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Chapter 836, 2017 Virginia Acts of Assembly, § 4-8.03
Identifying Potential Fiscal Distress

• APA to establish workgroup to develop criteria for a preliminary determination to identify potential fiscal distress
• Workgroup members:
  – Secretary of Finance
  – House Appropriations & Senate Finance Committees
  – Commission on Local Government
  – Governor’s Deputy Chief of Staff
  – Virginia Association of Counties
  – Virginia Municipal League

• APA to establish a prioritized early warning system
• APA to notify localities where we make a preliminary determination of potential fiscal distress
  – Based upon request of local governing body or CEO, APA may conduct a review and request additional information
  – Based on results of review, APA shall notify the Governor and chairs of the money committees if APA is of the opinion that state assistance, oversight or targeted intervention is needed
After receipt of notification by APA indicating fiscal distress in a particular locality, Governor and Chairmen of HAC and SFC will create a plan for either assistance, oversight, or state intervention prior to any expenditure of funds from the cash reserve.

- Plan to specify the purpose of intervention
  - Further assess, help stabilize, or remediate the situation
  - Estimated duration, and anticipated resource needs (dollars and personnel)

Locality governing body and elected constitutional officers shall assist all state appointed staff conducting the intervention.

- Intervention staff will provide periodic reports to Governor and Chairmen of HAC and SFC outlining the scope of issues discovered and any recommendations or remediation efforts.

171 Localities (Cities, Counties, Towns) required to have annual audit and report to the APA.

- Based on LA’s “Financial Assessment Model” (FAM), calculate 10 financial ratios for each locality using audited data from CAFRs for FY14-FY16
- Model then ranks each locality’s performance by ratio and converts into percentile rankings
- Model uses average of the percentile rankings to determine overall FAM percentage or “score”
Ratios Used – from Governmental Activities and Business Type Activities Funds in Gov’t Wide Statements

- Compare unrestricted reserves net of current liabilities to normal revenues - ability to make up revenue shortfalls
- Compare unrestricted reserves to current liabilities - ability to pay current liabilities without need for additional revenue
- Compare unrestricted reserves to total liabilities - ability to pay total liabilities without need for additional revenue
- Compare revenues plus unrestricted reserves to expenses plus liabilities - ability to meet future obligations
- Compare unrestricted net position to total expenses - ability to fund expenses in event of revenue shortfall
- Compare total assets to total liabilities – measures the degree to which the assets are being financed with debt

Ratios used – from General Fund Balance Sheet and Income Statement

- Compare liquid assets to total liabilities – ability to pay liabilities without needing additional revenues
- Compare total expenditures to total liabilities – measure how well locality is paying its general fund bills
- Compare assigned & unassigned fund balances to total expenditures – measures ability to fund expenditures from reserves in event of a revenue shortfall
- Compare total fund balance to total revenues – measures sufficiency of reserves relative to revenue

APA’s Current Approach- FAM Evaluation

- APA used the FY16 FAM score result to determine need for additional follow-up with a locality
- APA set a threshold/cutoff point to perform follow-up procedures - for 2016, set at less than or equal to 16%
- APA also selected localities based on trends/significant decline or other qualitative factors
- Identified 6 localities based on current FAM score and 2 localities due to delinquent CAFR filings
FAM Trends Across Virginia Localities

Notification to Locality

• For localities that have a FAM score that causes concern, notification letter sent to
  – Governing body and Management
• Explained the FAM calculation process and cause for concern
• Explained APA’s follow up process, and potential assistance available
• Sent notification letters to all other localities to update on the new process and notify they did not fall below our threshold

APA Follow-up Questionnaire

• Follow-up to identify other qualitative, policy and management type factors potentially impacting the Locality’s ratio results and how they fell out in the model
  – Budget process
  – Debt and Borrowing
  – Expenses and Payables
  – Revenue and Receivables
  – Other Areas
    • Vacancies in key positions?
    • New systems or technology issues?
    • Results of annual audit
APA’s Current Follow-up Process

• Review completed questionnaire responses for 8 “follow-up” localities
• Schedule meeting with locality officials to discuss responses
• 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
• Report to General Assembly summarizing follow-up at all localities

APA’s Future Actions

• Refine criteria for next year as APA considers feedback from localities and workgroup members
• Consider adjustments for other unique factors impacting ratio calculations
• Incorporate CLG’s fiscal stress rankings from perspective of locality revenue capacity/effort
• Incorporate more qualitative criteria along side the 10 ratio calculations
  – Consider elements of bond rating process
• Rethink scoring process and how model classifies localities needing further follow-up versus all others
  – Received negative feedback on “FAM Score”