.09%	17.19%	18.50%	15.77%	0.00%
County of Nelson	66.89%	97.00%	80.77%	3.15%	0.82%	81.35%	69.27%	118.13%	8.61%	10.19%	16.12%	92.78%
County of New Kent	66.75%	52.66%	89.79%	2.37%	1.80%	30.29%	24.29%	134.34%	13.58%	1.49%	13.94%	104.50%
County of Northampton	45.33%	54.45%	44.94%	6.13%	0.27%	363.26%	38.10%	953.79%	10.39%	9.17%	13.64%	90.14%
County of Northumberland	21.35%	22.72%	24.78%	13.49%	1.03%	24.27%	22.65%	107.13%	7.39%	12.05%	17.23%	52.10%
County of Nottoway	156.78%	255.77%	120.18%	1.26%	0.21%	102.76%	107.50%	104.07%	4.24%	4.23%	32.94%	0.00%
County of Orange	34.18%	31.75%	44.65%	7.74%	2.07%	46.24%	35.27%	131.18%	16.36%	6.96%	14.36%	30.98%
County of Page	12.63%	17.57%	(9.35)%	5.93%	1.76%	29.04%	27.48%	105.66%	15.75%	18.07%	16.94%	0.00%
County of Patrick	9.09%	13.19%	25.15%	(6.83)%	1.80%	22.33%	24.67%	94.58%	9.64%	(18.40)%	27.56%	31.27%
County of Pittsylvania	31.76%	34.63%	29.70%	11.74%	1.64%	33.10%	38.45%	95.98%	16.08%	(8.52)%	31.09%	0.00%
County of Powhatan	5.66%	11.78%	31.88%	19.32%	1.38%	30.58%	28.24%	108.86%	16.20%	2.25%	15.57%	38.67%
County of Prince Edward	49.77%	55.02%	32.94%	190.09%	0.70%	54.69%	50.64%	108.75%	3.58%	5.95%	28.27%	121.34%
County of Prince George	47.07%	61.56%	60.27%	6.53%	1.69%	50.18%	41.98%	119.53%	15.08%	(9.03)%	19.88%	128.80%
County of Prince William	46.59%	55.25%	6.31%	1.57%	1.64%	15.58%	17.70%	99.85%	12.96%	2.93%	14.57%	121.86%
County of Pulaski	25.17%	28.06%	40.81%	4.69%	2.01%	27.94%	27.32%	107.36%	6.83%	(12.04)%	28.11%	0.00%
County of Rappahannock	29.65%	109.20%	21.18%	40.04%	0.12%	24.08%	23.43%	102.76%	2.88%	8.78%	20.58%	0.00%
County of Richmond	(9.61)%	8.17%	4.95%	28.57%	1.62%	5.15%	12.61%	96.84%	10.67%	846.40%	26.55%	0.00%
County of Roanoke	11.73%	27.33%	40.08%	(10.32)%	1.74%	13.31%	17.03%	111.00%	9.56%	(2.36)%	18.09%	0.00%
County of Rockbridge	41.69%	33.81%	56.60%	(6.10)%	1.80%	58.10%	57.75%	102.28%	10.56%	(0.30)%	11.90%	44.67%
County of Rockingham	23.96%	34.93%	26.53%	1.59%	0.93%	17.68%	23.27%	87.31%	7.80%	12.44%	14.52%	115.21%
County of Russell	8.68%	31.32%	18.24%	17.06%	0.32%	21.79%	23.90%	97.79%	5.87%	(11.37)%	35.06%	30.11%
County of Scott	9.74%	95.77%	9.54%	61.34%	0.00%	19.68%	14.75%	133.40%	1.27%	13.17%	30.53%	0.00%
County of Shenandoah	32.55%	53.11%	20.20%	17.13%	0.67%	25.58%	31.20%	114.12%	8.79%	13.29%	18.27%	79.42%
County of Smyth	18.96%	20.94%	30.51%	11.37%	2.34%	22.44%	29.57%	100.98%	10.73%	22.74%	32.02%	160.53%
County of Southampton	6.61%	11.06%	22.94%	7.49%	1.11%	22.99%	20.05%	114.67%	5.03%	12.60%	21.96%	30.18%
County of Spotsylvania	48.33%	48.18%	53.07%	9.31%	1.90%	30.49%	33.60%	96.71%	14.96%	(19.52)%	16.22%	126.11%
County of Stafford	31.00%	33.28%	26.64%	3.30%	2.08%	21.63%	26.71%	103.73%	15.68%	6.53%	10.41%	162.35%
County of Surry	59.41%	87.49%	52.22%	(12.11)%	0.52%	80.22%	76.10%	105.41%	7.14%	(0.23)%	12.37%	1.26%
County of Sussex	31.34%	45.10%	32.28%	4.47%	1.36%	26.50%	24.91%	108.07%	7.16%	0.68%	22.72%	0.00%
County of Tazewell	9.03%	23.84%	12.02%	(28.32)%	0.17%	17.70%	17.29%	103.02%	4.77%	9.70%	30.48%	7.08%
County of Warren	26.23%	18.49%	47.85%	4.15%	2.36%	17.35%	18.31%	94.93%	15.86%	(14.03)%	19.37%	0.00%
County of Washington	26.72%	75.74%	33.63%	7.51%	0.49%	30.69%	31.44%	100.73%	4.78%	5.58%	22.49%	0.00%
County of Westmoreland	44.47%	47.41%	48.49%	8.69%	0.37%	48.37%	52.42%	102.46%	4.40%	8.75%	23.40%	85.84%
County of Wise	61.78%	33.04%	37.85%	10.62%	1.86%	32.12%	40.14%	102.93%	7.27%	(11.88)%	33.96%	12.50%
County of Wythe	148.03%	80.95%	178.98%	6.86%	1.67%	107.02%	116.93%	95.99%	8.27%	25.79%	28.43%	112.76%
County of York	36.28%	58.48%	40.16%	5.30%	0.68%	29.48%	33.29%	113.54%	8.86%	0.08%	10.57%	112.68%
Town of Abingdon	26.66%	46.87%	51.55%	7.61%	0.53%	32.52%	32.75%	100.79%	3.55%	3.39%	19.81%	109.47%
Town of Ashland	114.56%	893.66%	107.75%	5.81%	0.00%	66.52%	57.97%	114.75%	0.00%	(4.81)%	27.24%	0.00%
Town of Bedford	29.04%	58.36%	45.50%	7.60%	2.83%	22.70%	82.32%	102.37%	13.43%	181.15%	22.60%	108.93%
Town of Berryville*	186.44%	102.78%	206.82%	2.28%	N/A	115.29%	95.74%	126.62%	3.28%	30.01%	25.21%	102.91%
Town of Big Stone Gap	23.60%	23.46%	43.17%	0.95%	2.34%	15.73%	53.93%	102.28%	3.15%	(8.11)%	35.20%	94.33%
Town of Blacksburg	28.98%	61.66%	40.82%	3.60%	0.94%	19.30%	18.67%	123.96%	8.12%	17.86%	14.90%	106.34%

Financial Ratio Results by Locality

Appendix B

Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
Town of Blackstone	29.71%	39.64%	51.79%	14.63%	0.95%	4.03%	5.03%	102.61%	7.06%	(110.19)%	26.39%	127.62%
Town of Bluefield	43.91%	59.86%	51.05%	4.11%	1.18%	59.33%	62.83%	94.44%	6.96%	3.71%	23.64%	94.18%
Town of Bridgewater	(13.33)%	11.22%	6.22%	5.75%	0.82%	7.53%	9.54%	79.02%	5.28%	334.10%	36.25%	125.66%
Town of Broadway*	(5.45)%	4.41%	20.86%	3.15%	N/A	(0.57)%	0.00%	88.85%	3.45%	0.00%	28.33%	106.50%
Town of Christiansburg	77.07%	144.23%	86.26%	4.71%	0.74%	134.43%	111.23%	121.36%	3.49%	(3.35)%	17.64%	130.45%
Town of Clifton Forge	46.38%	47.80%	65.95%	38.83%	0.31%	4.78%	5.68%	95.38%	2.92%	65.34%	60.14%	165.69%
Town of Colonial Beach*	(0.27)%	14.77%	19.44%	(3.76)%	N/A	21.96%	28.78%	88.67%	8.80%	(4.62)%	19.30%	109.84%
Town of Culpeper	64.52%	65.83%	93.64%	15.76%	2.25%	84.50%	79.16%	110.24%	9.29%	57.09%	15.14%	158.16%
Town of Dumfries	78.36%	40.48%	84.99%	2.63%	1.28%	36.31%	92.45%	43.29%	12.13%	(6.75)%	20.65%	0.00%
Town of Farmville	20.88%	29.74%	33.27%	13.13%	2.53%	31.61%	35.34%	90.07%	15.42%	(25.44)%	10.09%	135.59%
Town of Front Royal	86.18%	76.12%	93.14%	1.47%	0.00%	56.40%	88.90%	86.52%	0.00%	(16.16)%	50.76%	122.43%
Town of Herndon	65.84%	181.38%	75.76%	3.61%	0.27%	42.60%	42.03%	105.28%	4.31%	9.11%	12.81%	106.93%
Town of Leesburg	66.43%	50.97%	69.58%	5.62%	1.57%	50.98%	52.69%	100.12%	14.22%	17.95%	27.54%	138.14%
Town of Luray	44.35%	34.80%	59.06%	6.44%	2.46%	53.67%	59.91%	91.46%	6.42%	9.54%	34.54%	105.16%
Town of Marion	(30.08)%	8.57%	2.33%	(9.31)%	1.55%	(9.09)%	(9.76)%	77.17%	6.26%	(542.61)%	28.18%	168.34%
Town of Orange	22.86%	19.27%	37.13%	0.18%	0.92%	63.72%	56.23%	114.43%	3.93%	29.42%	40.11%	88.95%
Town of Pulaski	10.45%	39.19%	10.79%	(7.96)%	1.55%	16.91%	19.47%	96.17%	8.78%	2.68%	34.09%	102.72%
Town of Purcellville	101.70%	31.66%	105.94%	8.07%	3.95%	56.05%	58.07%	108.42%	37.66%	(22.57)%	13.15%	157.77%
Town of Richlands	26.52%	126.67%	40.24%	(2.65)%	0.57%	2.98%	8.02%	98.93%	0.68%	(1.17)%	32.15%	96.03%
Town of Rocky Mount	86.06%	122.13%	82.93%	(0.97)%	0.37%	105.29%	113.81%	94.11%	5.52%	(4.51)%	28.20%	108.51%
Town of Smithfield	92.89%	125.72%	114.94%	1.98%	0.68%	78.45%	88.21%	109.86%	4.02%	32.31%	11.80%	128.51%
Town of South Boston	42.45%	35.76%	31.57%	47.07%	2.25%	86.98%	92.38%	99.97%	13.50%	66.45%	28.15%	0.00%
Town of South Hill	169.15%	801.33%	190.16%	7.18%	0.45%	182.12%	193.20%	94.26%	2.60%	(3.29)%	18.19%	138.03%
Town of Strasburg	55.12%	25.09%	80.03%	3.56%	1.78%	38.62%	50.84%	112.93%	4.44%	(0.94)%	30.49%	104.29%
Town of Tazewell	(26.56)%	9.61%	0.80%	6.42%	0.50%	0.10%	3.33%	87.63%	12.54%	100.66%	44.88%	96.43%
Town of Vienna	39.59%	61.56%	48.32%	5.74%	0.57%	25.58%	37.29%	98.00%	12.04%	2.46%	14.52%	114.34%
Town of Vinton	33.15%	51.21%	40.01%	4.63%	0.81%	34.52%	40.00%	103.94%	6.45%	3.78%	22.65%	103.63%
Town of Warrenton	95.68%	86.77%	97.91%	(0.48)%	1.09%	76.86%	93.49%	96.87%	4.87%	(8.23)%	22.52%	102.91%
Town of West Point	70.55%	100.66%	82.97%	11.79%	1.96%	69.87%	67.70%	111.50%	4.60%	27.10%	11.72%	136.23%
Town of Wise	98.90%	313.24%	104.00%	2.78%	0.77%	187.25%	157.47%	126.72%	0.00%	9.75%	20.65%	103.35%
Town of Woodstock	47.65%	28.86%	62.60%	3.27%	3.48%	62.75%	67.20%	102.75%	2.37%	(8.45)%	18.96%	117.59%
Town of Wytheville	72.10%	64.13%	77.52%	9.76%	2.52%	59.63%	94.11%	91.32%	5.58%	(44.91)%	32.04%	110.56%

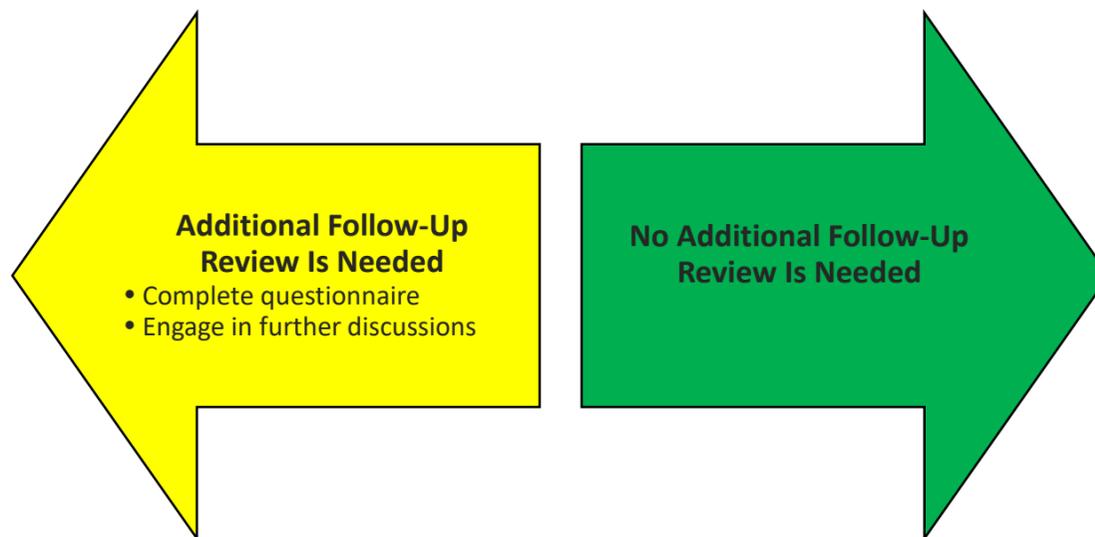
* Ratio five was not calculated for the Towns of Berryville, Broadway, and Colonial Beach due to the town's valuation data for real estate, personal property, and public service corporations not being readily available for our analysis.

As discussed on page 5 of the report, the Office’s updated model includes a second component, which involves an additional assessment of demographic and other external, qualitative factors as part of our final evaluation to identify a locality for further review and our follow-up process. The qualitative evaluation focuses only on those localities we have identified in the ratio analysis as coming above our established threshold of total cumulative points for the 12 ratios. The following information provides a summary of the primary factors the Office evaluates as part of our demographic and qualitative analysis.

	<p>Population growth or decline based on the most recent count from the U.S. Census Bureau, compared to a three-year trend of local population estimates published by the University of Virginia Weldon Cooper Center</p>
	<p>Three-year trend of local unemployment rate compared to the national and Virginia averages, as published by the Virginia Employment Commission and U.S. Bureau of Labor Statistics</p>
	<p>Three-year trend of local median household income compared to the national and Virginia averages, as published by the U.S. Census Bureau</p>
	<p>Three-year trend of local poverty rate compared to the national and Virginia averages, as published by the U.S. Census Bureau</p>
	<p>Three-year trend in assessed value of the locality’s tax base for the total value of real estate, tangible personal property, and public service corporations, as published annually by the Virginia Department of Taxation</p>
	<p>Three-year trend in the locality’s fiscal stress ranking and class designations, as published annually by the Commission on Local Government</p>
	<p>Three-year trend of the locality’s percent of actual local expenditures above the Required Local Effort and Required Local Match, and the Composite Index of Local Ability to Pay, as published by the Virginia Department of Education</p>
	<p>Other external, economic, or qualitative factors through analysis of audited financial reports and monitoring external sources, such as information from state and local officials, local governing body meetings, or media</p>

As discussed on page 6 of this report, the Office applies a qualitative evaluation in our updated model, instead of a quantitative or numerical score, as the overall measure for making a preliminary determination of potential fiscal distress at a locality and the need to perform additional review. In making this determination, we use two color categories, *yellow* and *green*, to illustrate the results of our analysis. Based on the results of both the ratio analysis and the qualitative analysis, we classify each locality into either one of two categories: designated as needing further follow-up through our financial assessment questionnaire review process, or designated as not needing any further follow-up. As noted in the figure below, the *yellow* category designates a locality as needing further review and follow-up with our assessment questionnaire. The *green* category designates a locality where no further review or follow-up is needed for the year.

Qualitative Categories for the Early Warning System



As discussed on page 5, the ratio and qualitative analyses are used as a starting point to make a preliminary determination of the need for our Office to perform further follow-up with a locality that appears to show signs of potential fiscal distress. Through a financial assessment questionnaire and further discussions with locality officials, our follow-up review focuses on gaining a better understanding of several key financial and other factors affecting a locality’s situation, as shown in the figure below. The financial assessment questionnaire is a key component of our follow-up process, as it is designed to examine the 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 may contribute to a locality’s results in the ratio and qualitative analyses. The Office has included the [financial assessment questionnaire](#) on our website for any locality to use as an internal self-assessment tool.



The primary objective of our follow-up process is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. We emphasize the importance of noting that the legislature has tasked our Office with developing an annual monitoring system that focuses on looking for early warning signs to determine if a locality is in fiscal distress, and make a conclusion of whether a locality needs state assistance or intervention to further assess, help stabilize, or remediate the situation. Accordingly, our annual monitoring and follow-up review process is not designed to evaluate or give an opinion on a locality’s fiscal health. The governing body and management at each locality have the responsibility for assessing and monitoring the fiscal health and stability of their locality.

If the Office’s follow-up process indicates that a locality does not appear to be in a situation of fiscal distress, our review and discussions with a locality focus on obtaining an understanding of the specific issues and factors that may have contributed to its results in our ratio and qualitative analyses, and further understand the policies and plans the locality has in place to continue to move forward and improve its financial position. On the other hand, if our follow-up process does identify a locality that is demonstrating signs of fiscal distress, our review focuses on obtaining an understanding of the extent and underlying issues causing the distress, how the locality is responding to the situation, and any policies or plans the locality should implement to move forward and improve its financial position. After completion of the follow-up review with a locality, our process then involves further evaluation of a locality’s specific situation of fiscal distress to determine if further state assistance to the locality is warranted. If necessary, the Office then formally notifies, in writing, the Governor, Money Committees, and the locality’s governing body, concerning the specific issues or actions that may require state assistance or intervention. At that point, the legislation stipulates that the Governor’s office, in consultation with the Money Committees, will administer the process of making a decision about any further consideration or action by the Commonwealth for assistance that may be appropriate to help address the locality’s fiscal distress.