



Commonwealth of Virginia
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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 2nd 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

<http://www.apa.virginia.gov/reports/LocalFiscalDistressMonitoring2018.pdf>

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

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 or utilize reserves during an unforeseen situation

Unrestricted reserves compared to total liabilities

- Measures ability to pay liabilities without need for additional revenue

Unrestricted net position compared to total expenses

- Measures ability to fund expenses in event of revenue shortfall or unforeseen situation

Change in net position

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

Total Debt compared to Total Tax Valuation

- Measures total outstanding tax supported debt compared to valuation of real estate, personal property, public service corporations

Business Type/Enterprise Activity self-sufficiency

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

Ratios — General Fund Balance Sheet/Income Statement

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

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

Total fund balance compared to total revenues

- Measures ability to make up revenue shortfalls with reserves

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

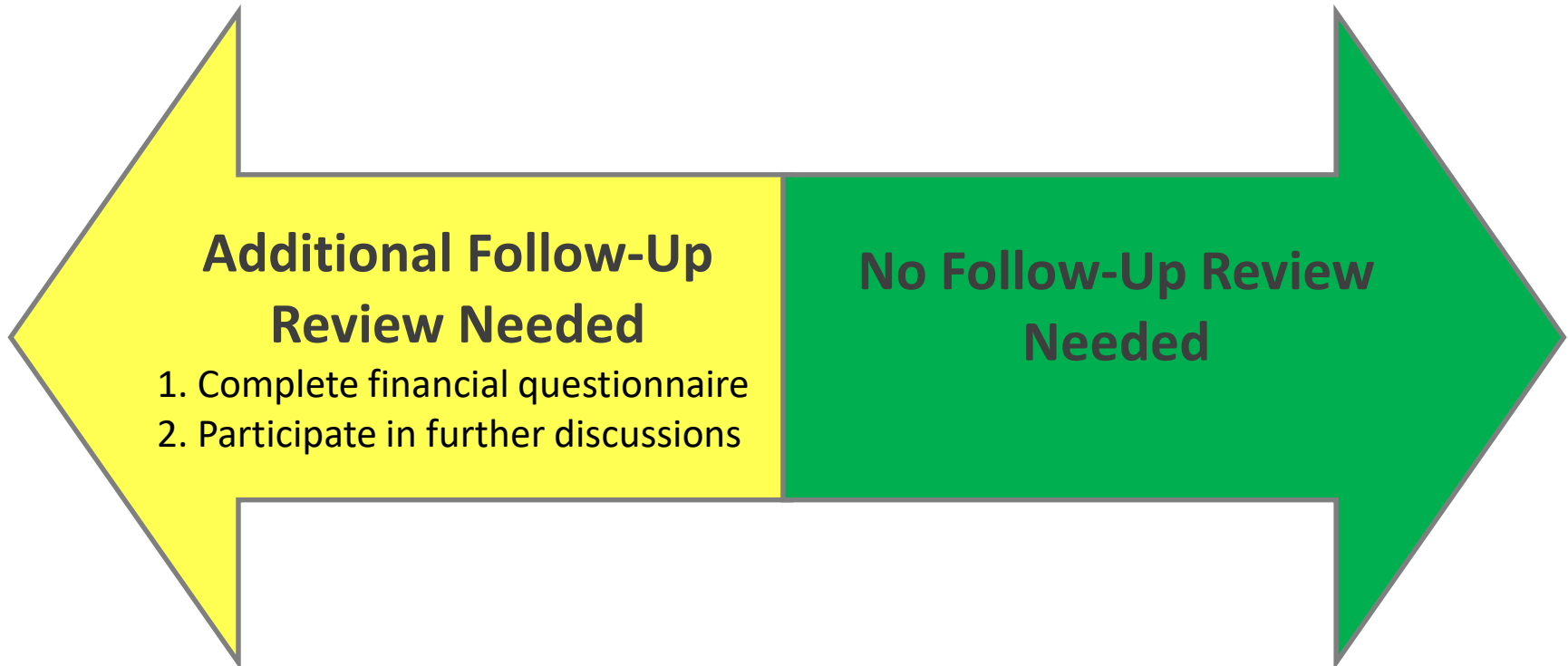
- Measures reliance on state and federal revenues

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



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