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
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

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
  
  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
    
    o Common industry/professional benchmarks
    
    o 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

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted reserves net of current liabilities compared to normal revenues</td>
<td>Measures ability to make up revenue shortfalls</td>
</tr>
<tr>
<td>Unrestricted reserves compared to current liabilities</td>
<td>Measures ability to pay current liabilities without need for additional revenue</td>
</tr>
<tr>
<td>Unrestricted net position compared to total expenses</td>
<td>Measures ability to fund expenses in event of revenue shortfall</td>
</tr>
<tr>
<td>Change in net position</td>
<td>Measures how financial position has improved or deteriorated as a result of resource flow</td>
</tr>
<tr>
<td>Total Debt vs. Total Valuation</td>
<td>Measures total outstanding tax supported debt as a percentage of total tax valuation of real estate and personal property</td>
</tr>
<tr>
<td>Business Type/Enterprise Activity self-sufficiency</td>
<td>Measures whether enterprise funds are self supporting, recovering full costs through charges for services or other revenues</td>
</tr>
</tbody>
</table>
### Updated Ratios — General Fund Balance Sheet/Income Statement

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unassigned plus other “available” fund balance reserves compared to total expenditures</td>
<td>Measures ability to fund expenditures from reserves in event of a revenue shortfall</td>
</tr>
<tr>
<td>Total fund balance compared to total revenues</td>
<td>Measures sufficiency of reserves relative to revenue in the event of unforeseen event or revenue shortfall</td>
</tr>
<tr>
<td>Total revenues compared to total expenditures</td>
<td>Measures whether annual revenues were sufficient to pay for operations</td>
</tr>
<tr>
<td>Debt service principle and interest compared to total revenues</td>
<td>Identifies the percent of the budget that is used or needed for repayment of debt</td>
</tr>
<tr>
<td>Change in unassigned fund balance</td>
<td>Measures whether fund balance has increased or declined from the prior year</td>
</tr>
<tr>
<td>Intergovernmental revenues compared to total operating revenues</td>
<td>Measures reliance on state and federal revenues</td>
</tr>
</tbody>
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### 2018 Updates to Fiscal Distress Model, cont.

- Model includes 2\textsuperscript{nd} 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

Additional Follow Up Review Needed
- Complete assessment questionnaire
- Engage in further discussions

No Follow Up Review Needed

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?