Commonwealth of Virginia
Auditor of Public Accounts

Rachel Reamy, CGFM
Local Government Manager
rachel.reamy@apa.virginia.gov
Virginia Early Warning System and Monitoring

• Virginia’s Appropriation Act/ State “Budget Bill” outlines the requirements at § 4-8.03 for the Commonwealth’s early warning monitoring system

• Our Office published our 2\textsuperscript{nd} annual report in June 2019 that discusses further detail on changes we made during 2018 to our ratio methodology and monitoring analysis

• Available on APA Reports website

Focus of Ratio Analysis/Methodology

- Individually analyze each locality’s ratio results
- Assign a points-based measure based on performance results of each ratio
- Weighted points allocated for each ratio based on:
  - Other state’s monitoring systems
  - Common industry/professional benchmarks
  - APA’s professional judgment
- Higher number of points indicates locality showing weak/undesirable performance in ratios
- Judgmentally set threshold for total points of all ratios to direct a second qualitative analysis
<table>
<thead>
<tr>
<th>Ratio Description</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 or utilize reserves during an unforeseen situation</td>
</tr>
<tr>
<td>Unrestricted reserves compared to total liabilities</td>
<td>Measures ability to pay 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 or unforeseen situation</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 compared to Total Tax Valuation</td>
<td>Measures total outstanding tax supported debt compared to valuation of real estate, personal property, public service corporations</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>
<tr>
<td>Ratio Description</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Unassigned &amp; Assigned 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 or unforeseen situation</td>
</tr>
<tr>
<td>Total fund balance compared to total revenues</td>
<td>- Measures ability to make up revenue shortfalls with reserves</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>
</table>
Second Assessment in Monitoring Model

- If locality comes above cumulative threshold of total ratio points, perform further review of demographic, qualitative, and external factors
  - Unemployment rate, poverty rate, population growth or decline, increase or decline in tax base, changes in MHI, etc.
  - Commission on Local Government’s 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 Preliminary Identification

Additional Follow-Up Review Needed
1. Complete financial questionnaire
2. Participate in further discussions

No Follow-Up Review Needed
Current Status of Monitoring Process

• Update on status of City of Bristol, Virginia
  – No longer designated in our early warning system as being in a situation of fiscal distress

• Release 3rd annual report to summarize 2019 monitoring process by end of May 2020
  – No new localities were identified in the 2019 analysis for our follow-up process

• Currently finalizing FY19 ratio calculations and further qualitative analysis for 2020 model
Early Warning System and Impact of COVID-19

• No new financial indicators in analysis at this time
  – Continue to monitor existing ratios that measure available reserves and sufficiency of GF revenues
  – Monitor any locality specific qualitative factors
• Based on preliminary FY19 ratio results measuring availability of general fund reserves
  – 5 cities, 3 counties, and 7 towns with low or no available reserves
• Concern with “small towns” (under 3500 population)
  – Not required to have an annual audit
  – Not included in our analysis unless town requests
  – If town voluntarily elects to have an audit, now required to submit audit results to our Office