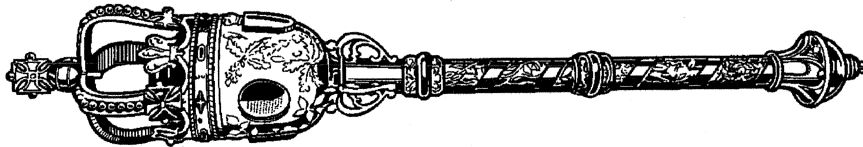


*Report of the
House Appropriations
Subcommittee*

on

Special Projects



House Bill 1500

February 5, 2017

REPORT OF THE SUBCOMMITTEE
on
SPECIAL SUBCOMMITTEE FOR
LOCAL FISCAL DISTRESS

Mr. Chairman and Members of the Committee:

The task of the Special Subcommittee for Local Fiscal Distress was to examine this phenomena and define it as it related to the Commonwealth of Virginia. When you established this Special Subcommittee and appointed me Chairman the Committee had only recently become aware of fiscal distress in one of Virginia's most historic cities. It seemed that stories were being published in the local newspapers at an increasing rate, and the Secretary of Finance had gone to investigate the situation in order to determine the level of difficulty we were all reading about. Upon hearing Secretary Brown's report to the full Committee, you acted and directed this Special Subcommittee to conduct our own inquiry into this topic. We all applaud you for your swift and decisive action.

I am pleased to report that we developed a strategy that encompassed a broad and historic analysis of this subject matter that then became refined and targeted to a more specific and contemporary perspective, as it related to the Commonwealth of Virginia. At the Committee's Annual Retreat we heard about numerous cities and localities across the nation that were suffering from this condition. The members were informed of other similar situations in other states, and how those states responded to the crises as they developed. Many states, like Virginia, were unprepared for these types of events, and they developed solutions to address their particular situations as best they could. Virginia has been lucky. We have a long tradition of fiscal conservatism and strong leadership in government, and up until recently, we had not experienced some of the severe problems many of our fellow states had experienced since the beginning of the recession in 2009.

Also at our Retreat we heard from our Commission on Local Government and its most recent analysis of Virginia's localities, and the data it provided illustrated for us a situation that was grim and held the potential for similar events to occur across the Commonwealth in regions hardest hit by the economic downturn. In addition, we listened to the state Auditor of Public Accounts, who shared with us the current system of local, fiscal monitoring, its challenges and some possible solutions that may improve our understanding of local fiscal management through increased data collection.

Following our Retreat the Subcommittee authorized a series of meetings that included the staffs of both House Appropriations and Senate Finance, Legislative Services, the office of the Secretary of Finance, the Department of Planning and Budget, the Commission on Local Government, the Department of Housing and Community Development, the Auditor's office, the Governor's office, the Virginia Association of Counties and the Virginia Municipal League. Inevitably, we asked for some private sector input from those who are in the business of getting in the trenches and sorting out the situation at the scene, no matter how challenging it may be.

Out of our discussions came several recommendations. First, Virginia needs to improve the way in which it monitors local fiscal activity. Second, we need to establish a mechanism that is responsive to situations of local fiscal distress should it occur. Third, we need to set aside resources that may be required and should be readily available at a moment's notice, should some kind of intervention become necessary.

In our budget we recommended language that establishes an improved fiscal monitoring system that will enable the Auditor to collect additional data and determine, based upon certain metrics, if a city or locality is in distress. Once this determination has been made, the Governor and the Chairmen of the House Appropriations Committee and Senate Finance Committee are to be informed of the situation. The Governor is then authorized to develop an intervention plan that includes dispatching an assessment team to conduct a more thorough review of the situation at the scene. This team will then advise the Governor and Chairmen of its analysis

and recommendation on how to proceed, whether that be further state involvement, private sector involvement or a combination of both. Last, we have put in place a method for providing limited funding to be used to facilitate the latter part of this process.

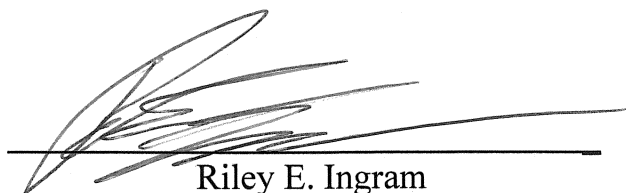
The Subcommittee is pleased to provide these three component parts to help alleviate the potential for local fiscal distress. It is important to remember that localities have significant responsibilities that include public safety, public utilities, public debt, and public schools. Each of these things touch every resident every day, so it is critical that sound fiscal management be a requisite part of local government. We would like to continue to look at these important issues in the interim session, in the hope of developing some ideas on improving local fiscal management in the regions of Virginia that may need it.

Thank you, Mr. Chairman and Members of the Committee.

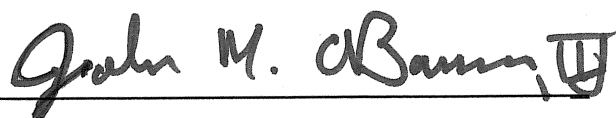
Respectfully Submitted by the House Appropriations Subcommittee on Special Projects:



R. Steven Landes, Chairman



Riley E. Ingram



John M. O'Bannon, III



Matthew James



Daun S. Hester

HB 1500
Amendment

2016-18 BIENNIAL TOTAL		
General	Nongeneral	
<u>Fund</u>	<u>Fund</u>	<u>FTE</u>

SPECIAL PROJECTS

Legislative Department

Specifications for Audits of Political Subdivisions

Language

Office of the Secreatry of Finance

Funding to Support Local Fiscal Distress Remediation

500,000

Part 4

Fiscal Distress in Local Government

Language

Legislative Department

Auditor of Public Accounts

Language

Language:

Page 13, after line 7, insert:

"E. The Auditor of Public Accounts' Specifications for Audits of Counties, Cities, and Towns and the Specifications for Audits of Authorities, Boards, and Commissions, for the independent certified public accountants auditing localities and local government entities, shall include requirements related to the communication of other internal control deficiencies or financial matters, commonly referred to as a management letter. These requirements shall include that any such communication issued by the independent certified public accountants related to other internal control deficiencies or other financial matters that merit the attention of management and the governing body must be made in the form of official, written communication."

Explanation:

(This amendment requires the Auditor of Public Accounts to provide specific guidance as to how independent auditors should communicate significant findings when they are auditing political subdivisions.)

Item 257 #1h

Finance	FY16-17	FY17-18
Secretary of Finance	\$500,000	\$0 GF

Language:

Page 234, line 3, strike "\$488,354" and insert "\$988,354".

Page 234, after line 16, insert:

"C. Out of this appropriation, \$500,000 the first year from the general fund is to be used at the discretion of the Secretary of Finance to conduct intervention and remediation efforts in situations of local fiscal distress that have been previously documented by the Office of the Secretary of Finance prior to January 1, 2017. The Secretary shall report periodically on his efforts to the Chairmen of the House Appropriations and Senate Finance Committees."

Explanation:

(This amendment provides \$500,000 from the general fund to support efforts led by the Secretary of Finance to address intervention and remediation efforts for localities that are fiscally distressed.)

Language:

§ 4-8.03 LOCAL GOVERNMENTS

a. The Auditor of Public Accounts shall establish a workgroup to develop a proposed system of financial and other indicators, from readily available data, to serve as an early warning mechanism to signal the presence of possible local fiscal distress within local governments in Virginia. Fiscal distress as used in this context is meant to describe a situation whereby the provision and sustainability of public services is threatened by various administrative and financial shortcomings including but not limited to cash flow issues, inability to pay expenses, revenue shortfalls, deficit spending, structurally imbalanced budgets, billing and revenue collection inadequacies and discrepancies, debt overload, and/or lack of trained and qualified staff to process administrative and financial transactions. Fiscal distress may be caused by factors internal to the unit of government or external to the unit of government and in various degrees such conditions may be controllable by management or uncontrollable by management.

1. For localities that fall within preliminary threshold levels of fiscal distress, as recommended by the workgroup created pursuant to paragraph a. above, the Auditor of Public Accounts shall notify the head of the local governing body and the chief administrator of the locality and request additional information to further ascertain if there is cause for state concern, based on such factors as budget processes, debt, borrowing, expenses and payables, revenues and receivables, and other areas, and, if so, the scope of the issues involved. After such follow up, if the Auditor of Public Accounts is of the opinion that state assistance, oversight, or targeted intervention is needed, either to further assess, help stabilize, or remediate the situation, the Auditor shall notify the Governor and the Chairmen of the House Appropriations Committee and the Senate Finance Committee in writing outlining specific issues or actions that need to be addressed by state intervention.

2. The notification issued by the Auditor of Public Accounts pursuant to paragraph 1. above shall satisfy the notification requirement necessary to effectuate the provisions of this act in paragraph b.3 below.

b. The Director of the Department of Planning and Budget shall identify any amounts remaining unexpended from general fund appropriations in this act as of June 30, 2017, which constitute state aid to local governments. The Director shall provide a listing of such amounts designated by item number and by program on or before August 15, 2017, to the Governor and the Chairmen of the House Appropriations Committee and the Senate Finance Committee.

1. From such unexpended balances identified by the Director of the Department of Planning and Budget, the Governor may reappropriate up to \$500,000 from amounts which would otherwise revert to the balance of the general fund to establish a component of fund balance which may be used for the purpose of providing technical assistance and intervention actions

Committee Approved Amendments to House Bill 1500, as Introduced

for local governments deemed to be fiscally distressed and in need of intervention to address such distress. Any such reappropriation approved by the Governor, shall be separately identified in the commitments specified on the balance sheet and financial statements of the State Comptroller for the close of fiscal year 2017 and thereafter, to the extent that such reserve is not used or added to by future appropriation actions.

2. Prior to any expenditure of the reappropriated reserve, the Governor and the Chairmen of the House Appropriations Committee and the Senate Finance Committee must receive a notification from the Auditor of Public Accounts that a specific locality is in need of intervention because of a worsening financial situation. The Auditor of Public Accounts may issue such a notification upon receipt of audited financial or other information that indicates the existence of fiscal distress. But, no such notification shall be made until appropriate follow up and correspondence ascertains that, in the opinion of the Auditor of Public Accounts, such fiscal distress indeed exists. Such notification may also be issued by the Auditor of Public Accounts if written concerns raised about fiscal distress are not adequately addressed by the locality in question.

3. Once the Governor has received a notification from the Auditor of Public Accounts indicating fiscal distress in a specific local government, the Governor shall consult with the Chairmen of the House Appropriations Committee and the Senate Finance Committee about a plan for state intervention prior to any expenditure of funds from the cash reserve. Any plan approved by the Governor for intervention should, at a minimum, specify the purpose of such intervention, the estimated duration of the intervention, and the anticipated resources (dollars and personnel) directed toward such effort. The staffing necessary to carry out the intervention plan may be assembled from either public agencies or private entities or both and the Governor may use an expedited method of procurement (sole source) to secure such staffing when, in his judgment, the need for intervention is of an emergency nature such that action must be taken in a timely manner to avoid or address unacceptable financial risks to the Commonwealth.

4. The governing body and the elected Constitutional Officers of a locality subject to an intervention plan approved by the Governor shall assist all state appointed staff conducting the intervention regardless of whether such staff are from public agencies or private entities. Intervention staff shall provide periodic reports in writing to the Governor and the Chairmen of the House Appropriations Committee and the Senate Finance Committee outlining the scope of issues discovered and any progress to remediate such issues. These periodic reports shall specifically address the degree of cooperation the intervention team is receiving from locally elected officials, including constitutional officers, city, county, or town managers and other local personnel in regards to their intervention work.

5. The Department of General Services is hereby encouraged to develop a master contract of qualified private sector turnaround specialists that the Governor can use to procure intervention services in an expeditious manner when he determines that state intervention is warranted in situations of local fiscal distress.

Explanation:

(This amendment establishes a system to monitor potential fiscal distress among local

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governments and provides a mechanism for potential state and private sector assistance, including funding resources, to be coordinated by the legislative and executive branches and managed by the Office of the Governor.)
