



Government Fiscal Sustainability Workgroup
MSU Center for Local Government Finance and Policy
May 20, 2019 Webinar

Auditor of Public Accounts

Who We Are – Auditor of Public Accounts



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Overview of Topics

- Virginia Auditor of Public Accounts overview
 - Implementation of Virginia’s local fiscal distress monitoring
 - Current updates to the analysis and annual monitoring process
- Remarks from the City of Bristol, Virginia
 - Technical assistance the city received beginning in 2018
 - Outcomes the city has achieved and current initiatives to move forward

VIRGINIA LOCAL FISCAL DISTRESS ANALYSIS AND MONITORING PROCESS

Background

- Auditor of Public Accounts (APA) worked with the General Assembly to review locality requirements and determine expanding locality oversight to address fiscal stress indicators and implement a monitoring process
- New locality fiscal distress analysis and monitoring language created during 2017 budget session
- Requirements initially established under Chapter 836 of the 2017 Virginia Acts of Assembly, at Part 4-8.03

Requirements – Virginia Acts of Assembly, § 4-8.03 Identifying Potential Fiscal Distress

- Establish workgroup to develop criteria for a **preliminary determination** to identify potential fiscal distress
- APA to establish a prioritized early warning system
- APA to notify localities where we make a preliminary determination and need for further review
- **Based on request of local governing body or CEO**, APA may conduct a review and request additional information to determine extent of fiscal distress, if any
- APA notifies the Governor and chairs of the money committees if we are of the opinion that state assistance, oversight or targeted intervention may be needed to assist a locality, based on results of our additional follow up

Requirements – Virginia Acts of Assembly, § 4-8.03 State Assistance, Oversight, or Intervention

- After receipt of notification by APA indicating fiscal distress in a particular locality, Governor's office consults with Chairs of money committees to make the decision if state assistance, oversight, or intervention will be made prior to any expenditure of funds
- Develop a plan to specify the purpose of assistance
 - Further assess, help stabilize, or remediate the situation
 - Estimated duration, and anticipated resource needs (dollars and personnel)

2017 Local Fiscal Distress Monitoring Process

- During 2017 we used the Financial Assessment Model (FAM) to calculate 10 ratios using audited data from the localities' FY14-FY16 CAFRs
- Ratio model calculated an overall FAM score percentage for each locality
- Used the FY16 FAM score results and qualitative factors to determine need for additional follow up with 8 localities

Localities Identified For 2017 Follow Up Process

- Based on FAM scores and trends in ratio analysis
 - Two Cities
 - Four Counties
- 2 Cities also qualitatively identified based on incomplete audits and delinquent FY16 & FY17 CAFRs

Local Fiscal Distress – Follow Up Process

- Perform follow up through use of our Financial Assessment Questionnaire for localities that choose to participate
- Conduct meetings with locality officials to discuss responses and additional information
- Make a determination of whether there is a need to report to the Governor and Chairs of the money committees that the locality needs assistance
- Letter sent to each locality to summarize the results of our follow up

2017 Results of Follow Up

- Follow up review concluded 4 localities did not appear to be in a situation of fiscal distress that warrants further Commonwealth assistance
 - 1 City and 3 Counties
- One county declined to participate
- Deferred follow up for 2 cities qualitatively identified
 - Stressed more important that they finalize FY16 and FY17 audits than to respond to our questionnaire
- March 2018 published a comprehensive report on the results of this analysis and follow up process
<http://www.apa.virginia.gov/reports/LocalFiscalDistressMonitoring2017.pdf>

2017 Results of Follow Up – City of Bristol

- APA sent letter to the Governor, Secretary of Finance, and Chairs of money committees recommending Commonwealth assistance
- Primary issues identified in APA analysis and follow up discussions with Bristol
 - Issues specific to solid waste disposal fund
 - Debt and future revenues related to The Falls commercial development project
- State approved up to \$100K funding to reimburse costs for the City to hire outside consultants to address these issues

2018 Updates to Fiscal Distress Model

- No longer using overall “FAM score” percentage from prior Financial Assessment Model (FAM) as the threshold used to determine need for additional follow up with a locality
- No longer applying the FAM ranking or comparison methodology when evaluating localities’ financial ratio results
- Overview document summarizing 2018 updates to our process is available on APA’s website
http://www.apa.virginia.gov/data/download/local_government/guidelines/2018_APA_Fiscal_Distress_Model_Overview.pdf

2018 Updates to Fiscal Distress Model, cont.

- Focus of new methodology
 - Individually analyze each locality’s ratio results
 - Assign a points-based scale based on performance results of each ratio
 - Weighted points allocated for each ratio based on
 - Common industry/professional benchmarks
 - APA’s professional judgment
 - Higher number of points indicates locality showing weak/undesirable performance in ratios
 - Threshold for total ratio points used to direct further analysis using demographic and qualitative factors

2018 Updates to Fiscal Distress Model, cont.

- Re-examined prior financial ratios and added new ratios
 - 12 financial ratios in updated model
- Make any adjustments to Ratio data as needed
 - Account for how Virginia cities and counties issues debt on behalf of its school system to finance school capital assets
 - Account for any committed fund balances specifically set aside for reserves/rainy day funds

Updated Ratios — Governmental Activities and Business Type Activity Funds Government Wide Statements

Unrestricted reserves net of current liabilities compared to normal revenues

- Measures ability to make up revenue shortfalls

Unrestricted reserves compared to current liabilities

- Measures ability to pay current liabilities without need for additional revenue

Unrestricted net position compared to total expenses

- Measures ability to fund expenses in event of revenue shortfall

Change in net position

- Measures how financial position has improved or deteriorated as a result of resource flow

Total Debt vs. Total Valuation

- Measures total outstanding tax supported debt as a percentage of total tax valuation of real estate and personal property

Business Type/Enterprise Activity self-sufficiency

- Measures whether enterprise funds are self supporting, recovering full costs through charges for services or other revenues

Updated Ratios — General Fund Balance Sheet/Income Statement

Unassigned plus other
“available” fund balance
reserves compared to total
expenditures

- Measures ability to fund expenditures from reserves in event of a revenue shortfall

Total fund balance compared
to total revenues

- Measures sufficiency of reserves relative to revenue in the event of unforeseen event or revenue shortfall

Total revenues compared to
total expenditures

- Measures whether annual revenues were sufficient to pay for operations

Debt service principle and
interest compared to total
revenues

- Identifies the percent of the budget that is used or needed for repayment of debt

Change in unassigned fund
balance

- Measures whether fund balance has increased or declined from the prior year

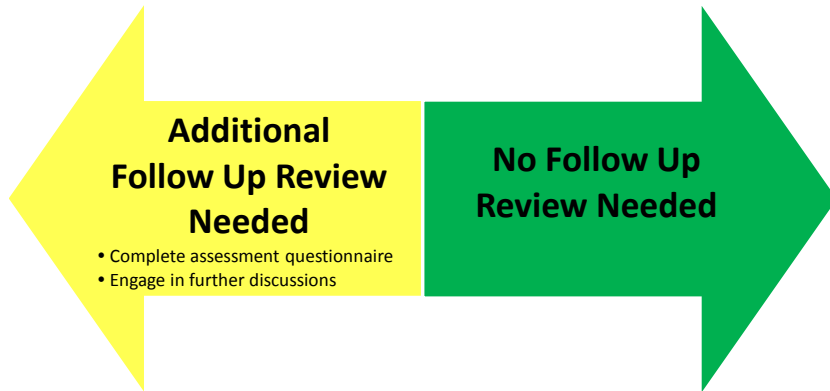
Intergovernmental revenues
compared to total operating
revenues

- Measures reliance on state and federal revenues

2018 Updates to Fiscal Distress Model, cont.

- Model includes 2nd assessment phase to review demographic, qualitative, and external factors
 - Unemployment rate, poverty rate, population growth or decline, increase or decline in tax base, changes in MHI, etc.
 - Virginia Commission on Local Government fiscal stress rankings on locality revenue capacity and effort
 - Virginia Department of Education Required Local Effort/Match calculations
 - Any other factors unique to a locality

Early Warning System Qualitative Measure for Making a Determination



Current Status of 2018 Monitoring Process

- Identified 14 localities in 2018 model based on FY2017 ratios and further qualitative analysis
 - 4 Cities, 4 Counties, and 6 Towns
- April 2019 finalized review process over completed questionnaires and follow up discussions with identified localities
 - 11 localities completed and no assistance needed
- Will soon publish formal report to summarize updates to model and results of follow up process
- Finalizing FY18 Ratio calculations and further qualitative analysis for 2019 process



**ANY
QUESTIONS?**