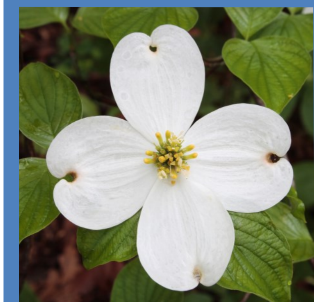

LOCAL GOVERNMENT
FISCAL DISTRESS MONITORING

JUNE 2019

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EXECUTIVE SUMMARY

The Virginia Acts of Assembly directs the Auditor of Public Accounts (Office) to establish a prioritized early warning system and annually monitor data and information from this system to identify potential fiscal distress within local governments across Virginia. During our first year of implementation in 2017, the Office used the Financial Assessment Model (FAM), which calculated an overall score for each locality based on the results of calculating ten financial ratios. We then evaluated the FAM score ratio results, along with consideration of other qualitative factors, to make our preliminary determination of the need to perform further follow up with a locality that appeared to show signs of potential fiscal distress.

During 2018, the Office revised the ratio analysis to calculate 12 financial ratios and assign a points-based evaluation according to each ratio's result. We set a threshold to subject those localities that receive 30 total ratio points or higher to a second phase of the model that focuses on an additional assessment of demographic and other qualitative factors.

During 2018, the Office worked on several areas to improve and enhance the ratio methodology and overall approach to our fiscal distress monitoring model. Primarily, we determined the need to change our approach to how we analyze each locality's financial ratio results. We are no longer using the 2017 FAM model when evaluating the financial ratio results, and no longer applying a calculated FAM score percentage as the threshold to determine the need for additional follow up with a locality. We revised the 2018 ratio analysis to focus on a new methodology to analyze each locality's ratio performance on an individual basis, and not compare the ratio results from one locality to another. The revised 2018 model calculates 12 financial ratios and assigns a points-based evaluation according to each ratio's result. Points are assigned for each ratio according to how the ratio performs in general at a level of either strong, adequate, or weak. Overall, a higher number of points for each ratio, and in total for all ratios combined, indicates the locality is generally showing a weak or undesirable performance in the ratio analysis. After analyzing each locality's points cumulatively for all ratios, we then perform further qualitative analysis on the localities that are scoring a high number of points. For the 2018 ratio analysis, we set a threshold to subject those localities that receive 30 total ratio points or higher to the second phase of the model, which is discussed further below.

We have updated the model to include a second phase, which involves an additional assessment of demographic and other external, qualitative factors as part of our final evaluation to identify a locality for additional follow up through our financial assessment questionnaire and further discussions with the locality. This qualitative evaluation focuses only on those localities we have identified in the ratio analysis as coming above our points threshold total for the 12 ratios. The qualitative analysis reviews trends in demographic factors, such as growth or decline in population, median household income, unemployment rate, poverty rate, and the assessed value of a locality's real estate and personal property. Additionally, our qualitative analysis incorporates trends from other local government assessments performed each year by state entities to meet other monitoring objectives, such as the analyses from the Commission on Local Government and the Virginia Department of Education. Lastly, the qualitative analysis incorporates any external, economic, or other qualitative information that may come to our attention about a specific locality. Based on the results of both the ratio analysis and the qualitative analysis, each locality is classified into either one of two categories: identified as needing further follow up through our financial assessment questionnaire review process, or not identified as needing any further follow up.

During 2018, we completed the first phase of our analysis, calculating the 12 financial ratios based on the audited fiscal year 2017 financial report data for the cities, counties, and towns required by statute to have an audit. We then performed our qualitative analysis of applicable localities identified in the ratio analysis as coming above the 30-point threshold. We identified 14 localities as needing further follow up through our review process: the Cities of Buena Vista, Manassas Park, Martinsville, and Norton; the Counties of Cumberland, Page, Patrick, and Russell; and the Towns of Big Stone Gap, Bridgewater, Broadway, Marion, Richlands, and Tazewell. For these 14 localities, we sent written notification to inform the local governing body and management of our identification and preliminary determination to perform further review based on the results of our ratio and qualitative analyses. This communication explained that the locality must notify our Office regarding its decision to allow our further review of its financial position through completion of our follow up financial assessment questionnaire and further discussions. In addition, we again qualitatively identified the City of Hopewell. We were not able to evaluate Hopewell in our new model, as the city remained delinquent in completing its 2017 and 2018 annual financial reports as of the date of this report. Accordingly, we continued to defer our follow up process with Hopewell until the city submits its outstanding financial reporting requirements.

For the 14 localities identified for follow up during our 2018 analysis, the Office reviewed completed financial assessment questionnaires and held additional follow up discussions with 11 localities, which include the Cities of Manassas Park, Martinsville, and Norton; the Counties of Page, Patrick, and Russell; and the Towns of Bridgewater, Broadway, Marion, Richlands, and Tazewell. Based on our final reviews and follow up process completed with these 11 localities, the Office has concluded that these localities do not appear to be in a situation of fiscal distress that would warrant assistance or intervention from the Commonwealth. Accordingly, as of the date of this report, the Office made no further notification or recommendation for any other locality relating to fiscal distress. In addition, our Office has deferred the follow up process until a later time during 2019 with the City of Buena Vista, County of Cumberland, and Town of Big Stone Gap. Officials for these three localities have responded to our initial inquiries and conveyed their desire to participate in our process; however, various factors have currently delayed the localities' completion of the financial assessment questionnaires. The Office will resume our follow up process with these localities during our 2019 monitoring process and report accordingly when their reviews are complete.

During 2018, the Office identified 14 localities as needing further follow up through our review process. We reviewed completed financial assessment questionnaires and held additional follow up discussions with 11 of the 14 localities, and concluded that these localities do not appear to be in a situation of fiscal distress that would warrant assistance from the Commonwealth.

- T A B L E O F C O N T E N T S –

LOCAL GOVERNMENT FISCAL DISTRESS MONITORING

Background

Chapter 1 of the 2018 Virginia Acts of Assembly, Item 4-8.03, (Chapter 1) sets out the requirements and parameters for Virginia's early warning monitoring system focused on identifying local government fiscal distress. The definition of *fiscal distress,* as defined in the context of Item 4-8.03, refers to a local government's situation where the provision and sustainability of public services is threatened by various administrative and financial shortcomings, including but not limited to:

- cash flow issues, structurally imbalanced budgets, debt overload, deficit spending, and inability to pay expenses;
- revenue shortfalls and billing and revenue collection inadequacies and discrepancies;
- inability to meet obligations to authorities, school divisions, or political subdivisions of the Commonwealth; and/or
- lack of trained and qualified staff to process administrative and financial transactions.

Chapter 1 directs the Auditor of Public Accounts (Office) to develop criteria for making a preliminary determination of local government fiscal distress based on audited financial statements, other financial data, and nonfinancial factors. Further, the Office is charged with establishing a prioritized early warning system based on the established criteria and monitoring the data and information on an annual basis to identify potential fiscal distress within localities across Virginia. Should the Office make a preliminary determination of potential fiscal distress at a locality, we are required to notify the local governing body and chief executive officer of our preliminary determination. Based on the request from the local governing body or chief executive officer, the Office will perform a more detailed review of the locality in order to determine the extent of any fiscal distress. This detailed review will consider such factors as budget processes, debt, borrowing, expenses and payables, revenues and receivables, staffing, and any other external variables contributing to a locality's financial position. If the Office determines that a locality is experiencing a situation of fiscal distress, we are required to notify the Governor, Chairmen of House Appropriations and Senate Finance Committees (Money Committees), and the local governing body regarding the specific areas our Office has evaluated and concluded that state assistance, oversight, or targeted intervention may be needed to further assess, help stabilize, or remediate a locality's situation.

Summary of 2017 Process and Follow Up with Localities

During our first year of implementation in 2017, we developed criteria for making a preliminary determination of fiscal distress based on an analysis of calculating ten key financial ratios using audited financial data from the localities' annual financial reports, as well as considering other qualitative factors, for the 171 localities required to annually report to our Office. This ratio analysis, referred to as the Financial Assessment Model (FAM), calculated an overall score for each locality, which was based on an average of the ten ratio results compared and ranked against all localities' ratio results. In this model, our Office evaluated each locality's ratios and FAM score results over a three-year trend for fiscal years 2014, 2015, and 2016. Using the fiscal year 2016 results, we developed a threshold to use as an indicator for making our preliminary determination of the need to perform further follow up with a locality that appeared to show signs of potential fiscal distress based on the ratio analysis. For all cities, counties, and the two towns having a separate school system, we set the threshold at a FAM score of less than or equal to 16 percent.

Based on the results of the FAM analysis in 2017, the Office identified eight localities for additional follow up review. These localities included the Cities of Bristol and Richmond, and the Counties of Giles, Northumberland, Page, and Richmond. Additionally, we qualitatively identified the Cities of Hopewell and Manassas Park since they remained delinquent in submitting their 2016 and 2017 annual financial reports at the time of our analysis; therefore, we could not evaluate their data in our ratio model. For the eight localities where we made a determination of the need to perform additional follow up, we sent written notification to inform the local governing body and management of our identification and preliminary determination to perform further review based on the results of the FAM analysis. This communication explained that the locality must notify our Office regarding its decision to allow our additional follow up review through completion of an assessment questionnaire and further discussions. Our additional review process is discussed in further detail in the Follow Up Review Process section of the report.

The Office performed a review of the completed questionnaires and held additional follow up discussions with locality officials for the Cities of Bristol and Richmond, and the Counties of Giles, Northumberland, and Richmond. The Office did not perform follow up with the County of Page, as the county declined our request to complete the questionnaire and participate in our further review. However, the County of Page did elect to participate in our follow up review during our 2018 process, as discussed in further detail in this report.

In addition, the Office deferred further review and follow up with the Cities of Hopewell and Manassas Park, as they were still working during 2018 to finalize their fiscal year 2016 and 2017 annual financial reports. The City of Manassas Park completed and submitted their outstanding 2016 and 2017 financial reports during 2018. We analyzed the city as part of our updated ratio model and performed a follow up review, as discussed in further detail in this report. As of the date of this report, we have not calculated the new model ratios for the City of Hopewell, as they remained delinquent in completing their fiscal year 2017 and 2018 audits and financial reports. Accordingly, we again qualitatively identified Hopewell as part of the 2018 analysis, which is pending further review until we receive their outstanding financial reports, as discussed in the Results of Locality Follow Up Reviews section of this report.

During our follow up process in 2017 with the City of Richmond and the Counties of Giles, Northumberland and Richmond, we obtained an understanding of the specific issues and factors that contributed to their low FAM score results or significant downward trends in our ratio analysis. We also discussed the policies and strategies the localities have in place to continue to move forward and improve their financial position. As a result of this follow up, the Office concluded that these four localities do not appear to be experiencing a situation of fiscal distress that would warrant further assistance or intervention from the Commonwealth. Accordingly, our Office made no further notification or recommendation relating to fiscal distress. As detailed in the March 2018 Local Government Fiscal Distress Monitoring Report, we describe additional details on the methodology and FAM ratio analysis that our Office implemented in 2017 when first developing an early warning monitoring system. This report also provides extensive detail on our 2017 follow up process, to include specific information and factors that we discovered and discussed with the identified localities based on their individual performance in our analysis.

City of Bristol

During follow up with the City of Bristol in 2017 and early 2018, our Office observed two primary issues that we concluded are contributing to a situation of fiscal distress at the city: issues specific to the operational sustainability of its solid waste disposal fund and the debt and future revenues related to The Falls commercial development project. Accordingly, we issued written notification to the Governor, Money Committees, Secretary of Finance, and city officials, detailing the specific issues and recommending that Bristol receive further assistance from the Commonwealth to help assess and stabilize the city's financial situation. In early 2018, members of the offices of the Governor and Secretary of Finance had further discussions with our Office and the City of Bristol, which resulted in a recommendation from the Secretary of Finance to the Governor and Money Committees to approve Commonwealth assistance to the city. In April 2018, the Secretary of Finance notified Bristol city officials of the Governor's approval to provide Commonwealth assistance in the form of state funding to reimburse the city for actual costs, up to $100,000. This funding was approved for the city to hire two professional consultants to provide an assessment of the city's solid waste fund, along with a long-term financial assessment of The Falls commercial development project.

During the 2017 monitoring process, our Office identified the City of Bristol as being in a situation of fiscal distress; therefore, we recommended that the city receive assistance from the Commonwealth to help further assess and stabilize the city's financial situation. In early 2018, the Governor and Money Committees approved providing Commonwealth assistance to the city in the form of funding to support the costs of hiring two professional consultants to provide an assessment of the city's solid waste fund, along with a long-term financial assessment of The Falls commercial development project.

In 2019, the Bristol City Manager provided an update on the assistance the city has received and the outcomes achieved related to the consultants' studies on the landfill and The Falls commercial development project. At the Bristol City Council meeting on January 8, 2019, the City Manager and the engineering consultants updated City Council with the results of the landfill study and the actions that the city should consider in order to implement a long-term plan of financial sustainability for the solid waste enterprise fund. This plan focuses on the city increasing rates and tipping fees, to overall address the fund's increasing debt service payments, operating and capital requirements, and dependence on general fund transfers, along with addressing the city's need to start accruing reserves for state mandated closure and post-closure costs. Additionally, in May 2019, the Bristol City Manager provided an update on The Falls commercial development project, as part of a public presentation with our Office for a national Government Fiscal Sustainability Workgroup hosted by the Michigan State University Extension Center for Local Government Finance and Policy. The City Manager discussed that the consultant's study on The Falls development project primarily focused on long term planning for economic development in Bristol, to include focusing on key market sectors and businesses to assist The Falls project as it moves forward to completion over the next several years. The City Manager commented that this consultant's study was recently completed, and the report was in draft form at the time of our presentation.

Refinements during 2018 to the Early Warning System Model

In support of the local fiscal distress monitoring process, our Office continued to perform a number of outreach efforts during 2018 to actively correspond with and educate the localities, and keep all stakeholders well informed of this process. The Office made presentations to multiple state, local, and national groups including the Joint Subcommittee on Local Government Fiscal Stress, Virginia Government Finance Officers' Association, and a national Government Sustainability Workgroup hosted by the Michigan State University Extension Center for Local Government Finance and Policy. We also had multiple meetings and discussions with officials from the individual localities identified for follow up review during 2017 and 2018. As a result of this outreach, our Office continued to receive valuable feedback and additional insight to consider and assist our efforts as we moved forward in 2018 with implementing various refinements to enhance our ratio analysis and develop a more precise model for annually monitoring and identifying potential fiscal distress at Virginia local governments.

Updated Ratio Analysis

During 2018, the Office worked on several areas to improve and enhance the ratio methodology and overall approach to our fiscal distress monitoring model. Primarily, we determined the need to change our approach to how we analyze each locality's financial ratio performance results. In particular, we decided no longer to use the FAM model from our 2017 process. Based on numerous feedback the Office received about the original FAM analysis, we noted a prevalent misunderstanding about our use and the intent of the FAM score calculation. As a result of this misunderstanding, some stakeholders and localities were inappropriately applying the FAM scores; for example, using the scores to compare localities better

> *During 2018, the Office worked on several improvements to enhance our overall approach to the fiscal distress monitoring model. Based on feedback we received about the original FAM analysis, we are no longer applying a FAM score percentage as the threshold to determine additional follow up with a locality, and no longer using a ranking or comparison methodology when evaluating the financial ratio results.*

or worse against each other or interpreting a higher FAM score to mean it was a rating of fiscal health, which was contrary to the intent of our analysis. Accordingly, during 2018 and going forward for future analysis, we are no longer applying a calculated FAM score percentage as the threshold to determine the need for additional follow up with a locality. Further, we are no longer using the FAM ranking or comparison methodology when evaluating the financial ratio results.

For 2018, we revised our ratio analysis to focus on a new methodology to analyze each locality's ratio performance on an individual basis, and not compare the ratio results from one locality to another. Again using data directly from the audited annual financial reports, the new methodology calculates financial ratios for each locality. Based on the performance of the ratios, the model assigns a points based, quantifiable evaluation of the ratio's performance depending on varying percentage levels. For example, if Ratio *X* indicates a weak or undesirable outcome, this ratio receives the maximum level of points assigned and weighted for that ratio. Conversely, if the performance outcome of Ratio *X* demonstrates a stronger, desirable outcome, this ratio receives no points. If the performance outcome demonstrates a fair or adequate level of performance, Ratio *X* receives an amount of points somewhere in between the lowest and highest levels.

In the points based evaluation, each ratio is weighted according to the ratio's relative importance, which the Office has internally established based on our prior year analysis, discussions with Virginia state and local professionals, research of other states' models, and our general understanding of the data and ratios for Virginia's localities. Our judgment and considerations applied to the ratio percentage levels for weak, adequate, or strong performance results are based on our research and discussions with other states and professional groups, and review of common industry benchmarks established by professionals, such as those set by bond rating agencies and similar fiscal analysis from organizations like the International City/County Management Association. Overall, a higher number of points for each ratio, and in total for all ratios combined, indicates the locality is generally showing a weak or undesirable performance in the ratio analysis. After analyzing each locality's points cumulatively for all ratios, we then perform further qualitative analysis on the localities that are scoring a high number of points. For the 2018 analysis, we set a threshold to review those localities receiving 30 total ratio points or higher as part of our second phase of the model, which reviews demographic and other qualitative factors, as discussed in further detail below. Appendix A at the end of this report gives additional information on the weighting of each ratio and the points assigned for each ratio based on applicable levels of performance.

During 2018, the Office revised our ratio analysis to focus on a new methodology to analyze each locality's ratio performance on an individual basis. Based on the performance of the ratios, the ratio model assigns a points based, quantifiable evaluation of the ratio's performance depending on varying percentage levels. Points are assigned for each ratio according to how the ratio performs in general at a level of either strong, adequate, or weak. Overall, a higher number of points for each ratio, and in total for all ratios combined, indicates the locality is generally showing a weak or undesirable performance in the ratio analysis.

As additional updates to the model in 2018, we reexamined the original ten ratios that were calculated in the 2017 FAM score model, as detailed in the March 2018 Local Government Fiscal Distress Monitoring Report. We determined there was duplicative analysis across some of the ten ratios and that certain ratios may not be the most beneficial for our analysis. Accordingly, we updated our analysis to include new ratios to look at different factors. We kept five ratios from the prior FAM analysis, which captured the main issues discussed during the follow up process with the localities identified in 2017. We added seven new ratios to our 2018 analysis, to include ratios that analyze the change in overall net position and unassigned fund balance from year to year; an operations ratio that measures whether a locality's annual revenues were sufficient to pay for annual operations; and ratios that examine a locality's outstanding debt level and annual debt service payments. Finally, we added a new ratio that looks at the locality's dependency on other governmental revenues from state and federal funds, along with a ratio that examines a locality's business type, enterprise activity and whether those activities are self-sustaining from year to year. These enterprise activities may include water and sewer, landfill, storm water, or other non-essential activities such as a golf course or theater.

Figure 1 on the following page describes the twelve ratios included in the updated ratio analysis. The first five ratios are calculated using audited data from a locality's overall financial statement of net position and statement of activities for all governmental and business type activities combined. Ratios six through 11 are calculated using audited data from the balance sheet and income statement of a locality's general fund—its primary operating fund. In some instances, ratio nine is calculated using audited data from a locality's separate debt service fund, if applicable to the locality. Ratio 12 is calculated based on audited data from the income statement for any enterprise funds, if applicable to the locality. Appendix A at the end of this report gives additional information on the detailed calculations for each ratio, along with a further description and interpretation of each ratio's results.

Financial Ratio Analysis

Figure 1

Ratio 1
- Compares unrestricted reserves net of current liabilities to normal revenues – measures the locality's ability to make up revenue shortfalls or utilize unrestricted reserves during an unforeseen situation *(Government-wide Activity)*

Ratio 2
- Compares unrestricted reserves to total liabilities – measures the locality's ability to pay total liabilities without the need for additional revenue *(Government-wide Activity)*

Ratio 3
- Compares unrestricted net position to total expenses – measures the locality's ability to fund expenses in event of revenue shortfall or unforeseen situation *(Government-wide Activity)*

Ratio 4
- Change in net position – measures how the locality's financial position has improved or deteriorated as a result of resource flow *(Government-wide Activity)*

Ratio 5
- Compares total debt to total tax valuation – measures the locality's total outstanding tax supported debt as a percentage of total tax valuation of real estate and personal property *(Government-wide Activity)*

Ratio 6
- Compares assigned and unassigned fund balances, plus other available reserve fund balances to total expenditures – measures the locality's ability to fund expenditures from reserves in event of a revenue shortfall or unforeseen situation *(General Fund Activity)*

Ratio 7
- Compares total fund balance to total revenues – measures the locality's ability to make up revenue shortfalls with reserves *(General Fund Activity)*

Ratio 8
- Compares total revenues to total expenditures – measures whether annual revenues were sufficient to pay for operations *(General Fund Activity)*

Ratio 9
- Compares debt service principal and interest to total revenues available – identifies the percent of the locality's budget that is used or needed for repayment of debt *(General Fund and Debt Service Fund activity, if applicable)*

Ratio 10
- Change in unassigned fund balance – measures whether the locality's general fund unassigned fund balance has increased or declined from the prior year *(General Fund Activity)*

Ratio 11
- Compares intergovernmental revenues to total operating revenues – measures the locality's reliance on state and federal revenues *(General Fund Activity)*

Ratio 12
- Compares change in net position (less transfers to and from) to total expenses – measures if the locality's enterprise fund is self-sufficient and recovering the full costs through charges for services or other non-transfer revenues *(Proprietary Enterprise Fund Activity)*

As part of our 2018 ratio analysis, we also performed extensive review of the data obtained from the annual financial reports of the localities. During our calculations of the various ratios that measure total assets, total liabilities, and net position on an overall government-wide level, we examined the cities, counties, and two towns with a school system, to review how the locality issues debt on behalf of its school system to finance school owned capital assets. Based on this review, we accounted for any impact in the ratio analysis specific to how the locality has determined to report the related jointly owned school assets under Virginia's *tenancy in common* provision in accordance with § 15.2-1800.1 of the Code of Virginia. Further, we examined each locality's annual financial report to determine if a locality has established a policy to set aside specific reserves or fund balance as a revenue stabilization fund, or "rainy day fund," to use specifically in the event of a revenue shortfall or unforeseen situation. These reserves are typically categorized as committed fund balance in accordance with governmental accounting standards; therefore, the balances are not included in the unassigned and assigned fund balance reserves data that is uniformly included in our ratio analysis for all localities. Accordingly, to ensure that the ratio analysis is measuring and accounting for a complete representation of a locality's available reserves, we made adjustments in the data to include any applicable committed fund balances specifically described as being set aside for reserves for the ratio six calculations, as noted above in Figure 1. Appendix B at the end of this report provides a summary of each locality's ratio results for the 12 ratios calculated in the 2018 analysis.

Demographic and Qualitative Analysis

In addition to the changes made to the ratio analysis described above, we updated the model to include a second phase, which involves an additional assessment of demographic and other external, qualitative factors as part of our final evaluation to identify a locality for further review as part of our follow up process. This qualitative evaluation focuses on those localities we have identified in the ratio analysis as coming above an established threshold of total points for the 12 ratios. The qualitative analysis reviews trends in demographic factors, such as growth or decline in population, median household income, and the assessed value of a locality's tax base for real estate, tangible personal property, and public service corporations; along with reviewing whether there has been a decrease or increase in factors such as unemployment rate and poverty rate. We also analyze how a locality compares to the national and state averages for several of these demographic factors.

During 2018, the Office updated the fiscal distress monitoring model to include a second phase, which involves an additional assessment of demographic and other external, qualitative factors as part of our final evaluation to identify a locality for further review as part of our follow up process.

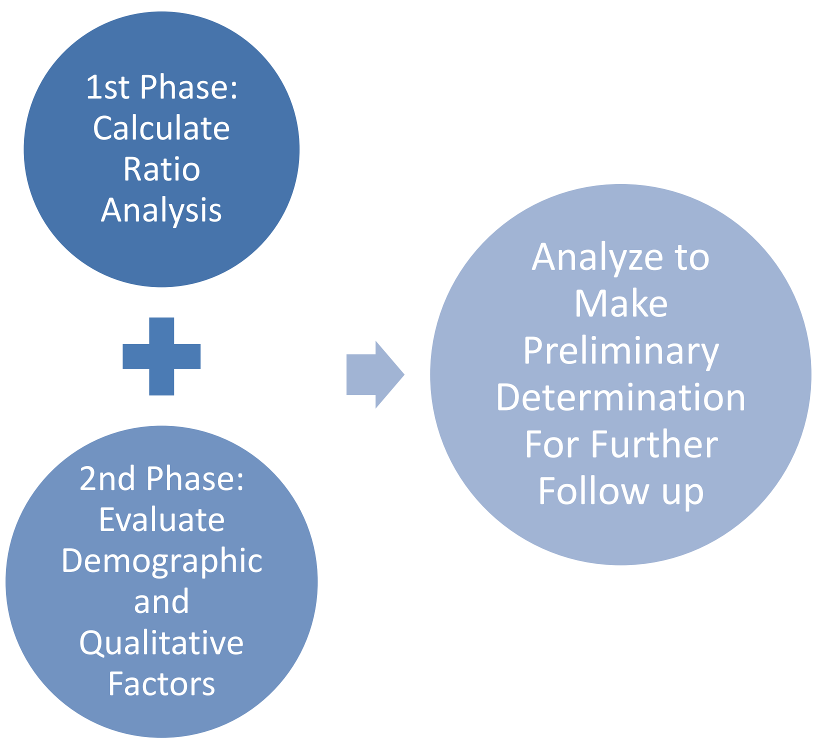
Additionally, our qualitative analysis incorporates trends from other local government assessments that are performed each year by state entities to meet other monitoring objectives. One assessment includes a locality's Fiscal Stress Index calculated by the Virginia Commission on Local Government, which focuses on a locality's revenue capacity and effort. We have also incorporated a review of trends from the Virginia Department of Education's calculations for the Composite Index and a locality's Required Local Effort and Required Local Match, which focus on analyzing the local school divisions' ability to pay education costs that are fundamental to the Commonwealth's Standards of

Quality. The local government analyses performed by the Commission on Local Government and the Virginia Department of Education are described in further detail in the *Future Refinements to Early Warning System and Analysis* section of our March 2018 Local Government Fiscal Distress Monitoring Report. Lastly, the qualitative analysis incorporates any external, economic, or other qualitative information that comes to our attention, such as through discussion with the locality or other state officials or through our continual review and monitoring of information made public in the news or in governing body meetings. We also include other external and qualitative factors obtained through our analysis of other information from a more in depth review of the locality's annual financial report, such as management's discussion or the footnote disclosures. Refer to Appendix C at the end of this report for an example of the overall factors included in our demographic and qualitative analysis.

After completion of the qualitative analysis phase of the model, the Office then makes a preliminary determination of the need to perform further follow up with a locality, which is based on the results of both the ratio analysis and the demographic and qualitative analysis. Figure 2 below illustrates the Office's changes to the overall components of the 2018 model and progression through each level of the early warning system as discussed above. The first phase involves performing the ratio analysis using audited financial statement data and selecting those localities having a high number of ratio points; then evaluating those localities in the qualitative and demographic phase of the model to assist the Office's final analysis of making a preliminary determination of the need to perform further follow up with a locality.

Overall Components of the Updated Fiscal Distress Monitoring Model

Figure 2



Localities Identified in 2018 Ratio and Qualitative Analyses

During our 2018 analysis, we calculated the 12 financial ratios based on the audited fiscal year 2017 financial report data for the cities, counties, and towns required by statute to have an audit. We then performed our qualitative analysis of applicable localities identified in the ratio analysis as coming above the 30-point threshold. We determined a 30-point threshold as the maximum number of total points this year based on our overall review of the ratio analysis and application of professional judgment. The maximum point threshold may vary from year to year depending on the performance of the ratios, along with any other external factors that may affect our analysis. As noted in further detail below, we were not able to calculate the new model ratios for the City of Hopewell as of the date of this report, as the city was delinquent in completing its 2017 and 2018 annual financial reports. After completing the 2018 ratio analysis and the qualitative analysis, we identified the following 14 localities as needing further review through our follow up process:

- The Cities of Buena Vista, Manassas Park, Martinsville, and Norton;
- The Counties of Cumberland, Page, Patrick, and Russell; and
- The Towns of Big Stone Gap, Bridgewater, Broadway, Marion, Richlands, and Tazewell.

As part of our updated model, the Office implemented the application of a qualitative evaluation, instead of a quantitative or numerical score, as the overall measure for making a preliminary determination of potential fiscal distress at a locality and the need to perform additional review. Based on the results of both the ratio and demographic and qualitative analyses, each locality is classified into either one of two categories: identified as needing further follow up through our financial assessment questionnaire review process, or not identified as needing any further follow up. In making this determination, we use two categories, *yellow* and *green*, to illustrate the results of our analysis, as noted below in Figure 3. The *yellow* category designates a locality as needing further review and follow up with our assessment questionnaire. The *green* category designates a locality where no further review or follow up is needed for the year.

Qualitative Categories for Making Preliminary Determination

Figure 3

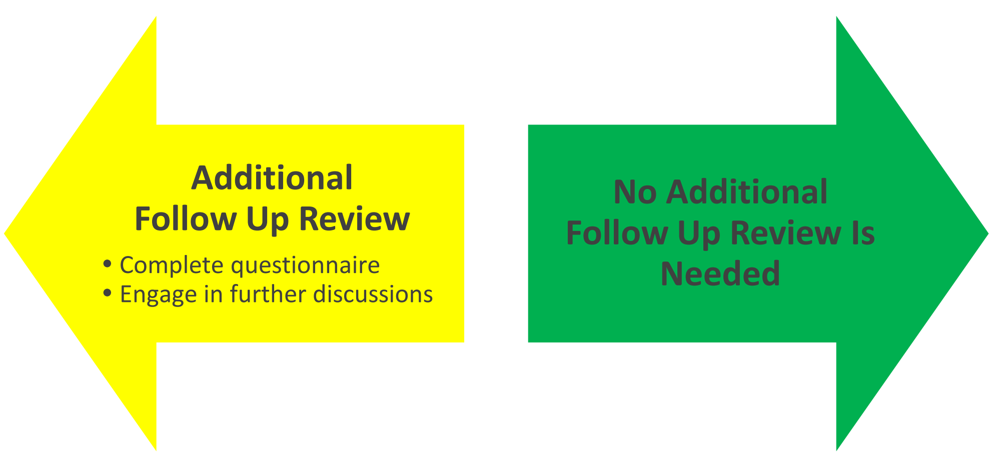
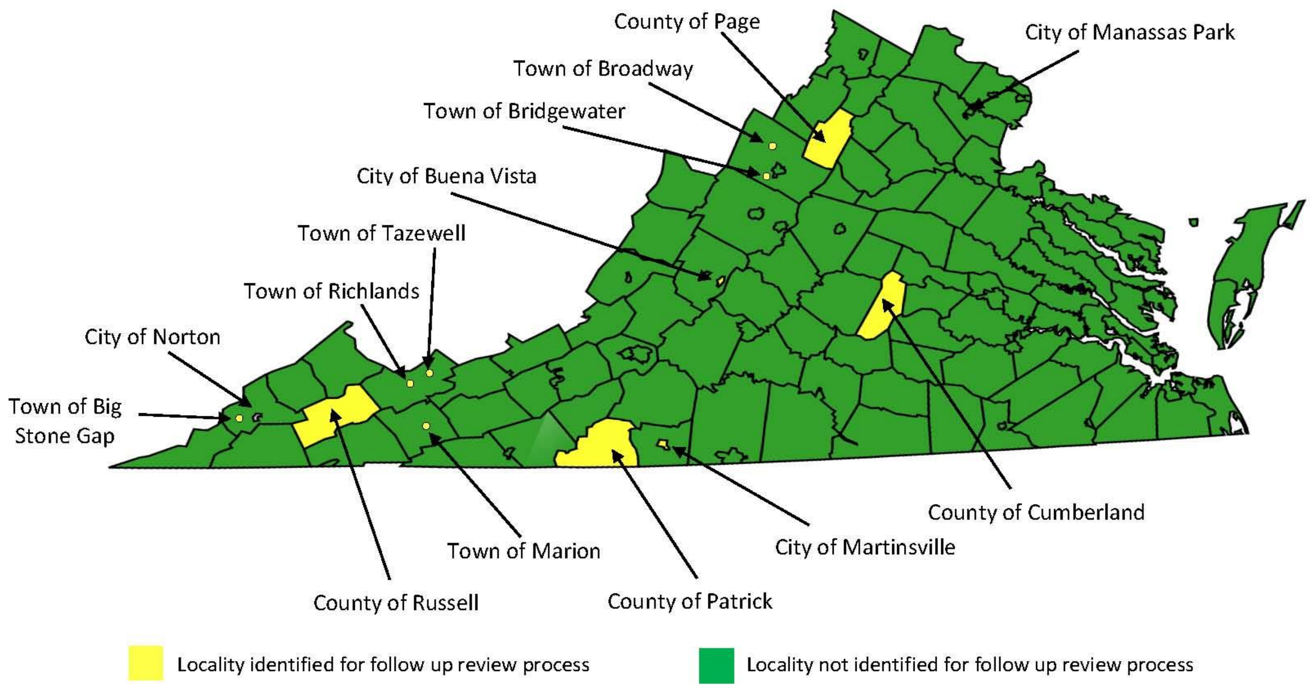


Figure 4 below illustrates our preliminary determination of the need to perform additional follow up review with the 14 localities identified during the 2018 analysis. The applicable towns are illustrated with yellow dots according to the respective counties in which the towns reside.

Qualitative Measure for Identifying Localities

Figure 4



Source: Map created at mapchart.net©

For the 14 localities noted above, we sent written notification to inform the local governing body and management of our identification and preliminary determination to perform further review based on the results of our ratio and qualitative analyses. This communication explained that the locality must notify our Office regarding its decision to allow our further review of its financial position through completion of our follow up financial assessment questionnaire and further discussions, as discussed in detail below. Further, the Office sent correspondence to all other localities to explain the refinements made to our methodology and model for the early warning system during 2018, and to inform the remaining localities that the results of their ratio and qualitative analyses indicated that no additional follow up review was needed during our 2018 process.

The Follow Up Review Process

The ratio and qualitative analyses are used as a starting point to make a preliminary determination of the need for our Office to perform further follow up with a locality that appears to show signs of potential fiscal distress. Our follow up review focuses on qualitative and other external factors affecting a locality's situation to gain information related to budget processes, debt, borrowing, expenses and payables, revenues and receivables, staffing, and any other external variables contributing to a locality's financial position, through use of the financial assessment questionnaire and further discussions with locality management and the governing body. The financial assessment questionnaire is a key component of our follow up process as it is designed to examine the qualitative and external factors unique to each locality that are not easily measured in a financial ratio, along with understanding policy and procedural aspects that contribute to a locality's results in the ratio analysis and demographic and qualitative analysis. The Office has included the follow up financial assessment questionnaire on our website for any locality to use as an internal financial self-assessment tool.

The financial assessment questionnaire is a key component of our follow up process, as it is designed to examine other qualitative and external factors along with policy and procedural aspects unique to each locality. The primary objective of our follow up process is to determine whether the locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth.

The primary objective of our follow up is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. We emphasize the importance of noting that the legislature has tasked our Office with developing an annual monitoring system that focuses on looking for early warning signs to determine if a locality is in fiscal distress, and make a conclusion of whether a locality needs state assistance or intervention to further assess, help stabilize, or remediate the situation. Accordingly, our annual monitoring and follow up review process is not designed to evaluate or give an opinion on a locality's fiscal health. The governing body and management at each locality have the responsibility for assessing and monitoring its fiscal health and stability.

If the Office's follow up process indicates that a locality does not appear to be in a situation of fiscal distress, our review and discussions with a locality focus on obtaining an understanding of the specific issues and factors that may have contributed to its results in our ratio and qualitative analyses, and further understand the policies and plans the locality has in place to continue to move forward and improve its financial position. On the other hand, if our follow up process does identify a locality that is demonstrating signs of fiscal distress, our review focuses on obtaining an understanding of the extent and underlying issues causing the distress, how the locality is responding to the situation, and any policies or plans the locality should implement to move forward and improve its financial position. After completion of the follow up review with a locality, our process then involves further evaluation of a locality's specific situation of fiscal distress to determine if further state assistance to the locality is warranted. If necessary, the Office then formally notifies, in writing, the Governor, Money Committees, and the locality's governing body, concerning the specific issues or actions that may require state assistance or intervention. At that point, the legislation stipulates that the Governor's office, in consultation with the Money Committees, will administer the process of deciding further consideration of any plan and action by the Commonwealth for assistance that would be appropriate to help address the locality's fiscal distress.

Results of Locality Follow Up Reviews

Based on our final reviews and follow up process completed with localities from the 2018 analysis, the Office has concluded that these localities do not appear to be in a situation of fiscal distress that would warrant assistance or intervention from the Commonwealth.

As noted above, after completion of our 2018 ratio and qualitative analyses, we identified 14 localities as needing further follow up through our review process. For those localities identified for follow up, our Office reviewed completed financial assessment questionnaires and held additional follow up discussions with 11 localities, as discussed in further detail below. As of the date of this report, our Office has deferred the follow up process with the following three localities that were identified in the 2018 analysis: the City of Buena Vista, the County of Cumberland, and the Town of Big Stone Gap, as discussed in the following paragraphs. We have also continued to defer the follow up process with the City of Hopewell, as discussed below. Overall, based on our final reviews and follow up process completed with 11 out of the 14 identified localities, the Office has concluded that these 11 localities do not appear to be in a situation of fiscal distress that would warrant assistance or intervention from the Commonwealth.

Deferred Follow Up for Applicable Localities

As noted above, the Office was not able to evaluate the City of Hopewell in our new model, as the city remained delinquent in completing its 2017 and 2018 audits and annual financial reports as of the date of this report. Hopewell officials informed the Office that the city's delinquency with completing its financial reporting requirements over the past several years is primarily due to issues with implementing a new financial system in September 2014. In addition, the City of Hopewell experienced turnover in key management positions in the area of finance and budget over these years, resulting in a significant loss of accounting and financial reporting knowledge. Both of these areas have contributed to material weaknesses in internal controls related to accounting and financial reporting, as reported in Hopewell's fiscal years 2014, 2015, and 2016 annual financial reports. While the city has filled key finance and budget management positions, Hopewell continues to work through the post system implementation and turnover issues, which continue to affect completion of its financial reporting requirements. Our Office again emphasized to the City of Hopewell that completion of its reporting requirements takes precedence over our fiscal distress follow up assessment questionnaire. In early 2019, our Office received updated information from Hopewell officials that the city's financial audits are still ongoing. They continue to work diligently to complete the financial reporting requirements with expected completion of both fiscal years' reporting sometime during 2019. As soon as Hopewell completes and submits the 2017 and 2018 financial reporting requirements, we will evaluate the city's data in our current ratio and qualitative analyses as part of our annual monitoring process. We will then evaluate Hopewell's need to complete the assessment questionnaire for our further follow up process, and notify City Council and management accordingly.

Additionally, our office has delayed the follow up review process for three localities identified in the 2018 ratio and qualitative analyses. Specifically, the City of Buena Vista and the County of Cumberland have responded to our initial inquiries and conveyed their desire to participate in our process; however, recent turnover in finance positions and other factors have currently delayed these localities' completion of the financial assessment questionnaire. The Town of Big Stone Gap also responded to our initial inquiries and conveyed its desire to participate in our process. However, completion of the town's questionnaire is pending the newly appointed Treasurer's further review to obtain a better understanding of the improvements the town made during fiscal year 2018.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial reports for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the County of Cumberland and Town of Big Stone Gap, and have noted improvements in the performance of various ratios for these two localities. We have also reviewed the preliminary 2019 ratio analysis for the City of Buena Vista and have noted no significant downward trends in the ratio results. Further, the preliminary 2019 ratio results for Buena Vista are within our expectations given information about the golf course enterprise fund that city officials have previously shared with our Office and as further disclosed in its fiscal year 2018 annual financial report. The Office will resume the follow up process with these localities during our 2019 monitoring process and report accordingly when their follow up process is complete.

For those 11 localities where we have completed our follow up review process, we discuss each locality's specific ratio performance, along with important factors of the qualitative analysis in further detail below. In addition, Appendix B at the end of this report provides a summary of all localities' ratio results for the 12 ratios calculated in the 2018 analysis.

City of Manassas Park

Subsequent to the Office's notification to the City of Manassas Park regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the city submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Manassas Park City Manager, Chief Financial Officer, and other finance staff met with our Office to discuss the main factors contributing to the city's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information specific to the city's budgetary and financial policies, other qualitative factors that positively affect the city, and the plans the city has in place to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, five, six, and nine, as noted below in Table 1, primarily contributed to the City of Manassas Park receiving 35 ratio points in total. The main qualitative factors that we identified for the city related to its delinquency in completing multiple prior year audits and financial reports, along with its high level of outstanding debt. While the city's ratio points may be indicative of lower performance, the city shows several positive trends in our demographic and qualitative analysis, as noted in Appendix C. These trends include population growth; low unemployment rate that is below both the national and state averages;

a growing and strong median household income that is above both the national and state averages; a low poverty rate that is below both the national and state averages; and a growing assessed tax base. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

Table 1

City of Manassas Park Specific 2018 Ratio Results		
Ratio 1	(1.83)%	10 points
Ratio 5	6.71%	10 points
Ratio 6	12.78%	5 points
Ratio 9	18.95%	5 points

As described in Appendix A at the end of this report, ratios one and six primarily focus on comparing the city's available, unrestricted reserves to revenues on an overall governmental and business type activities position and comparing unrestricted reserves to expenses in the city's general fund. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 1, suggest that the city has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. When reviewing the city's annual financial report for fiscal year 2017, the city's unassigned fund balance in the general fund was approximately $4.1 million, as reported on Exhibit 3 in the 2017 annual financial report. As a positive trend, the city's unassigned fund balance in the general fund increased to approximately $5.4 million, as reported on Exhibit 3 in the 2018 annual financial report.

Ratio five and ratio nine both focus on the city's debt, by analyzing overall debt levels and annual debt service payments. Specifically, ratio five measures the total debt burden of a locality by comparing total tax supported debt outstanding to the locality's fair market value of total taxable real estate and personal property; accordingly, the percentage result and highest points received for this ratio, as shown in Table 1 above, indicates that the city's overall debt burden is at a high, undesirable level. This correlates to the percentage results and points received at ratio nine, which measures the percent of the operating budget that is used for annual repayment of debt. As noted in the city's 2017 annual financial report, page 41 of the notes to the financial statements, the total outstanding tax supported general obligation bonded debt for governmental activities was approximately $95.4 million, and the total annual debt service payments in the city's governmental funds was approximately $8.5 million, as reported on Exhibit 4 of the 2017 annual financial report.

During our Office's meeting with city representatives, the Manassas Park City Manager provided an update on the financial and budgeting strategies the city has in place to continue to move forward and improve its financial position. Specifically, the City Manager discussed highlights from the city's ten-year financial model, which is included as a component of the city's annual budget process. The city's short-term goals are focused on closely monitoring and managing its budgeting practices to adhere to a structurally balanced budget and to ensure long-term financial sustainability. Due to the city's primary issues of high outstanding debt and rising annual debt service payments, along with a current weak economic revenue base, the city expects to endure a financially weak position over the next several years. During these leaner years, the city will continue to focus on implementing strict budgeting practices, which will result in the city not fully funding its 15 percent reserve balance policy in the general fund during the short term. The city's debt burden is expected to decline significantly in fiscal year 2023, which will allow the city to focus on long-term initiatives to grow financially stronger. At that time, the city can continue to move forward with its longer term goals focused on the following strategies: building cash reserve balances in the general fund and enterprise funds in accordance with its established policy; stabilizing its credit position and re-establishing credit ratings; establishing an asset management plan and fund to address necessary capital improvements, specifically for the water and sewer fund; implementing a real estate tax cut plan to benefit its citizens; and advancing its economic development strategies focused on development of its downtown and other city owned areas. The City Manager presented the following overall goal to City Council and the city's citizens in his executive summary of the 2019 adopted budget: "*Through a disciplined financial approach and robust economic development strategy, the City can pull itself out of its current position and have a healthy financial position in the future to fund its priorities.*"

The City Manager also discussed with our Office the city's continual work toward improving operational and financial management areas, to include addressing internal control weaknesses from prior financial audits and ensuring timely completion of the city's audits and financial reports in future years. The city also continues to address challenges and evaluate the best solutions related to reporting and functionality of its ERP system that was not properly implemented in fiscal year 2016. Lastly, to address more timely collection of its accounts receivable for taxes and delinquent accounts, the city continues to work toward improving its coordination and communication efforts between the City Manager and finance staff and the offices of the elected officials that are involved in the revenue collection process.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the City of Manassas Park and have noted improvements in the performance of certain ratios. Specifically, the performance of ratio one has improved to 3.4 percent although there is no change in ratio points, and the performance of ratio six has improved to 16.7 percent with a decrease to 0 ratio points.

Following the completion of our follow up process with the City of Manassas Park and review of the completed assessment questionnaire and various factors discussed above, the Office determined that City Council and management are closely monitoring the city's situation and have implemented budgetary and financial policies and strategies to continue to work toward improving the city's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the City of Manassas Park does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the city, Governor, and Chairs of the Money Committees concerning fiscal distress.

City of Martinsville

Subsequent to the Office's notification to the City of Martinsville regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the city submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the City Manager and Director of Finance to discuss the main factors contributing to the city's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information related to the city's budgetary and financial policies, and the plans the city has in place to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios six, eight, and ten, as noted below in Table 2, primarily contributed to the City of Martinsville receiving 32.5 ratio points in total. In addition, the main qualitative factors that we identified for the city related to the city's recent discussions about exploring reversion to town status, along with several lower trends noted in our demographic analysis. Specifically, as noted in Appendix C at the end of this report, the city shows a decline in population; an unemployment rate above both the national and state averages; a high poverty rate above both the national and state averages; and a high fiscal stress score from the Commission on Local Government. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratio six primarily focuses on comparing the city's available unrestricted reserves to expenses in the city's general fund. Accordingly, the lower percentage result and higher points received at this ratio, as noted in Table 2, suggests that the city has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Additionally, ratio ten measures the city's change in its general fund unassigned fund balance, or available unrestricted reserves. As shown in Table 2, the negative ratio ten result indicates that the city's fund balance significantly decreased from the prior year; thus receiving the highest number of points assigned for that ratio. When reviewing the city's annual financial reports for fiscal year 2016 and 2017, the city's unassigned fund balance in the general fund was approximately $4.7 million in 2016 and decreased to approximately $3.0 million in 2017, as reported on Exhibit 3 in the 2016 annual financial report and 2017 annual financial report.

Table 2

City of Martinsville Specific 2018 Ratio Results		
Ratio 6	9.80%	10 points
Ratio 8	95.28%	5 points
Ratio 10	(31.13)%	10 points

During our Office's follow up discussions with the city, officials explained that the performance at ratios six and ten resulted primarily from the city using general fund reserves to fund several capital projects related to various equipment purchases and continual maintenance and improvements to facilities. The city used available cash reserves rather than incur additional debt to fund these projects. As noted in the city's 2017 annual financial report, page 58 of the notes to the financial statements, the city reported approximately $1.1 million in increases to governmental activities capital assets, related to equipment and construction in progress for ongoing capital projects. City officials also discussed that the city experienced an increase in unexpected costs related to several weather related events throughout the year. To add further context, officials explained that City Council has previously established a fund balance policy requiring general fund unassigned fund balance reserves of approximately ten percent of total expenditures. As noted above at Table 2, the city's ratio six result performs approximately at the city's established policy of ten percent. The city has also set cash reserve policies for its utility enterprise funds, which include water, sewer, refuse, and electric.

Additionally, as noted in Appendix A, ratio eight measures whether a locality's annual revenues were sufficient to pay for annual operational costs in the general fund. A ratio result less than 100 percent indicates that expenses exceeded total revenues in the general fund; as noted in Table 2 above, the city's ratio eight result is below the desired benchmark of 100 percent. This ratio does not account for other financing sources, such as transfers into the general fund that are used to help cover operational costs. As part of the city's budgeting practices, officials discussed that the city relies on transfers from the excess cash reserves in the utility funds to help support the operations of the general fund, while still maintaining established levels of cash reserves in the utility funds in accordance with its policy. As noted in the city's 2017 annual financial report, page 66 of the notes to the financial statements, the city transferred a total of $750,079 from the utility funds into the general fund. This amount increased in the fiscal year 2018 to a total transfer of approximately $2.2 million into the general fund from the utility funds, as noted on page 58 of the notes to the financial statements in the 2018 annual financial report. These transfers account for the results of ratio eight, as noted above in Table 2, where the city's operating revenues are not sufficient to cover budgeted operating costs; therefore, the city budgets each year for a certain level of transfers from the utility funds to help cover general fund operations.

Further, during the Office's discussions with city officials, management discussed the city's plan to move forward once again with exploring reversion to town status primarily due to rising operational costs and need for significant capital project upgrades, combined with stagnant revenue growth for the city. City Council and management had in depth discussion on reversion to town status at a September 26, 2018, council work session. During the October 9, 2018, Martinsville council meeting, City Council voted for the City Manager to move forward with updating the city's financial forecasts and studies from when the city first contemplated town reversion in 2013. After City Council approval, the city started working with a CPA firm to update the financial assumptions of the study. During our Office's follow up discussions with the city, the City Manager commented that the city expects to have information to present on the updated study in late June or July 2019. Further, at a recent council meeting on May 14, 2019, regarding the approval of the final fiscal year 2020 budget, city officials' discussion focused on additional funding that the city added to the school's budget and how that funding was pulled from the city's general fund balance reserves. City Council and management discussed that this practice of pulling from available general fund reserves to help balance the budget is not a desirable nor sustainable practice for the city, and further demonstrates the basis for the city's current studies on reversion to town status. Should the city decide not to proceed with a plan for seeking town reversion, officials recognize that the city has to make future changes to its budgeting practices. To ensure the city continues down a sustainable financial path, these changes need to focus on primarily addressing the city's decline in operating revenues that are not sufficient to cover operational expenses, along with the city's reliance on transfers from the utility funds to support general fund operations.

As of the date of this report, the Office has completed a preliminary review of the 2019 ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the City of

Martinsville and have noted improvements in the performance of certain ratios. Specifically, the performance of ratio six has improved to 14.4 percent with a decrease to five points, and the performance of ratio ten has improved to 53.7 percent with a decrease to 0 points. The 2019 ratio analysis does not reflect recent budgetary decisions made by the city as discussed above. The impact of these budget decisions and financial results will be reflected in subsequent analyses, as our Office continues to monitor the results of the city as part of our yearly fiscal distress monitoring process.

Following the completion of our follow up process with the City of Martinsville and review of the completed assessment questionnaire and various factors discussed above, the Office determined that City Council and management are closely monitoring the city's situation and have implemented budgetary and financial policies and strategies to continue to work toward improving the city's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the City of Martinsville does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the city, Governor, and Chairs of the Money Committees concerning fiscal distress.

City of Norton

Subsequent to the Office's notification to the City of Norton regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the city submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the City Manager and Director of Finance to discuss the main factors contributing to the city's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information related to the city's budgetary and financial policies, and the plans the city has in place to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, five, six, and 12, as noted below in Table 3, primarily contributed to the City of Norton receiving 30 ratio points in total. In addition, the main qualitative factors that we identified for the city related to several lower trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C at the end of this report, the city shows a decline in population; unemployment rate above both the national and state averages; decline in median household income that is below both the national and state averages; a high poverty rate above both the national and state averages; and a "high" fiscal stress score from the Commission on Local Government. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

Table 3

City of Norton Specific 2018 Ratio Results		
Ratio 1	(2.67)%	10 points
Ratio 5	3.44%	5 points
Ratio 6	14.54%	5 points
Ratio 12	91.75%	5 points

As described in Appendix A, ratios one and six primarily focus on comparing the city's available, unrestricted reserves to revenues on an overall governmental and business type activities position and comparing unrestricted reserves to expenses in the city's general fund. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 3, suggest that the city has a low level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. When reviewing the city's annual financial report for fiscal year 2017, the city's unassigned fund balance in the general fund was approximately $1.4 million, as reported on Exhibit 3 in the 2017 annual financial report. During our Office's follow up discussions with the city, officials discussed that City Council has not implemented a formal fund balance reserves policy. Management explained that City Council generally chooses not to accumulate large amounts of cash reserves, but instead the city's approach is to reinvest in capital annually in accordance with its formal Capital Improvement Program. As a positive trend, the city's unassigned fund balance in the general fund increased to approximately $2.2 million, as reported on Exhibit 3 of the city's 2018 annual financial report.

Additionally, the City Manager explained that as part of the budget work sessions each year, management keeps City Council informed of significant planning considerations and in depth issues that will affect key budgetary decisions. These considerations include closely budgeting the city's operations to account for declining tax revenues and the impact of the decline in the coal industry. Other considerations include key factors related to the trends in fund balance, the concentration of the city's outstanding debt and annual debt service, and regional comparisons for the city's water and sewer funds. As an example, the presentation from the City Manager and Director of Finance, as part of the 2018-2019 budget process, provides key information to monitor various trends that focus on the city's primary revenue sources, the city's outstanding debt compared to its legal debt margin, and the city's water and sewer annual consumption and the impact on utility rates.

As mentioned above, part of the City Council and management's budget monitoring focuses on the city's outstanding level of debt and annual debt service for the general fund, water and sewer fund, and the school fund. As noted in the Office's ratio analysis, ratio five measures the total debt burden of a locality by comparing total tax supported debt outstanding to the locality's fair market value of total taxable real estate and personal property. During the Office's follow up review with the city, we discussed a unique factor affecting the ratio five results, as shown in Table 3 above. The ratio five calculation includes the bonds specific to the water and sewer fund because this debt attaches to the city's general obligation bonds. These type of bonds are known as "double barreled" bonds because the repayment of the debt is pledged not only by tax revenue sources in the general fund but also by the revenue stream from the water and sewer enterprise fund. This other revenue stream is not being accounted for when calculating ratio five in our analysis. In addition, since our analysis for ratio five only accounts for general obligation debt as reported in the city's governmental activities and business type activities on a government wide level, it does not account for the outstanding debt that is reported in the school fund. As noted in the city's 2017 annual financial report, page 46 of the notes to the financial statements, the city also reports approximately $9.4 million in outstanding general obligation bonds attributed to debt for new school construction and other school capital improvements. The ratio five calculations noted above in Table 3 did not originally account for this debt because the city reports it as part of the school's financial activity, which is shown in a separate column in the city's financial statements. While the city's presentation of the school related debt is a financial reporting difference, city management does still consider the school general obligation debt as tax supported debt when calculating the city's legal debt margin. In addition, the city budgets for the debt service payments on the school debt as part of the annual appropriation the city transfers from the general fund to the school board. When factoring in the school related debt to the ratio five calculation, the city's revised ratio result increases to approximately 7.01 percent. While the revised ratio five result is on the higher level of the ratio performance, City Council and management closely monitor the city's outstanding debt as part of their annual budget process, and overall the city's outstanding debt continues to remain below its legal debt margin.

Lastly, as described in Appendix A, ratio 12 measures the percent of business type enterprise fund expenses that were covered by enterprise fund non-transfer revenues. A measure of 100 percent or greater indicates that enterprise funds are self-sufficient; as a whole, the funds were successful in recovering the full costs of service through charges for services or other revenues. A measure of less than 100 percent indicates enterprise funds were not self-sufficient and likely subsidized by transfers from governmental funds, such as the general fund. As noted in Table 3 above, the city's ratio 12 result indicates that the city's water and sewer enterprise fund did not have sufficient non-transfer revenues to cover operating expenses during the year, but relied on a transfer from the general fund to help support operational costs. As noted on Exhibit 8 of the city's 2017 annual financial report, the city transferred a total of $150,000 from the general fund to the enterprise funds, but made no transfer during fiscal year 2018. During the Office's follow up review with the city, management discussed that a decline in the city's customer base as well as a decrease in overall consumption has greatly affected the annual revenue stream for the water and sewer fund. As noted previously, management discussed that the city continues to monitor the performance of the water and sewer fund each year during its budgeting process. Over the past several budget cycles, including the most recent budget year, the city has made systematic increases to the utility rate structure in efforts to ensure the water and sewer fund becomes self-sustaining.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the City of Norton and have noted improvements in the performance of the following ratios:

- Ratio one has improved to 7.6 percent with a decrease to 6.67 ratio points.
- Ratio five has improved to 6.6 percent when considering the school related debt; no change in ratio points.
- Ratio six has improved to 24.3 percent with a decrease to 0 ratio points.

Following the completion of our follow up process with the City of Norton and review of the completed assessment questionnaire and various factors discussed above, the Office determined that City Council and management are closely monitoring the city's situation and have implemented budgetary and financial policies and strategies to continue to work toward improving the city's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the City of Norton does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the city, Governor, and Chairs of the Money Committees concerning fiscal distress.

County of Page

As previously noted in the Summary of 2017 Process and Follow Up with Localities section of this report, the County of Page was identified as part of our first year ratio analysis and monitoring process. However, we did not perform a follow up review with the county, as they declined our request to complete the questionnaire and participate in our process during 2017. Subsequent to the Office's notification to the County of Page regarding our preliminary determination to perform a follow up review based on the county's results in our 2018 ratio and qualitative analyses, management and the Board of Supervisors positively responded with the desire to participate in our process. The county submitted the completed questionnaire and provided our Office additional information as needed to facilitate further discussion. The Office held further discussions with the Director of Finance to discuss the main factors contributing to the county's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information related to the county's budgetary and financial policies, and the plans the county has in place to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, two, and three, as noted below in Table 4, primarily contributed to the County of Page receiving 35 ratio points in total. The main qualitative factor that we identified for the county was specific to its identification in our prior year 2017 ratio analysis. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratios one, two, and three primarily focus on comparing the county's available, unrestricted reserves to total liabilities, revenues, and expenses on an overall governmental activities position. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 4, suggest that the county has a low level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation; in particular, because the county has a deficit balance in the ending net position for its governmental activities. The county's 2017 annual financial report and the 2018 annual financial report both report that the county continues to have a deficit

Table 4

County of Page Specific 2018 Ratio Results		
Ratio 1	4.55%	10 points
Ratio 2	13.50%	5 points
Ratio 3	(25.41)%	15 points

unrestricted net position, as shown at Exhibit 1 of the financial reports. The management's discussion and analysis, on page four of the 2017 financial report, explains that this deficit is primarily attributed to the liability associated with the landfill remediation costs incurred by the county during 2006. The county reports on page 67 of its notes to the financial statements that the liability related to landfill closures is approximately $6.07 million as of the end of fiscal year 2017. As a positive trend, the county reports a decreasing, smaller negative net position during fiscal year 2018, primarily due to keeping expenditure growth low while increasing revenues through general property taxes and charges for services, as reported on page seven of the county's 2018 annual financial report.

While the ratios noted above are showing lower performance, our Office has noted improvement in these ratios compared to the first year 2017 ratio analysis, as reported in the March 2018 Local Government Fiscal Distress Monitoring Report. In particular, the Office noted the county's strong performance in the current ratio analysis when reviewing several ratios that analyze the county's general fund. Specifically, ratio six measures available unrestricted reserves in the county's general fund and the county's ratio result performs at 26.1 percent. Ratio seven measures total available fund balance reserves compared to general fund revenues and the county's ratio result performs at 23.7 percent. Lastly, ratio ten measures the change, or increase from the prior year, in available fund balance reserves, and the county's ratio result performs at 40.8 percent. During the Office's follow up review with the county, the Director of Finance discussed that the county implemented and maintained its fund balance policy, which requires fund balance reserves of 15 percent of total expenditures in the general fund. Additionally, we discussed that the county has implemented financial practices to strive to have working cash flow balances not fall below 15 percent of the beginning cash balances throughout the year. Further, the county has improved its budgeting practices to ensure a structurally balanced budget each year and to no longer use fund balance reserves to balance the budget.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the County of Page and have noted improvements in the performance of the following ratios:

- Ratio one has improved to 12.6 percent with a decrease to 3.33 ratio points.
- Ratio two has improved to 17.6 percent; no change in ratio points.
- Ratio three shows a decreasing negative result at (9.3) percent; no change in ratio points.
- Ratios six has improved to 29.0 percent; remains at 0 ratio points.
- Ratio seven has improved to 27.5 percent; remains at 0 ratio points.

Following the completion of our follow up process with the County of Page and review of the completed assessment questionnaire and various factors discussed above, the Office determined that the Board of Supervisors and management are monitoring the county's situation and have implemented budgetary and financial policies to continue to work toward improving the county's financial position.

The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the County of Page does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the county, Governor, and Chairs of the Money Committees concerning fiscal distress.

County of Patrick

Subsequent to the Office's notification to the County of Patrick regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the county submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the County Administrator, Board of Supervisors Chairman, Treasurer, and Fiscal Administrator to discuss the main factors contributing to the county's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information related to the county's financial policies, along with the county's consulting with a financial advisor to implement specific budgetary and financial recommendations to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios eight, nine, ten and 12, as noted below in Table 5, primarily contributed to the County of Patrick receiving 40 ratio points in total. In addition, the main qualitative factors that we identified for the county related to several lower trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C, the county shows a decline in population; a low median household income below both the national and state averages, although the county shows growth in income over the past three years; and a high poverty rate above both the national and state averages. Additionally, the county receives an "above average" fiscal stress score from the Commission on Local Government, and based on the Virginia Department of Education's calculations, the county has a low percentage of actual expenditures above the required local effort and match for education, although the county shows an increasing trend in these percentages over the past three years. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

Table 5

County of Patrick Specific 2018 Ratio Results		
Ratio 8	98.47%	5 points
Ratio 9	11.39%	5 points
Ratio 10	(20.50)%	6.67 points
Ratio 12	27.62%	10 points

As described in Appendix A, ratio eight measures whether a locality's annual revenues were sufficient to pay for annual operational costs in the general fund. A ratio result less than 100 percent indicates that expenses exceeded total revenues in the general fund; as noted in Table 5, the county's ratio eight result is below the desired benchmark of 100 percent. During our Office's follow up discussions with the county, officials explained that tax revenues have declined over the past several years but the Board of Supervisors continued to keep tax rates low. At the same time, the county saw unexpected increases to operational expenses during 2017, such as increase in costs related to new voting machines, upgrades to the emergency E-911 system, and health insurance. Due to operational expenses consistently exceeding revenues over the past several years, county officials also explained that the county has struggled with maintaining a balanced budget and has used fund balance reserves to help balance the budget, which correlates to the results of ratio ten as shown in Table 5. Ratio ten measures the change in the county's available unrestricted fund balance reserves in the general fund. The negative ratio result and middle level of points received indicates that the county's fund balance has decreased from the prior year. When reviewing the county's annual financial reports for the past three fiscal years, the county's unassigned fund balance in the general fund was approximately $7.4 million in 2016 and decreased to approximately $5.8 million in 2017, and $4.8 million in 2018, as reported on Exhibit 3 in the 2016 annual financial report, 2017 annual financial report, and 2018 annual financial report.

The performance of ratio nine is another trend that correlates to the results of ratio eight noted above. Specifically, as noted below in Appendix A, ratio nine measures the percent of the county's operating budget that is used for annual repayment of its debt. The ratio nine result and level of points received, as shown in Table 5, indicates that the county is at a medium level of paying total debt service expense when compared to the operating revenues available to pay that debt. As the annual debt service expense increases, the county's expenditure flexibility decreases, and the county may continue to see a negative impact on its budget. During the Office's follow up with the county, officials discussed the county's recent strategy with a financial advisor to address the high debt service expense through a debt restructure plan, as discussed in further detail below.

Lastly, as described in Appendix A, ratio 12 measures the percent of business type enterprise fund expenses that were covered by enterprise fund non-transfer revenues. A measure of 100 percent or greater indicates that enterprise funds are self-sufficient; as a whole, the funds were successful in recovering the full costs of service through charges for services or other revenues. A measure of less than 100 percent indicates enterprise funds were not self-sufficient and likely subsidized by transfers from governmental funds, such as the general fund. As noted in Table 5 above, the ratio 12 result indicates that the county's Public Service Authority (PSA) water and sewer enterprise funds did not have sufficient non-transfer revenues to cover operating expenses during the year, but relied on a transfer from the general fund to help support operational costs. During the Office's follow up review with the county, officials explained that transfers are made from the general fund to the PSA water and sewer funds each year primarily to help fund the debt reserve requirement on the PSA's outstanding debt. As noted on page 37 of the county's notes to the financial statements of the 2017 annual financial report, the county transferred from the general fund to the PSA water and sewer funds a total of $237,509 during fiscal year 2017. In efforts to ensure the water and sewer funds become self-sustaining, county officials discussed that the county has implemented as part of its budgeting process a five-year plan to systematically increase the PSA utility rates.

Further, the Office's discussions with county officials focused on the plans the county began to implement during fiscal year 2019 to help address some of the issues discussed in the details above concerning our ratio analysis, and to help ensure the county continues to move forward with improving its financial position. Specifically, the County of Patrick engaged a financial consulting firm to review the county's budgeting and financial practices and propose recommended strategies to help the county move forward. As noted in the financial advisor's presentations to county officials in December 2018 and again in March 2019, the firm reviewed the county's financial operations to assist in determining the overall causes of recent cash-flow pressure; to determine and recommend strategies to enhance the county's long term financial stability; and to recommend opportunity for the county to restructure outstanding debt in order to ease the cash-flow burden. In addition, in December 2018, the financial advisors assisted the county with obtaining a $3.5 million revenue anticipation loan for the county to use during lean cash flow times during the year. The Office notes that use of a tax or revenue anticipation loan is a common practice amongst other localities in Virginia due to the timing of localities collecting their largest tax revenues through either annual or twice a year collections. During our follow up review, the Office discussed the county's policies around this revenue anticipation loan, and management commented that their policy is to pay back any draw down of the loan prior to the due date, as soon as the anticipated tax revenues are collected during the year. Officials discussed that at the time of our follow up review in March 2019, the county had not yet drawn down on the loan, but that securing the loan to have available when needed would benefit the county's cash flow purposes.

Lastly, during our follow up review with county officials, our Office discussed the results of the financial advisor's review and key recommendations that the county is working towards implementing. As noted in the advisor's March 2019 presentation referenced above, the county started working toward implementing and adopting significant financial policies specific to fund balance reserves, structurally balanced budgets, and debt related policies. At the time of our follow up, county management and the Board of Supervisors also began discussions to address the needed increase to annual revenue collections through targeted real estate tax increases. In addition, the county began discussing a plan for debt restructuring during 2019 to include selected portions of the county's outstanding debt specific to PSA and school related debt. After our Office's follow up review and discussions, the County of Patrick Board of Supervisors voted unanimously to enact an 11-cent increase to the county real estate tax for the 2019-2020 fiscal year at a public hearing on March 27, 2019. Further, the county Board of Supervisors and management held additional follow up discussions with the financial advisors during board meetings in May 2019 to address upcoming financial strategies for the county's fiscal year 2020 budget. As noted in the presentation provided in the May 13, 2019, board meeting minutes, pages 16 to 28, these strategies primarily addressed ensuring the county's upcoming budget was structurally balanced, reviewing recent proposals for a debt restructuring and re-alignment plan, and renewing the county's future access to a revenue anticipation loan after the prior loan matures. During the May 28, 2019, county board meeting, the Board of Supervisors voted unanimously to approve the debt restructuring plan for the county. As noted by the financial advisors, the debt restructuring will help ease future cash flow burden on the county's general fund by helping to remove the subsidy or transfer the general fund provides to the PSA funds, as discussed above related to the results of ratio 12.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the County of Patrick and have noted some improvement in the performance of the following ratios:

- Ratio nine has improved to 9.6 percent with a decrease to 0 ratio points.

- Ratio ten shows a decreasing negative at (18.4) percent; no change in ratio points.

- Ratio 12 has improved to 31.3 percent; no change in ratio points.

The 2019 ratio analysis does not reflect recent budgetary and financial strategies implemented by the county as discussed above. The impact of these financial and budgetary decisions will be reflected in subsequent analyses, as our Office continues to monitor the results of the county as part of our yearly fiscal distress monitoring process.

Following the completion of our follow up process with the County of Patrick and review of the completed assessment questionnaire and various factors discussed above, the Office determined that the Board of Supervisors and management are closely monitoring the county's situation and have implemented budgetary and financial policies and strategies to continue to work toward improving the county's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review and the efforts the county has already put into place, the Office concluded that the County of Patrick does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the county, Governor, and Chairs of the Money Committees concerning fiscal distress.

County of Russell

Subsequent to the Office's notification to the County of Russell regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the county submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the County Administrator to discuss the main factors contributing to the county's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain further understanding of certain financial factors during the fiscal year 2017 impacting our ratio analysis, and the plans the county has in place to continue to move forward and improve its financial position.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, two, eight, and 12, as noted below in Table 6, primarily contributed to the County of Russell receiving 38.33 ratio points in total. In addition, the main qualitative factors that we identified for the county related to several lower trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C, the county shows a decline in population; a low median household income below both the national and state averages, although the county shows growth in income over the past three years; a high poverty rate above both the national and state averages; and an "above average" fiscal stress score from the Commission on Local Government. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

Table 6

County of Russell Specific 2018 Ratio Results		
Ratio 1	2.69%	10 points
Ratio 2	28.27%	5 points
Ratio 8	97.31%	5 points
Ratio 12	21.48%	10 points

As described in Appendix A, ratios one and two primarily focus on comparing the county's available, unrestricted reserves to total liabilities and revenues on an overall governmental and business type activities position. Accordingly, the lower percentage results and higher points received at these ratios, as noted in Table 6, suggest that the county has a low level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, ratio eight measures whether a locality's annual revenues were sufficient to pay for annual operational costs in the general fund. The county's ratio eight result of less than 100 percent indicates that expenses exceeded total revenues in the general fund, as noted in Table 6. During the Office's follow up review with the county, the County Administrator provided additional context to the data that we used from the 2017 annual financial report when calculating these three ratios and evaluating the results in our ratio analysis. Specifically, during the fiscal year 2017, the county's Board of Supervisors and the School Board entered into a contract for an energy performance project with the Virginia Resources Authority. As reported in the 2017 annual financial report, this project activity represents the construction payables amount of approximately $2.1 million, reported on the statement of net position for governmental activities at Exhibit 1, and the capital projects expense of approximately $2.5 million, reported on the general fund financial statement at Exhibit 5. The County Administrator explained that these amounts were expended through an escrow account and represent one-time project expenditures, which are not reflective of annual county liabilities or operating expenditures. Accordingly, when adjusting for these one-time liability and expense amounts for this project in the ratio calculations, the results of ratios one, two, and eight reflect differently and perform stronger. Specifically, the performance of ratio one is revised to 11.56 percent, a decrease to 3.33 ratio points, and the performance of ratio two is revised to 31.15 percent, a decrease to 2.5 ratio points. Further, the performance of ratio eight is revised to 104.84 percent and no longer reflects operating expenses in excess of revenues; therefore, a decrease to 0 ratio points.

Additionally, during the Office's follow up review, we discussed the county's strong performance in the ratio analysis when reviewing several ratios that analyze the county's general fund. Specifically, ratio six measures available unrestricted reserves in the county's general fund and the county's ratio results perform at 24.1 percent. Ratio seven measures total available fund balance reserves compared to general fund revenues and the county's ratio results perform at 35.2 percent. Ratio ten measures the change, or increase, in available fund balance reserves from the prior year and the county's ratio results perform at 6.2 percent. The County Administrator discussed the county's budgeting strategies to ensure long-term financial stability, which include additional annual revenues generated through recent real estate reassessments and increases to personal property tax and machine and tool tax rates, along with reducing planned expenses related to contractual service costs. Further, the County Administrator commented that the county acknowledges the qualitative factors in our analysis specific to the county's population, unemployment rate, medium household income, poverty rate, and tax base. The county is planning to improve these qualitative factors through conservative financial stewardship, economic development, regional economic partnerships with other localities, and workforce development and training to improve quality of life.

Lastly, as described in Appendix A, ratio 12 measures the percent of business type enterprise fund expenses that were covered by enterprise fund non-transfer revenues. A measure of 100 percent or greater indicates that enterprise funds are self-sufficient; as a whole, the funds were successful in recovering the full costs of service through charges for services or other revenues. A measure of less than 100 percent indicates enterprise funds were not self-sufficient and likely subsidized by transfers from governmental funds, such as the general fund. As noted in Table 6 above, the ratio 12 result indicates that the county's enterprise fund for its water treatment system did not have sufficient non-transfer revenues to cover operating expenses during the year. During the Office's follow up review, the County Administrator explained that the ratio 12 result is primarily due to the contribution expense from the county to the Castlewood Water and Sewer Authority. Both the Russell County Public Service Authority (PSA) and the Castlewood Water and Sewer Authority provide water and sewer services to the residents of Russell County; these authorities are reported as component units in the county's financial statements. During 2019, the county Board of Supervisors voted to merge the Russell County PSA and the Castlewood Water and Sewer Authority to form a consolidated water and sewer authority for the county in order to reduce the operating costs of the county's enterprise fund and the water and sewer funds. At the time of our follow up review, the County Administrator discussed that the legal process of this consolidation is still ongoing. The County Administrator also discussed that once the county's water and sewer services are consolidated the county will no longer have to make contributions to the entities and will see reduced expenses in its enterprise fund. Accordingly, the County Administrator expects that these improvements will ensure the enterprise fund for the water treatment system becomes self-sustaining in future years.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the County of Russell and note that the county's results are generally consistent with the revised results of ratios one, two, and eight as noted above, and the performance of ratio 12 has improved to 30.1 percent. The Office noted no significant fluctuations or results outside of our expectations based on our follow up review and discussions with the county.

Following the completion of our follow up process with the County of Russell and review of the completed assessment questionnaire and various factors discussed above, the Office determined that the Board of Supervisors and management have implemented budgetary and financial policies and other strategies to continue to work toward improving the county's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, we have concluded that the County of Russell does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, our Office made no further notification or recommendation to the county, Governor, and Chairs of the Money Committees concerning fiscal distress.

Town of Bridgewater

Subsequent to the Office's notification to the Town of Bridgewater regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the town submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the Town Manager and Treasurer to discuss the main factors contributing to the town's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain further understanding of the town's operational policies, along with other factors that positively affect the town's overall financial position and the plans it has in place to continue to move forward.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, three, six, seven, and ten, as noted below in Table 7, primarily contributed to the Town of Bridgewater receiving 78.33 ratio points in total. While the town's ratio points may be indicative of lower performance, the town shows several positive trends in our demographic and qualitative analysis, as noted in Appendix C. These trends include population growth; low unemployment rate that is below both the national and state averages; a growing median household income that is above the national average; and a declining poverty rate that is below both the national and state averages. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratios one and three primarily focus on comparing the town's available, unrestricted reserves to revenues and expenses on an overall governmental and business type activities position. Likewise, ratios six, seven, and ten focus on comparing the town's unrestricted fund balance reserves in the general fund to total revenues and expenditures, as well as reviewing the change in the town's unrestricted fund balance. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 7, suggest that the town has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, the negative result at ratio ten indicates the town's unassigned fund balance in the general fund significantly decreased from the prior year.

Table 7

Town of Bridgewater Specific 2018 Ratio Results		
Ratio 1	(16.21)%	10 points
Ratio 3	2.11%	15 points
Ratio 6	2.04%	15 points
Ratio 7	2.70%	10 points
Ratio 10	(89.92)%	10 points

When reviewing the town's annual financial report for fiscal years 2016 and 2017, the town's unassigned fund balance in the general fund was approximately $896,000 in 2016 and significantly decreased to approximately $90,000 in 2017, as reported on the governmental funds balance sheet in the 2016 annual financial report and the 2017 annual financial report. During our Office's follow up discussions with the town, officials explained that the significant decrease in fund balance during 2017 was primarily a result of the town using general fund reserves to fund several overdue capital projects related to infrastructure maintenance and improvements. The town used available cash reserves rather than incur debt to fund these projects. As noted in the town's 2017 annual financial report, page 33 of the notes to the financial statements, the town reported approximately $775,000 in increases to capital assets for governmental activities, primarily related to infrastructure and buildings and improvements. As a positive trend, the town's unassigned fund balance in the general fund increased to approximately $392,000 during 2018, as reported on the governmental funds balance sheet of the town's 2018 annual financial report. Additionally, at the time of our follow up review, the Town Manager discussed that Town Council was currently studying a fund balance policy to consider adopting as part of the town's fiscal year 2020 budget process. This policy would designate fund balance reserves in the general fund of approximately 20 percent of total annual expenditures, and the funds will be used for "tactical" or "strategic" purposes as defined by the policy. The Town Manager provided additional information in the town's fiscal year 2020 budget, on page 10 of the budget document, explaining that the town will work toward funding the 20 percent reserves policy in incremental stages over the next few budget years.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the Town of Bridgewater and have noted improvements in the performance of the following ratios:

- Ratio one shows a decreasing negative at (13.3) percent; no change in ratio points.
- Ratio three has improved to 6.2 percent with a decrease to ten ratio points.
- Ratio six has improved to 7.5 percent with a decrease to ten ratio points.
- Ratio seven has improved to 9.5 percent with a decrease to five ratio points.
- Ratio ten has improved to 334.1 percent with a decrease to 0 ratio points.

Following the completion of our follow up process with the Town of Bridgewater and review of the completed assessment questionnaire and various factors discussed above, the Office determined that Town Council and management have implemented budgetary and financial policies and other strategies to continue to work toward improving the town's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the Town of Bridgewater does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the town, Governor, and Chairs of the Money Committees concerning fiscal distress.

Town of Broadway

Subsequent to the Office's notification to the Town of Broadway regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the town submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the Town

Manager to discuss the main factors contributing to the town's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain further understanding of the town's budgetary and operational policies, along with other factors that positively affect the town's overall financial position and the plans it has in place to continue to move forward.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, three, six, seven, and ten, as noted below in Table 8, primarily contributed to the Town of Broadway receiving 45 ratio points in total. While the town's ratio points may be indicative of lower performance, the town shows several positive trends in our demographic and qualitative analysis, as noted in Appendix C. These trends include population growth; low unemployment rate that is below both the national and state averages; a growing median household income; however, it is still below the national and state averages; and a poverty rate that is below the national average and comparable to the state average. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratios one and two primarily focus on comparing the town's available, unrestricted reserves to total liabilities and revenues on an overall governmental and business type activities position. Likewise, ratios six and seven focus on comparing the unrestricted fund balance reserves in the general fund to total revenues and expenditures. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 8, suggest that the town has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, the result of ratio seven is due to the town having $0 total fund balance in the general fund, as reported on the general fund balance sheet in the town's 2017 annual financial report. Additionally, the town has reported a negative unassigned fund balance and $0 total fund balance in its general fund for the past several fiscal years.

Table 8

Town of Broadway Specific 2018 Ratio Results		
Ratio 1	0.14%	10 points
Ratio 2	5.19%	5 points
Ratio 6	(0.66)%	15 points
Ratio 7	0%	10 points

During our Office's follow up review and discussions, the Town Manager explained that Town Council's practice and policy is generally not to accumulate cash reserve balances in the general fund each year. The Town Manager noted that management and Town Council monitor the town's budget to actual results for revenues and expenses periodically throughout the year. Accordingly, this allows the town to plan for an unexpected event where expenses may be higher, or if revenues are not coming in as budgeted the town can cut any discretionary spending as needed. The Town Manager also explained that management and Town Council consider the town to have sufficient, available cash reserves in the general fund and the enterprise funds, which the town can access in case of an emergency or revenue shortfall. The total cash reserves available during 2017 was approximately $856,000, as reported in the government wide financial statements on page 12 of the 2017 annual financial report. This available cash represents the total of cash and cash equivalents and investments for the governmental and business type activities, which include the town's general fund and enterprise funds. Further, the Town Manager discussed that the town's regional wastewater treatment system, accounted for in the sewer enterprise fund, generates a significant amount of cash flow each year for the town. This is primarily due to the town's wastewater treatment system servicing two other localities along with two major industrial customers, which have contractual obligations for annual rate increases. Accordingly, the town is able to plan and budget throughout the year for the sewer fund to transfer funds to help supplement the operations of the general fund.

Additionally, during our follow up review, the Town Manager discussed that the decrease in available unrestricted reserves on a government wide level, as noted in Table 8 specific to the low performance of ratios one and two, relates to significant upgrades to the town's wastewater and water treatment plants. Specifically, the town is in the process of completing a significant upgrade to its water treatment plant, with completion expected in 2019, which comes right after the completion of a significant upgrade to its wastewater treatment plant. Over the past five years, the town has worked closely with a financial advisor to develop a multi-year capital and financial plan for these two major projects. Since 2014, the town has consulted with the financial advisor to implement various strategies and recommendations specific to the water and sewer capital and financial planning to achieve substantial operational costs savings and increase future revenues. These financial strategies primarily include restructuring outstanding debt and securing a water quality revolving fund loan and a drinking water revolving fund loan through the Virginia Resources Authority, along with developing a plan for systematic rate increases to generate sufficient revenues to fund the requirement for debt service reserves and to ensure adequate unrestricted cash reserve balances by fiscal year 2023.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the Town of Broadway and note that the town's results are generally consistent with the prior year results. The Office noted no significant fluctuations or results outside of our expectations based on our follow up review and discussions with the town.

Following the completion of our follow up process with the Town of Broadway and review of the completed assessment questionnaire and various factors discussed above, the Office determined that Town Council and management have implemented budgetary and financial policies and other strategies to continue to work toward improving the town's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the Town of Broadway does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the town, Governor, and Chairs of the Money Committees concerning fiscal distress.

Town of Marion

Subsequent to the Office's notification to the Town of Marion regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the town submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the Mayor, Town Manager, and Director of Finance to discuss the main factors contributing to the town's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain an understanding of the town's operational policies, along with other factors that positively affect the town's overall financial position and the plans it has in place to continue to move forward.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, six, seven, nine, and ten, as noted below in Table 9, primarily contributed to the Town of Marion receiving 75 ratio points in total. In addition, the main qualitative factors that we identified for the town relate to several lower trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C, the town shows a decline in population; an unemployment rate above both the national and state averages; a median household income below both the national and state averages, although the town shows growth in income over the past three years; and an increasing, high poverty rate above both the national and state averages. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratio one primarily focuses on comparing the town's available, unrestricted reserves to total revenues on an overall governmental and business type activities position. Likewise, ratios six, seven, and ten focus on comparing the town's unrestricted fund balance reserves in the general fund to total revenues and expenditures, as well as reviewing the change in the town's unrestricted fund balance of the general fund. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 9, suggest that the town has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, the negative result at ratio ten indicates the town's unassigned fund balance in the general fund significantly decreased from the prior year. As reported in the town's annual financial reports for fiscal year 2016, fiscal year 2017, and fiscal year 2018, the governmental funds balance sheet at Exhibit 3 for the general fund reports total fund balance of $226,000 in 2016, which decreased to a total balance of $269 in 2017, and a negative fund balance of $(631,000) in 2018. During 2017, the town reported a negative unassigned fund balance of approximately $(118,000).

Table 9

Town of Marion Specific 2018 Ratio Results		
Ratio 1	(21.24)%	10 points
Ratio 6	(1.63)%	15 points
Ratio 7	0%	10 points
Ratio 9	86.12%	10 points
Ratio 10	(211.12)%	10 points

During our Office's follow up review and discussions with the town, the Town Manager explained that Town Council's policy is generally not to accumulate cash reserve balances in the general fund each year, but instead the town's approach is to reinvest in capital annually. The Town Manager explained that he manages the town more from a private sector approach using a return on investment model to guide the overall operations of the town; for example, applying concepts such as cost-benefit analysis and strategic planning when approaching the town's capital investments. The town's overall intention is to keep its debt balances low and pay off the debt as quickly and inexpensively as possible within the ongoing requirements of the town's operations. In addition, the Town Manager discussed that the town benefits from a unique and profitable water source from owning two springs that do not require treatment. The town's water source, accounted for in the enterprise fund, generates a significant amount of cash flow, which allows the town to plan and budget each year for the water fund to transfer funds to help supplement the operations of the general fund. Further, the Town Manager explained that management and Town Council closely monitor the town's budget to actual results for revenues and expenses on a monthly basis. The Town Manager reviews the status of each departmental budget with the department directors each month to discuss how to plan and budget for any significant fluctuations going forward. Accordingly, this allows the Town Manager to plan for an unexpected event where expenses may be higher, or if revenues are not coming in as budgeted the town can cut any discretionary spending as needed.

Further, the Town Manager discussed that another aspect of the town's focus to reinvest in capital is through its Comprehensive Infrastructure Replacement Program (CIRP). Starting in 2014, town management and Town Council began intensive study and research to develop a strategic approach for upgrading all facets of the town's aging infrastructure, which encompasses the eight categories of underground utilities: water, sewer, storm water, electric, phone, cable, natural gas, and paving. During 2016, the town began implementation of this 15-year comprehensive capital plan to replace approximately 85 percent of the town's infrastructure. Through strategic planning for the CIRP project, the town has been able to carefully control the project financing and costs and has seen significant savings by having town management and employees involved throughout the project. The town dedicated certain employees and equipment exclusively to the CIRP project to allow the town to perform part of the work using the town's public works department. The town also used its purchasing power to buy all the materials, including for that portion of work that is contracted to private contractors. Additionally, the town has a sound financial plan in place to finance the project. The financing plan, authorized annually by Town Council, ensures that the town only performs what can be paid for based on committed revenues generated by a five percent water and sewer rate increase and pledged to a ten-year note at market rate. In other words, the Town Manager explained that the dollar amount of work the town commits to each year does not exceed the yearly loan payment equivalent to that percentage increase and the resulting revenues.

Further, as noted above in Table 9, the ratio nine result and level of points received would seem to indicate that the town has a very high level of total annual debt service expense. As noted in Appendix A, ratio nine measures the percent of the locality's operating budget or available revenues that is used to pay the annual debt service. During our follow up review and discussions, the Town Manager explained that the performance of ratio nine is related to a financial reporting matter in the town's annual financial report. Specifically, the largest portion of debt service expense shown in the general fund relates to the town's use of a revolving line of credit during the year. Similar to the practice of other localities using a tax or revenue anticipation loan, the town uses a line of credit with the bank for cash flow purposes during the leaner months throughout the year. The line of credit account is tied to the general fund checking account, and payments to pay off the line of credit balance are automatically pulled out of the checking account when the town deposits revenue collections throughout the year. The town's policy is to pay back any proceeds used from the line of credit during that fiscal year. When reviewing the town's 2017 annual financial report, the governmental funds financial statement on page 18 reports total debt service expenditures of approximately $5.5 million, along with other financing sources reporting the proceeds from the line of credit for $5.169 million. Further, as noted on page 48 of the notes to the financial statements, the summary schedule of long-term debt reports the receipt and payment of the line of credit amount of $5.169 million, shown as "issuances" and "retirements" during 2017. Accordingly, when adjusting for this in our ratio calculations, the revised ratio nine performs more appropriately at 5.85 percent, with a decrease to 0 points; thus measuring total debt service expenditures of approximately $336,000 related to the town's bonded debt in the general fund.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the Town of Marion and note that the town's results are generally consistent with the prior year results. The Office noted no significant fluctuations or results outside of our expectations based on our follow up review and discussions with the town.

Following the completion of our follow up process with the Town of Marion and review of the completed assessment questionnaire and various factors discussed above, the Office determined that Town Council and management have implemented budgetary and financial policies and other strategies to continue to work toward improving the town's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the Town of Marion does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the town, Governor, and Chairs of the Money Committees concerning fiscal distress.

Town of Richlands

Subsequent to the Office's notification to the Town of Richlands regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the town submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the Town Manager and Director of Finance to discuss the main factors contributing to the town's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain further understanding of the town's operational policies, along with other factors that positively affect the town's overall financial position and the plans it has in place to continue to move forward.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios six, seven, and ten, as noted below in Table 10, primarily contributed to the Town of Richlands receiving 43.33 ratio points in total. In addition, the main qualitative factors that we identified for the town relate to several lower trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C, the town shows a decline in population; an unemployment rate above both the national and state averages; a decreasing median household income below both the national and state averages; and an increasing poverty rate above both the national and state averages. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratios six, seven, and ten focus on comparing the town's unrestricted fund balance reserves in the general fund to total revenues and expenditures, as well as reviewing the change in the town's unrestricted fund balance in the general fund. Accordingly, the lower percentage results and higher points received at these ratios, as noted in Table 10, suggest that the town has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, the negative result at ratio ten indicates the town's unassigned fund balance in the general fund significantly decreased from the prior year.

Table 10

Town of Richlands Specific 2018 Ratio Results		
Ratio 6	3.45%	15 points
Ratio 7	9.42%	5 points
Ratio 10	(57.94)%	10 points

When reviewing the town's annual financial reports for fiscal years 2016 and 2017, the town's general fund unassigned fund balance was approximately $410,000 in 2016 and significantly decreased to approximately $173,000 in 2017, as reported on the governmental funds balance sheet, Exhibit 3, in the 2016 annual financial report and the 2017 annual financial report. Town management further notes that the available, unrestricted balance in the general fund is used in order to meet the town's ongoing obligations to citizens and creditors. As noted in the financial report, the unassigned fund balance decrease in the general fund was primarily a result of current year operations during fiscal year 2017, a combination of actual revenues being less than budgeted along with the acquisition of capital assets during the year. As noted on page 59 of the notes to the financial statement, the town reported approximately $344,000 in increases to capital assets for governmental activities during 2017, primarily related to infrastructure and machinery and equipment. The town used available fund balance reserves rather than incur additional debt to fund capital projects. Further, as noted on page 13 of management's discussion and analysis section of the 2017 annual financial report, actual revenues during the year were less than budgeted by approximately $953,000; however, the town also decreased operational and capital expenses during the year, coming under budgeted expenditures by approximately $1.5 million.

During our Office's follow up review and discussions with the town, the Town Manager explained that Town Council has not approved a formal fund balance reserves policy for the general fund. While the town generally tries to retain some fund balance reserves each year, the town may need to pull from the reserve balances if expected revenues decrease or unexpected costs arise. The Town Manager also discussed that management and Town Council monitor the town's budget to actual results for revenues and expenses quarterly throughout the year. The Town Manager reviews the status of each departmental budget with the department heads on a monthly basis to discuss how to plan and budget for any significant fluctuations going forward. Accordingly, this allows the Town Manager to plan for an unexpected event where expenses may be higher, or if revenues are not coming in as budgeted the town can cut any discretionary spending as needed. In addition, the Town Manager explained that management is in the process of developing a financial policy guidelines handbook for Town Council to approve and adopt in order to more formally establish the town's financial and operational policies that management and staff follow. Further, at the time of our follow up discussions, the Town Manager explained that Town Council recently implemented a cigarette tax rate again for the town, along with a water consumption tax for the most recent budget year to help stimulate more revenue growth for the town's general fund. Additionally, for contingency planning, the Town Manager explained that Town Council has the ability to raise the town's real estate tax rate, which has stayed the same for many years, and has the option to implement a personal property tax if necessary.

During our follow up review, the Town Manager also commented on some of the factors that our demographic and qualitative analysis noted. Specifically, similar to other southwestern localities in Virginia, the Town of Richlands' decline in population appears to be related to an aging population and a reduction in mining activity in recent years. Accordingly, the costs of operating the town is spread over fewer citizens, and absent the ability to reduce services, the incremental cost per citizen will increase. The town's management and Town Council consider and plan for this challenge each year throughout the town's budgetary process. The town looks for ways where it can operate more efficiently while also diversifying its economy through more economic development projects.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the Town of Richlands and note that the town's results are generally consistent with the prior year results. The Office noted no significant fluctuations or results outside of our expectations based on our follow up review and discussions with the town.

Following the completion of our follow up process with the Town of Richlands and review of the completed assessment questionnaire and various factors discussed above, the Office determined that Town Council and management have implemented budgetary and financial policies and other strategies to continue to work toward improving the town's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the Town of Richlands does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the town, Governor, and Chairs of the Money Committees concerning fiscal distress.

Town of Tazewell

Subsequent to the Office's notification to the Town of Tazewell regarding our preliminary determination to perform a follow up review based on the locality's results in our 2018 ratio and qualitative analyses, the town submitted the completed questionnaire and provided additional information as needed to facilitate further discussion. The Office held further discussions with the Town Manager and Treasurer to discuss the main factors contributing to the town's performance of certain financial ratios in our analysis and the results of the completed questionnaire. We also discussed additional information to obtain an understanding of the town's operational policies and the plans it has in place to continue to move forward.

When evaluating the outcome of the 12 financial ratios in the 2018 analysis, the results of ratios one, three, six, and ten, as noted below in Table 11, primarily contributed to the Town of Tazewell receiving 70 ratio points in total. In addition, the main qualitative factors that we identified for the town relate to a couple of trends noted in our demographic and qualitative analysis. Specifically, as noted in Appendix C, the town shows a decline in population and an unemployment rate above both the national and state averages, although the town shows a decreasing trend over the past three years. As positive trends, the town shows overall growth in its median household income and decreasing trends in its poverty rate, which is below the national average. Appendices A, B, and C at the end of this report give additional information on the 12 ratios calculated for the locality in the 2018 analysis, along with the overall factors that we consider as part of our demographic and qualitative analysis.

As described in Appendix A, ratios one and three primarily focus on comparing the town's available, unrestricted reserves to revenues and expenses on an overall governmental and business type activities position. Likewise, ratios six and ten focus on comparing the town's unrestricted fund balance reserves in the general fund to total expenditures, as well as reviewing the change in the town's unrestricted fund balance in the general fund. Accordingly, the negative and lower percentage results and higher points received at these ratios, as noted in Table 11, suggest that the town has a minimal level of unrestricted reserves to use in the event of a revenue shortfall or unforeseen situation. Further, the negative results at ratios six and ten indicate the town's unassigned fund balance in the general fund is a negative balance, and that negative balance grew larger when compared to the prior year. When reviewing the town's annual financial reports for fiscal years 2016 and 2017, the town's general fund unassigned fund balance was approximately $(625,000) in 2016 and approximately $(1.14) million in 2017, as reported on Exhibit 3 in the 2016 annual financial report and the 2017 annual financial report. A primary factor contributing to the town reporting a negative unassigned fund balance in the general fund is due to the town committing a general fund balance for approximately $1.7 million to use specifically for public works projects. Therefore, the total fund balance in the general fund during 2017 was a positive balance at approximately $746,000. Further, as a positive trend, the town reported unassigned fund balance in the general fund of approximately $7,500 during 2018, as reported on Exhibit 3 of the 2018 annual financial report.

Table 11

Town of Tazewell Specific 2018 Ratio Results		
Ratio 1	(8.27)%	10 points
Ratio 3	2.91%	15 points
Ratio 6	(18.94)%	15 points
Ratio 10	(82.40)%	10 points

During our Office's follow up review and discussions with the town, officials explained that Town Council has not implemented a formal fund balance reserves policy for the general fund. However, town officials discussed that during the December 18, 2018, council meeting the external auditor, from the CPA firm that performs the town's annual audit, discussed the town's financial condition and recommendations from the most recent fiscal year 2018 audit. The external auditor commented that as good practice Town Council should consider working toward accumulating unrestricted fund balance reserves in the general fund at a level that is at least ten percent of operating expenditures to have for contingencies. Since the town is currently lean in its available cash reserves, the external auditor also recommended that management and Town Council consider preparing a five-year financial and budgetary plan to facilitate better forecasting for either future revenue increases or decreased spending, and to prepare for future capital needs. Town management discussed with our Office that they will continue to consider these recommendations from the auditor during budget work sessions and meetings with Town Council. At the time of our follow up discussions, the Town Manager commented that during the March 2019 budget work sessions for the 2020 budget year, Town Council approved raising the town's business and professional license (BPOL) tax and cigarette tax rates, along with raising the sewer utility rates, to help stimulate additional revenue growth for the town. Additionally, as part of our follow up review, the town Treasurer noted that management monitors and reviews with Town Council the budget to actual results for revenues and expenses throughout the year, and Town Council reviews and votes to approve the town's monthly financial reports as part of their monthly meetings. This allows management to monitor and plan for any unforeseen costs or potential revenue shortfall and discuss budget adjustments as needed with Town Council.

As of the date of this report, the Office has completed a preliminary review of the ratio analysis based on audited data from the most recent annual financial report for fiscal year 2018, as part of our 2019 monitoring process. We have reviewed the preliminary 2019 ratio analysis for the Town of Tazewell and note that the town's results are generally consistent with the prior year results. The Office noted no significant fluctuations or results outside of our expectations based on our follow up review and discussions with the town.

Following the completion of our follow up process with the Town of Tazewell and review of the completed assessment questionnaire and various factors discussed above, the Office determined that Town Council and management have implemented budgetary and financial policies to continue to work toward improving the town's financial position. The primary objective of our follow up review with each locality identified is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance or intervention from the Commonwealth. Based on our follow up review, the Office concluded that the Town of Tazewell does not appear to be in a situation of fiscal distress that would warrant further assistance from the Commonwealth. Accordingly, the Office made no further notification or recommendation to the town, Governor, and Chairs of the Money Committees concerning fiscal distress.

Commonwealth of Virginia

Auditor of Public Accounts

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June 21, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable S. Chris Jones
Chairman, House Appropriations Committee

The Honorable Thomas K. Norment, Jr.
Chairman, Senate Finance Committee

The Honorable Emmett W. Hanger, Jr.
Chairman, Senate Finance Committee

The Honorable Aubrey L. Layne, Jr.
Secretary of Finance

We are pleased to submit our second annual **Local Government Fiscal Distress Monitoring Report**, which describes the results from the legislation directing our Office to establish an early warning system to monitor fiscal distress at Virginia's local governments. This report provides you an overview regarding the legislative requirements and summary of the process and analysis that our Office first implemented during 2017 to develop an early warning monitoring system. This report further provides information on the refinements we made during 2018 to improve and enhance the early warning monitoring system, along with the results of our reviews performed with specific localities identified as part of our analysis this past year.

We would like to express our appreciation to the many individuals whose efforts continued to assist in our researching and developing this process for an early warning system, and for the valuable feedback provided to further refine our analysis. We also express our appreciation to the various locality officials and staff for their responsiveness to our additional inquiries and cooperation during our follow up reviews.

AUDITOR OF PUBLIC ACCOUNTS

RNR/clj

The following information expands on the 12 financial ratios used in our ratio analysis, as described in Figure 1, to provide the specific ratio calculations, further interpretation from the Office related to the outcome of each ratio, and the weighting and points assignment for each ratio based on applicable levels of performance. The first five ratios are calculated using audited data from a locality's overall financial statement of net position and statement of activities for all governmental and business type activities combined. Ratios six through 11 are calculated using audited data from the balance sheet and income statement of a locality's general fund—its primary operating fund. In some instances, ratio nine is calculated using data from a locality's separate debt service fund, if applicable to the locality. Ratio 12 is calculated based on audited data from the income statement for any business type enterprise funds, if applicable to the locality.

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
1	Cash and Cash Equivalents + Investments - Current Liabilities/ Charges for Services + General Revenues	This ratio measures the sufficiency of unrestricted reserves relative to the locality's normal revenue (non-grant revenue). By comparing the locality's unrestricted liquid assets (net of current liabilities) to its normal revenue, we can see the locality's ability to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation.	• A higher ratio percentage suggests a locality is in a desirable position to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation. • A lower ratio percentage suggests that a locality may not be in a desirable position to make up a revenue shortfall or utilize unrestricted reserves during an unforeseen situation. • A negative ratio percentage indicates that a locality does not have any unrestricted reserves.	Ratio is weighted at 10% • Ratio result is negative or less than 5%: 10 points • Ratio result is between 5% and 10%: 6.67 points • Ratio result is between 10% and 15%: 3.33 points • Ratio result is equal to or greater than 15%: 0 points
2	Cash and Cash Equivalents + Investments/ Total (Current and Noncurrent) Liabilities	This ratio measures the sufficiency of unrestricted reserves relative to the locality's total liabilities. By comparing the locality's unrestricted liquid assets to total liabilities, we can see its ability to pay total liabilities without needing additional revenue.	• A higher ratio percentage suggests that a locality is in a desirable position to meet its obligations. • A lower ratio percentage suggests that a locality may not be in a desirable position to meet its obligations without obtaining additional revenues.	Ratio is weighted at 5% • Ratio result is less than 30%: 5 points • Ratio result is between 30% and 60%: 2.5 points • Ratio result is equal to or greater than 60%: 0 points
3	Net Position Unrestricted/ Total Expenses	This ratio measures the sufficiency of unrestricted reserves relative to the locality's expenses. By comparing the locality's unrestricted net position to its total expenses, we can see to what extent the locality can fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation.	• A higher ratio percentage suggests that a locality is in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A lower ratio percentage suggests that a locality may not be in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A negative ratio percentage indicates that a locality has a deficit unrestricted net position.	Ratio is weighted at 15% • Ratio result is negative or less than 5%: 15 points • Ratio result is between 5% and 10%: 10 points • Ratio result is between 10% and 15% : 5 points • Ratio result is equal to or greater than 15%: 0 points
4	Change in Net Position (Ending - Beginning)/ Net Position Beginning	This financial performance ratio shows the magnitude of how the locality's financial position improved or deteriorated as a result of resource flow. The percent change in net position provides the magnitude of how the beginning resource level changed as a result of resource flow during the fiscal year.	The desirable change should be positive rather than negative. • A positive ratio percentage indicates that a locality's net position has improved from the prior year. • A negative ratio percentage indicates that a locality's net position has deteriorated from the prior year. The higher the percentage decrease indicates a more negative downward trend.	Ratio is weighted at 10% • Ratio result is negative with a high decrease equal to or greater than (40)%: 10 points • Ratio result is negative with an intermediate decrease between (15)% and (40)%: 6.67 points • Ratio result is negative with a low decrease between (.01)% and (15)%: 3.33 points • Ratio result is positive or no change: 0 points
5	Total Tax Supported Debt (Governmental Activities and Business Type)/FMV of Taxable Real Estate and Personal Property	This ratio looks at the total debt burden of a locality by measuring total direct, tax supported debt outstanding for governmental and business type activities to the locality's fair market value (FMV) of total taxable real estate and personal property. The valuation data for cities and counties taxable real estate and tangible personal property is obtained from Table 6.2 and Table 6.4 of the Virginia Department of Taxation's Annual Report, as of the most recent tax year. Valuation data for towns is not published in this annual report; therefore, the towns' data is obtained from statistical schedules included as part of their audited annual financial reports, if available.	The Office uses a standard methodology in measuring this ratio comparable to how other professionals examine trends for this ratio, such as the Virginia Resources Authority, International City/County Management Association (ICMA), and bond rating agencies, along with other state's fiscal monitoring systems. An increase in net direct long-term debt as a percentage of real property valuation can indicate that a locality's ability to repay its obligations is trending negatively. The Office uses the following trends when evaluating this ratio: • Ratio percentage less than 3% is strong • Ratio percentage between 3% and 6% is adequate • Ratio percentage equal to or greater than 6% is weak	Ratio is weighted at 10% • Ratio result is greater than 6%: 10 points • Ratio result is between 3% and 6%: 5 points • Ratio result is less than 3%: 0 points

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
6	Unassigned + Assigned Fund Balances (+ other Committed reserves where applicable) / Total Expenditures	This ratio measures the sufficiency of unrestricted reserves, plus any applicable reserves specifically set aside, relative to the locality's operating expenditures. By comparing the locality's fund balance reserves to its operating expenditures, we can see to what extent the locality can fund operating expenditures from reserves in the event of a revenue shortfall or unforeseen situation.	• A higher ratio percentage suggests that a locality is in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A lower ratio percentage suggests that a locality may not be in a desirable position to fund expenses from unrestricted reserves in the event of a revenue shortfall or unforeseen situation. • A negative ratio percentage indicates that a locality has a deficit unassigned fund balance in its general fund.	Ratio is weighted at 15% • Ratio result is negative or less than 5%: 15 points • Ratio result is between 5% and 10%: 10 points • Ratio result is between 10% and 15%: 5 points • Ratio result is equal to or greater than 15%: 0 points
7	Total Fund Balance/ Total Revenues	This ratio measures the sufficiency of reserves relative to the locality's general fund revenue. By comparing the locality's reserves to its revenue, we can see to what extent the locality can make up revenue shortfalls with reserves.	• A higher ratio percentage suggests that a locality is in a desirable position to have sufficient reserves in the event of a revenue shortfall. • A lower ratio percentage suggests that a locality may not be in a desirable position to have sufficient reserves in the event of a revenue shortfall.	Ratio is weighted at 10% • Ratio result is negative or less than 5%: 10 points • Ratio result is between 5% and 10%: 5 points • Ratio result is equal to or greater than 10%: 0 points
8	Total Revenues/ Total Expenditures	This ratio, known as the Service Obligation or Operations Ratio, measures whether a locality's annual revenues were sufficient to pay for annual operations. This ratio does not account for Other Financing Sources, such as Transfers In.	This ratio has a natural benchmark of 100 percent or higher. A ratio result under 100 percent means that total expenditures exceeded total revenues in the general fund.	Ratio is weighted at 10% • Ratio result is less than 60%: 10 points • Ratio result is between 60% and 100%: 5 points • Ratio result is equal to or greater than 100%: 0 points
9	Debt Service Principal and Interest Expenditures/Total Revenues (available to pay the debt service)	This ratio measures total debt service expenditures divided by total revenues, primarily from the general fund. It also includes any other applicable governmental funds, since some localities account for debt service in separate debt service fund or capital project fund outside of the general fund. This ratio identifies the percent of the locality's budget that is used or needed for repayment of debt. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for asset repair/ replacement or meeting current service demands. As debt service increases, it adds to a locality's obligations and reduces the locality's expenditure flexibility.	• A higher ratio percentage suggests that a locality is an unfavorable position since the locality spends more of its current budget on debt repayment. • A lower ratio percentage suggests that a locality is in a more desirable, favorable position since the locality is spending less of its current budget on debt repayment.	Ratio is weighted at 10% • Ratio result is equal to or greater than 20%: 10 points • Ratio result is between 10% and 20%: 5 points • Ratio result is equal to or less than 10%: 0 points
10	Change in General Fund Unassigned Fund Balance (Current Year Ending - Prior Year Ending/ Prior Year Ending)	This ratio identifies changes (increases or decreases) in unassigned fund balances from the prior year to the current year and is useful in identifying a locality whose unassigned fund balance is deteriorating over time, and how rapidly it may be decreasing.	• A positive change indicates a more favorable position since this indicates that unrestricted fund balance is growing. • A negative change could indicate an unfavorable position, particularly over a period of years, as this could indicate the locality is using fund balance reserves due to a fiscal distress situation.	Ratio is weighted at 10% • Ratio result is negative with a high decrease equal to or greater than (30)%: 10 points • Ratio result is negative with an intermediate decrease between (15)% and (30)%: 6.67 points • Ratio result is negative with a low decrease between (.01)% and (15)%: 3.33 points • Ratio result is positive or no change: 0 points
11	Intergovernmental Operating Revenues/ Total Revenues	This ratio looks at a locality's reliance on revenues coming from other governmental revenues, such as grants and aid coming from federal and state. A key factor is also to determine the locality's vulnerability to reductions of such revenues. The external source may withdraw the funds and leave the locality with the dilemma of cutting programs or having to pay for them with general fund resources.	• A higher ratio percentage indicates that the locality has a higher dependence on revenues coming from other sources outside of the locality's own local revenues, and may suggest that a locality is an unfavorable position. • A lower ratio percentage indicates that the locality has a lower dependence on revenues coming from other sources outside of the locality's own local revenues, and may suggest that a locality is in a more favorable position.	Ratio is weighted at 10% • Ratio result is equal to or greater than 50%: 10 points • Ratio result is between 25% and 50%: 5 points • Ratio result is less than 25%: 0 points

Ratio	Ratio Calculations	Ratio Description	Ratio Results Interpretation	Assignment of Points Based on Ratio Results
12	Proprietary Fund Statements- Enterprise Fund Activity: Change in Net Position - Net Fund Transfers To (From)/ Expenses	This ratio is known as the "Business Type Activity Self Sufficiency" ratio, which measures the percent of business type enterprise fund(s) expenses that were covered by enterprise fund(s) non-transfer revenues. If a locality has an enterprise fund that is not self-sufficient and not self-supporting, but continues to rely on general fund transfers to support the enterprise fund, this could be a sign of distress. While this ratio shows coverage in total for all enterprise funds (as applicable), an important factor to consider is whether any transfers or loans were required for individual enterprise funds.	• A ratio result of 100% or greater indicates that enterprise fund activities as a whole were successful in recovering the full costs of service through charges for services or other revenues. • A ratio result of less than 100% indicates that the enterprise fund activities had to borrow from the past (by spending down assets or fund balance), borrow from the future (by increasing liabilities), or be subsidized by governmental funds through transfers, such as transfers from the general fund.	Ratio is weighted at 10% • Ratio result is between 1% and 50%: 10 points • Ratio result is between 50% and 100%: 5 points • Ratio result is equal to or greater than 100%: 0 points

Financial Ratio Results by Locality

The following information provides a summary of the 2018 financial ratio analysis. Appendix A above gives a detailed description of each ratio and the financial statement data that was used to calculate each ratio. Each locality's ratio results are included in summary detail below for cities, counties, and the towns required under statute to have an annual audit, based on data from the audited fiscal year 2017 annual financial reports. Refer to additional information on page 10 under the section Localities Identified in 2018 Ratio and Qualitative Analyses of this report.

Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
City of Alexandria	42.96%	60.11%	28.24%	12.07%	1.56%	16.51%	17.55%	115.92%	9.48%	18.44%	8.26%	0.00%
City of Bristol	9.68%	10.04%	8.50%	12.76%	8.79%	15.26%	23.38%	100.89%	7.63%	12.95%	36.74%	81.42%
City of Buena Vista	(78.25)%	13.81%	15.01%	(2.58)%	2.73%	21.02%	21.87%	103.39%	1.32%	(8.33)%	38.67%	70.76%
City of Charlottesville	31.56%	59.61%	53.70%	4.73%	2.25%	36.58%	30.68%	119.25%	6.45%	44.33%	18.52%	111.38%
City of Chesapeake	43.30%	41.33%	49.30%	12.45%	1.57%	22.68%	37.40%	117.51%	6.61%	3.59%	16.81%	138.22%
City of Colonial Heights	5.05%	19.65%	37.05%	6.42%	2.43%	18.83%	20.13%	101.34%	6.64%	9.88%	13.05%	102.35%
City of Covington	27.21%	18.71%	17.58%	13.28%	4.50%	24.03%	26.14%	98.29%	10.73%	8.89%	21.16%	146.72%
City of Danville	38.02%	97.49%	73.21%	(1.94)%	3.61%	41.90%	51.75%	87.47%	5.71%	(6.53)%	23.65%	112.90%
City of Emporia	65.00%	50.91%	70.22%	6.08%	3.77%	62.55%	67.14%	105.09%	4.29%	13.00%	25.13%	116.36%
City of Fairfax	15.77%	25.92%	24.59%	18.33%	1.36%	15.27%	15.24%	110.52%	10.61%	14.91%	6.92%	93.96%
City of Falls Church	44.20%	71.05%	75.65%	7.55%	1.63%	21.19%	35.40%	101.10%	7.59%	4.01%	6.59%	165.06%
City of Franklin	10.68%	33.60%	19.70%	7.66%	3.15%	26.98%	31.58%	101.28%	4.74%	(2.59)%	20.78%	112.56%
City of Fredericksburg	43.15%	46.74%	52.58%	2.91%	2.61%	21.26%	27.22%	112.54%	9.19%	(18.01)%	10.47%	121.62%
City of Galax	6.12%	29.27%	21.62%	3.37%	1.53%	15.40%	24.14%	100.63%	5.00%	12.56%	30.80%	103.92%
City of Hampton	35.11%	42.09%	19.04%	0.13%	2.21%	22.40%	29.10%	122.78%	9.96%	0.05%	19.81%	85.40%
City of Harrisonburg	26.34%	30.29%	34.82%	5.27%	4.39%	30.66%	31.64%	101.51%	13.75%	6.30%	10.02%	131.94%
City of Hopewell	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City of Lexington	58.34%	46.34%	74.96%	5.03%	5.58%	48.45%	50.10%	107.82%	12.00%	(3.18)%	13.82%	113.24%
City of Lynchburg	28.30%	24.86%	40.40%	2.22%	4.35%	17.34%	24.43%	102.95%	9.77%	6.09%	20.34%	123.90%
City of Manassas	40.26%	73.36%	54.72%	6.02%	2.40%	27.44%	28.64%	105.06%	8.37%	5.85%	11.28%	131.10%
City of Manassas Park	(1.83)%	10.76%	27.84%	54.39%	6.71%	12.78%	10.71%	124.55%	18.95%	321.59%	13.40%	141.30%
City of Martinsville	26.79%	50.96%	44.34%	10.87%	0.37%	9.80%	20.55%	95.28%	6.37%	(31.13)%	32.82%	120.80%
City of Newport News	(0.05)%	23.65%	24.03%	2.82%	2.94%	19.33%	20.37%	108.96%	12.97%	1.29%	9.86%	142.05%
City of Norfolk	5.41%	12.92%	25.96%	3.99%	5.04%	19.85%	19.26%	111.54%	12.91%	(3.32)%	22.35%	126.45%
City of Norton	(2.67)%	13.36%	16.36%	0.23%	3.44%	14.54%	18.50%	105.80%	1.70%	21.60%	18.94%	91.75%
City of Petersburg	(27.61)%	13.09%	14.05%	38.92%	2.12%	(0.22)%	11.96%	110.95%	7.92%	98.14%	26.87%	101.73%
City of Poquoson	12.10%	21.26%	27.49%	6.23%	1.64%	20.93%	26.63%	111.40%	10.02%	(0.68)%	17.66%	132.69%
City of Portsmouth	55.88%	29.65%	(9.87)%	10.34%	7.41%	34.01%	30.42%	119.62%	16.98%	(1.83)%	17.63%	98.65%
City of Radford	12.40%	39.51%	22.46%	(5.64)%	2.40%	4.88%	22.22%	74.20%	9.03%	(2.35)%	27.12%	117.25%
City of Richmond	(4.14)%	16.27%	30.77%	15.68%	3.90%	21.48%	19.14%	114.25%	9.04%	9.69%	16.09%	115.39%
City of Roanoke	8.63%	25.82%	20.80%	4.18%	3.17%	11.45%	11.93%	107.35%	9.48%	3.34%	26.04%	116.07%
City of Salem	37.76%	71.01%	64.01%	12.56%	3.26%	34.52%	36.24%	115.75%	5.25%	41.47%	15.93%	121.37%
City of Staunton	51.06%	68.92%	66.19%	5.58%	1.17%	27.82%	25.00%	115.46%	7.11%	24.95%	23.06%	116.36%
City of Suffolk	37.60%	21.84%	50.83%	4.16%	4.54%	36.11%	34.27%	118.32%	13.43%	3.37%	13.41%	107.54%
City of Virginia Beach	11.67%	25.92%	24.91%	2.90%	1.10%	19.95%	20.23%	114.32%	12.53%	10.57%	16.63%	116.50%
City of Waynesboro	36.17%	42.31%	49.68%	4.90%	2.41%	23.08%	30.68%	105.27%	8.21%	(15.69)%	20.41%	110.52%
City of Williamsburg	63.73%	198.90%	76.97%	(0.61)%	0.64%	65.71%	74.52%	98.22%	2.94%	2.16%	14.71%	115.71%
City of Winchester	10.30%	15.35%	34.71%	14.16%	3.49%	30.11%	30.35%	104.24%	12.95%	6.48%	8.10%	128.08%
County of Accomack	27.90%	53.52%	26.23%	3.06%	0.52%	47.41%	41.94%	113.97%	11.90%	28.13%	19.58%	90.01%
County of Albemarle	21.81%	34.08%	17.64%	(29.70)%	1.29%	24.11%	21.07%	121.22%	8.32%	16.33%	12.93%	0.00%
County of Alleghany	19.71%	41.21%	33.24%	3.27%	0.40%	25.06%	26.01%	98.93%	5.20%	(2.98)%	38.66%	86.56%
County of Amelia	41.22%	119.18%	62.60%	11.37%	0.30%	35.85%	43.87%	96.14%	3.55%	(1.58)%	28.84%	63.11%
County of Amherst	54.80%	49.76%	39.88%	4.37%	0.23%	34.65%	35.27%	101.97%	7.02%	7.08%	19.84%	124.77%
County of Appomattox	55.66%	47.20%	62.99%	18.56%	0.77%	46.04%	43.40%	106.58%	13.56%	14.01%	29.99%	41.52%
County of Arlington	36.42%	47.27%	45.12%	1.98%	1.47%	14.34%	15.38%	94.22%	5.02%	0.00%	7.70%	121.01%
County of Augusta	32.49%	44.06%	40.18%	(57.08)%	1.15%	17.98%	19.43%	120.66%	8.21%	9.80%	14.75%	0.00%
County of Bath	42.58%	134.72%	52.33%	(2.29)%	0.00%	48.03%	48.82%	98.52%	6.65%	(4.99)%	12.35%	0.00%
County of Bedford	60.27%	72.64%	62.74%	3.17%	0.76%	52.54%	91.49%	93.18%	7.78%	1.63%	20.58%	113.77%
County of Bland	36.48%	27.57%	45.45%	(2.81)%	0.00%	53.29%	53.34%	103.36%	2.02%	18.38%	32.50%	42.90%
County of Botetourt	36.14%	67.50%	29.94%	(4.97)%	0.67%	36.27%	36.19%	101.40%	5.24%	5.15%	23.40%	0.00%
County of Brunswick	53.64%	77.28%	40.36%	37.09%	0.36%	70.26%	62.87%	118.13%	9.55%	27.58%	17.61%	0.00%
County of Buchanan	38.72%	165.43%	50.01%	10.40%	0.15%	48.94%	69.30%	107.04%	3.88%	34.86%	32.02%	0.00%
County of Buckingham	41.98%	27.20%	62.61%	11.47%	1.60%	48.19%	44.46%	128.18%	15.52%	29.03%	22.43%	238.66%
County of Campbell	36.80%	66.40%	41.89%	5.92%	0.77%	32.24%	40.20%	106.97%	6.77%	33.11%	24.28%	0.00%
County of Caroline	23.11%	17.83%	44.29%	10.54%	1.64%	52.83%	51.38%	131.73%	19.22%	6.44%	11.54%	72.37%
County of Carroll	(0.26)%	14.61%	35.21%	3.18%	0.83%	19.07%	21.67%	97.91%	12.93%	(9.43)%	24.23%	0.00%
County of Charles City	49.73%	438.53%	57.83%	17.33%	0.00%	39.99%	51.73%	117.56%	3.18%	60.87%	16.95%	114.32%
County of Charlotte	64.49%	58.87%	16.75%	22.56%	1.30%	62.31%	57.94%	107.96%	3.25%	12.30%	40.34%	0.00%
County of Chesterfield	83.91%	117.90%	68.71%	7.26%	1.27%	46.38%	45.54%	108.01%	8.08%	2.28%	21.92%	164.36%
County of Clarke	25.88%	35.52%	44.07%	2.58%	1.15%	44.15%	41.13%	109.74%	14.23%	(44.94)%	15.85%	0.00%
County of Craig	44.27%	113.11%	53.16%	7.81%	0.42%	44.68%	41.45%	108.34%	6.78%	47.52%	33.95%	0.00%
County of Culpeper	32.33%	38.21%	41.38%	0.27%	0.42%	34.34%	34.20%	106.84%	9.71%	1.44%	22.66%	62.45%
County of Cumberland	13.88%	13.46%	34.70%	(58.92)%	3.16%	18.18%	18.76%	103.56%	58.95%	21.05%	15.97%	56.71%
County of Dickenson	72.29%	88.85%	11.34%	41.35%	0.03%	12.61%	15.57%	105.67%	4.70%	64.74%	31.43%	0.00%
County of Dinwiddie	20.62%	22.95%	38.10%	0.48%	0.50%	37.77%	33.89%	122.16%	14.51%	(14.98)%	19.73%	0.00%
County of Essex	32.52%	30.47%	23.91%	8.32%	1.27%	26.86%	26.00%	103.33%	15.29%	9.75%	23.78%	0.00%
County of Fairfax	19.88%	34.71%	16.58%	23.62%	0.99%	17.43%	10.37%	117.55%	7.90%	86.57%	8.78%	131.99%

Financial Ratio Results by Locality

Appendix B

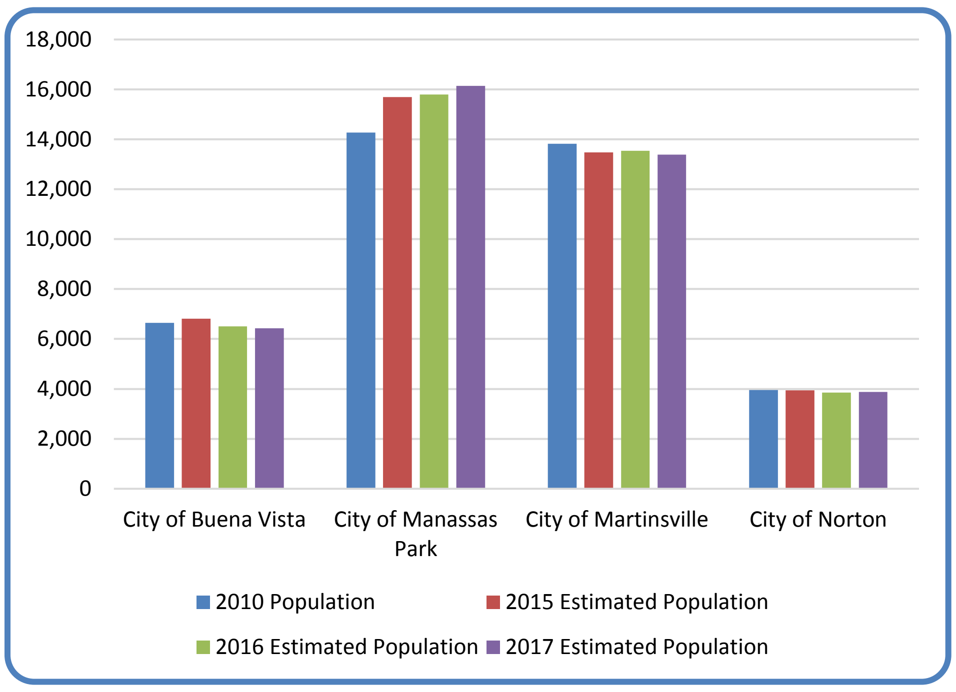
Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
County of Fauquier	17.37%	39.07%	14.77%	65.07%	0.70%	17.48%	16.59%	112.82%	7.42%	12.37%	17.84%	81.81%
County of Floyd	34.22%	59.98%	42.88%	14.62%	0.42%	44.89%	55.21%	96.87%	18.65%	3.52%	23.91%	0.00%
County of Fluvanna	20.14%	17.35%	54.41%	4.08%	3.46%	36.55%	47.72%	109.56%	16.11%	(7.80)%	20.28%	61.35%
County of Franklin	30.40%	45.33%	24.94%	4.51%	0.69%	29.09%	27.72%	106.87%	6.96%	5.31%	22.83%	59.14%
County of Frederick	43.04%	47.98%	50.82%	31.43%	1.23%	36.65%	36.69%	118.49%	11.35%	12.26%	14.61%	120.24%
County of Giles	0.53%	12.25%	21.08%	11.77%	0.20%	13.85%	12.46%	111.13%	4.51%	116.20%	28.53%	43.81%
County of Gloucester	20.68%	42.03%	41.96%	7.77%	0.70%	39.96%	36.85%	119.82%	9.61%	2.58%	14.75%	139.04%
County of Goochland	75.84%	36.80%	51.41%	3.14%	0.19%	66.71%	65.77%	111.30%	5.76%	0.24%	14.71%	92.88%
County of Grayson	44.24%	43.66%	56.64%	0.87%	0.93%	41.05%	44.09%	96.14%	6.72%	(2.73)%	30.23%	68.37%
County of Greene	28.59%	39.99%	41.32%	6.49%	0.44%	29.43%	38.15%	105.11%	8.62%	(30.34)%	20.99%	0.00%
County of Greensville	58.87%	41.96%	64.32%	12.79%	0.20%	34.37%	34.62%	115.72%	14.25%	70.60%	30.77%	191.94%
County of Halifax	34.32%	30.23%	53.01%	13.79%	1.28%	59.89%	55.13%	112.61%	14.37%	20.50%	14.76%	0.00%
County of Hanover	33.09%	57.57%	43.50%	3.29%	1.08%	26.06%	23.27%	115.14%	8.67%	4.20%	14.17%	135.67%
County of Henrico	59.73%	69.94%	23.53%	3.43%	1.21%	32.49%	32.49%	121.10%	7.84%	3.84%	18.11%	129.94%
County of Henry	75.85%	99.98%	93.89%	11.30%	0.27%	67.70%	70.29%	103.38%	0.13%	(11.50)%	21.30%	76.51%
County of Highland	116.10%	937.74%	97.02%	2.88%	0.00%	75.74%	85.14%	110.88%	0.35%	5.72%	23.66%	101.10%
County of Isle Of Wight	25.23%	20.40%	16.86%	132.67%	3.44%	26.61%	27.66%	128.26%	10.89%	(23.50)%	10.72%	68.65%
County of James City	31.25%	44.66%	63.06%	5.56%	0.33%	27.30%	21.32%	129.05%	11.70%	14.82%	13.92%	108.86%
County of King & Queen	194.02%	816.89%	188.70%	10.02%	0.00%	129.89%	154.30%	127.35%	0.00%	(22.96)%	23.39%	99.99%
County of King George	64.82%	43.15%	82.10%	1.02%	0.41%	42.10%	63.44%	90.17%	13.59%	(8.44)%	18.13%	87.60%
County of King William	30.53%	51.60%	46.08%	17.29%	0.43%	45.40%	45.25%	116.97%	11.00%	17.10%	17.27%	0.00%
County of Lancaster	6.02%	40.30%	20.52%	(11.54)%	0.06%	12.88%	15.87%	87.07%	8.66%	(29.73)%	20.17%	2929.59%
County of Lee	44.19%	105.53%	44.90%	(3.57)%	0.18%	29.78%	42.36%	98.03%	2.96%	(7.68)%	45.54%	0.00%
County of Loudoun	53.29%	64.94%	16.57%	18.95%	1.36%	25.48%	22.82%	124.00%	11.18%	22.99%	6.36%	0.00%
County of Louisa	123.63%	117.38%	90.38%	12.19%	0.53%	61.61%	59.48%	104.16%	17.02%	10.84%	12.39%	0.00%
County of Lunenburg	72.20%	67.22%	79.63%	9.69%	0.85%	60.92%	70.04%	111.23%	39.08%	7.11%	39.45%	0.00%
County of Madison	51.77%	97.10%	55.09%	4.22%	0.00%	52.00%	51.12%	105.01%	5.22%	7.36%	27.21%	0.00%
County of Mathews	29.01%	105.87%	43.97%	18.43%	0.08%	34.27%	40.89%	110.06%	6.66%	28.26%	22.77%	0.00%
County of Mecklenburg	72.62%	443.66%	74.08%	15.37%	0.11%	13.47%	17.94%	117.89%	0.00%	(0.54)%	8.81%	0.00%
County of Middlesex	45.20%	43.04%	66.50%	12.71%	0.09%	34.99%	33.63%	104.86%	34.57%	13.29%	14.23%	0.00%
County of Montgomery	30.23%	30.60%	52.51%	11.25%	2.16%	26.39%	34.66%	106.52%	19.79%	0.29%	15.04%	0.00%
County of Nelson	61.48%	80.17%	81.05%	2.70%	0.26%	75.82%	67.18%	113.62%	10.23%	2.32%	16.79%	58.55%
County of New Kent	57.57%	45.08%	82.80%	1.60%	0.31%	30.82%	24.33%	134.91%	17.51%	8.70%	14.35%	118.03%
County of Northampton	49.15%	46.86%	47.26%	11.40%	0.28%	46.11%	35.22%	130.93%	10.46%	21.91%	14.38%	97.41%
County of Northumberland	15.11%	17.26%	23.47%	10.58%	1.09%	23.50%	21.42%	109.75%	6.67%	64.41%	17.72%	43.84%
County of Nottoway	160.22%	245.58%	127.89%	2.61%	0.21%	112.01%	110.67%	110.33%	4.44%	5.27%	32.11%	0.00%
County of Orange	35.08%	29.42%	46.42%	0.87%	1.04%	44.08%	33.63%	131.17%	16.43%	(12.50)%	14.23%	26.57%
County of Page	4.55%	13.50%	(25.41)%	16.86%	1.94%	26.06%	23.66%	110.25%	16.28%	40.82%	17.97%	0.00%
County of Patrick	25.58%	17.90%	34.23%	(4.08)%	1.72%	27.97%	30.29%	98.47%	11.39%	(20.50)%	28.06%	27.62%
County of Pittsylvania	37.03%	33.99%	34.69%	19.56%	1.84%	34.01%	37.83%	92.14%	19.13%	(28.42)%	32.41%	0.00%
County of Powhatan	8.52%	12.17%	31.67%	10.13%	0.71%	33.03%	29.72%	111.17%	17.25%	3.49%	15.76%	20.09%
County of Prince Edward	45.15%	45.63%	26.30%	70.55%	0.22%	53.45%	48.41%	111.22%	3.49%	25.22%	28.94%	1.13%
County of Prince George	41.65%	56.52%	61.15%	14.77%	1.54%	61.40%	45.70%	134.37%	14.75%	28.06%	19.22%	118.74%
County of Prince William	46.82%	55.12%	8.57%	0.55%	1.71%	16.01%	18.08%	99.41%	12.67%	3.94%	14.44%	131.19%
County of Pulaski	30.76%	65.86%	44.64%	8.94%	0.33%	32.47%	30.59%	111.34%	6.23%	42.39%	29.62%	0.00%
County of Rappahannock	21.00%	67.62%	13.77%	9.15%	0.16%	22.77%	21.49%	105.94%	2.96%	29.66%	21.27%	0.00%
County of Richmond	(12.24)%	4.30%	5.90%	17.97%	1.83%	2.27%	2.95%	101.01%	10.71%	198.34%	25.51%	0.00%
County of Roanoke	12.29%	26.21%	18.65%	(8.49)%	1.01%	14.03%	18.18%	111.25%	9.75%	3.35%	17.05%	0.00%
County of Rockbridge	42.12%	34.84%	70.33%	5.26%	1.40%	62.19%	58.18%	108.80%	9.92%	5.67%	11.73%	135.52%
County of Rockingham	28.99%	41.02%	37.57%	24.49%	0.77%	18.67%	22.13%	98.33%	9.17%	(13.04)%	15.27%	119.27%
County of Russell	2.69%	28.27%	20.81%	(0.80)%	0.37%	24.07%	35.22%	97.31%	5.76%	6.17%	35.63%	21.48%
County of Scott	10.62%	73.38%	5.52%	(7.61)%	0.27%	15.89%	12.65%	126.80%	1.15%	(9.05)%	32.18%	0.00%
County of Shenandoah	32.44%	47.22%	19.02%	22.04%	0.87%	23.74%	28.41%	117.97%	9.04%	20.79%	22.47%	76.86%
County of Smyth	18.24%	19.93%	31.65%	1.22%	2.58%	16.46%	28.11%	85.88%	10.60%	24.68%	31.37%	78.89%
County of Southampton	3.67%	8.79%	21.23%	8.51%	0.25%	20.77%	17.79%	116.74%	2.89%	15.01%	21.47%	28.44%
County of Spotsylvania	44.41%	39.14%	34.67%	7.47%	2.01%	28.03%	30.99%	97.15%	15.47%	179.37%	15.44%	127.14%
County of Stafford	20.70%	26.24%	22.32%	13.54%	2.19%	21.94%	24.81%	102.00%	16.10%	4.46%	10.28%	157.67%
County of Surry	65.50%	88.17%	72.73%	9.31%	0.22%	81.51%	74.38%	109.59%	7.31%	(4.68)%	12.34%	28.83%
County of Sussex	31.72%	40.77%	35.68%	3.02%	0.57%	26.84%	25.94%	105.10%	7.73%	(0.62)%	24.72%	0.00%
County of Tazewell	12.24%	26.48%	15.52%	(11.78)%	0.20%	15.86%	15.73%	101.78%	5.46%	4.24%	31.20%	28.12%
County of Warren	30.48%	19.58%	46.59%	4.55%	1.10%	21.09%	21.52%	98.22%	15.87%	0.17%	19.50%	0.00%
County of Washington	29.88%	66.65%	33.07%	(3.83)%	0.25%	28.43%	30.89%	97.26%	4.62%	(5.72)%	24.06%	0.00%
County of Westmoreland	34.50%	43.97%	41.71%	6.18%	0.04%	26.00%	32.68%	100.78%	4.37%	(10.60)%	25.09%	104.12%
County of Wise	66.34%	33.08%	48.70%	7.88%	2.46%	40.53%	47.42%	106.99%	1.02%	(2.82)%	35.08%	25.78%
County of Wythe	127.69%	75.54%	154.76%	4.43%	2.46%	94.87%	98.36%	102.86%	9.57%	6.19%	28.86%	102.55%
County of York	36.32%	62.45%	49.20%	2.27%	0.68%	31.65%	35.59%	118.35%	7.58%	4.65%	10.70%	100.77%
Town of Abingdon	32.51%	50.62%	51.97%	1.67%	0.36%	39.61%	39.72%	101.27%	5.11%	(0.62)%	16.87%	118.26%
Town of Ashland	125.68%	1036.90%	122.89%	5.18%	0.00%	73.56%	62.11%	118.43%	0.00%	(0.95)%	27.69%	0.00%
Town of Bedford	29.04%	49.97%	41.51%	20.33%	1.66%	15.74%	73.05%	120.40%	12.73%	(61.87)%	27.11%	119.87%
Town of Berryville	151.87%	87.28%	194.81%	4.72%	N/A*	90.97%	73.54%	131.97%	3.23%	42.83%	25.06%	130.81%
Town of Big Stone Gap	6.73%	14.12%	40.05%	6.28%	4.11%	11.99%	48.03%	92.99%	2.48%	(34.17)%	45.49%	99.26%

Locality Name	Ratio 1 Result	Ratio 2 Result	Ratio 3 Result	Ratio 4 Result	Ratio 5 Result	Ratio 6 Result	Ratio 7 Result	Ratio 8 Result	Ratio 9 Result	Ratio 10 Result	Ratio 11 Result	Ratio 12 Result
Town of Blacksburg	33.66%	65.79%	47.60%	1.43%	0.89%	19.54%	17.96%	138.68%	8.08%	4.06%	13.54%	98.43%
Town of Blackstone	20.51%	32.58%	36.13%	7.32%	4.33%	6.66%	6.71%	107.90%	6.59%	(22.79)%	28.01%	116.15%
Town of Bluefield	47.92%	54.94%	46.85%	0.79%	1.12%	68.03%	64.12%	106.09%	6.85%	3.77%	24.70%	88.24%
Town of Bridgewater	(16.21)%	11.53%	2.11%	(0.61)%	0.65%	2.04%	2.70%	75.33%	7.76%	(89.92)%	31.96%	123.80%
Town of Broadway	0.14%	5.19%	27.96%	4.96%	N/A*	(0.66)%	0.00%	101.79%	8.04%	0.00%	28.87%	116.39%
Town of Christiansburg	67.12%	112.69%	77.30%	5.44%	0.86%	131.91%	98.58%	134.42%	3.54%	22.92%	17.77%	135.49%
Town of Clifton Forge	45.81%	50.95%	70.93%	32.89%	0.36%	3.88%	9.66%	109.37%	3.25%	1996.63%	51.49%	136.02%
Town of Colonial Beach	20.30%	16.31%	35.13%	5.07%	N/A*	25.59%	33.08%	91.88%	9.64%	(17.81)%	22.74%	106.67%
Town of Culpeper	58.53%	55.56%	92.42%	2.78%	2.60%	59.04%	70.65%	110.84%	9.50%	20.39%	16.32%	113.46%
Town of Dumfries	86.38%	84.83%	119.91%	26.61%	0.00%	98.76%	85.77%	115.27%	8.11%	7.12%	25.69%	0.00%
Town of Farmville	18.66%	26.06%	30.67%	10.12%	N/A*	38.72%	34.76%	112.04%	14.88%	23.96%	14.96%	129.60%
Town of Front Royal	87.11%	74.17%	95.80%	10.20%	3.47%	40.91%	64.40%	86.14%	0.00%	4.90%	61.54%	145.15%
Town of Herndon	70.85%	151.68%	72.43%	0.89%	0.29%	41.61%	38.45%	110.97%	3.84%	2.88%	14.47%	95.20%
Town of Leesburg	48.46%	41.92%	70.02%	8.78%	1.47%	57.20%	51.61%	117.87%	15.15%	6.66%	29.60%	183.14%
Town of Luray	44.34%	34.52%	56.97%	4.38%	1.17%	63.67%	60.65%	106.54%	4.85%	7.53%	25.90%	101.02%
Town of Marion	(21.24)%	9.92%	10.15%	1.41%	0.81%	(1.63)%	0.00%	88.75%	86.12%	(211.12)%	30.23%	145.04%
Town of Orange	17.97%	14.84%	36.36%	(2.49)%	1.02%	51.96%	52.79%	99.78%	3.74%	(7.72)%	29.98%	91.76%
Town of Pulaski	8.64%	36.78%	15.16%	(1.62)%	1.76%	16.90%	18.57%	97.08%	8.82%	(7.87)%	35.09%	108.48%
Town of Purcellville	101.82%	28.69%	105.93%	8.63%	3.21%	83.04%	74.82%	121.53%	15.20%	19.02%	14.49%	192.09%
Town of Richlands	28.42%	122.85%	46.98%	(3.93)%	0.61%	3.45%	9.42%	96.62%	1.92%	(57.94)%	23.66%	97.58%
Town of Rocky Mount	79.01%	118.99%	118.72%	0.53%	0.43%	113.34%	131.60%	91.23%	3.69%	(4.51)%	28.85%	105.85%
Town of Smithfield	74.86%	113.31%	86.02%	1.19%	0.28%	49.03%	69.14%	103.45%	1.27%	(1.49)%	13.02%	121.08%
Town of South Boston	44.53%	44.86%	61.72%	61.19%	1.29%	58.78%	55.01%	117.56%	15.08%	(6.44)%	32.32%	0.00%
Town of South Hill	173.09%	639.24%	199.74%	8.66%	N/A*	266.13%	211.45%	125.86%	5.20%	9.61%	17.85%	139.16%
Town of Strasburg	36.62%	23.56%	79.76%	6.40%	1.88%	44.97%	53.37%	95.43%	6.20%	6.01%	13.35%	131.95%
Town of Tazewell	(8.27)%	13.52%	2.91%	8.58%	0.78%	(18.94)%	12.84%	96.52%	2.34%	(82.40)%	42.23%	94.95%
Town of Vienna	29.26%	61.77%	57.38%	6.05%	0.46%	29.48%	37.34%	113.96%	13.51%	0.50%	15.21%	116.80%
Town of Vinton	24.77%	40.84%	41.08%	5.74%	0.87%	32.34%	32.33%	108.62%	7.24%	(1.12)%	27.44%	106.58%
Town of Warrenton	98.58%	124.04%	100.69%	(0.61)%	0.78%	94.66%	96.06%	107.53%	4.72%	3.04%	25.12%	112.73%
Town of West Point	60.73%	81.80%	62.77%	2.97%	2.03%	54.33%	59.25%	99.32%	7.78%	4.86%	9.55%	135.82%
Town of Wise	89.18%	236.53%	108.33%	4.25%	0.79%	172.32%	148.42%	124.05%	0.00%	7.30%	19.39%	103.82%
Town of Woodstock	47.78%	29.66%	72.78%	3.21%	3.22%	70.09%	66.00%	113.50%	2.47%	2.38%	19.98%	116.94%
Town of Wytheville	81.71%	64.55%	89.23%	4.75%	2.56%	71.28%	111.88%	89.04%	6.18%	(41.92)%	28.70%	105.90%

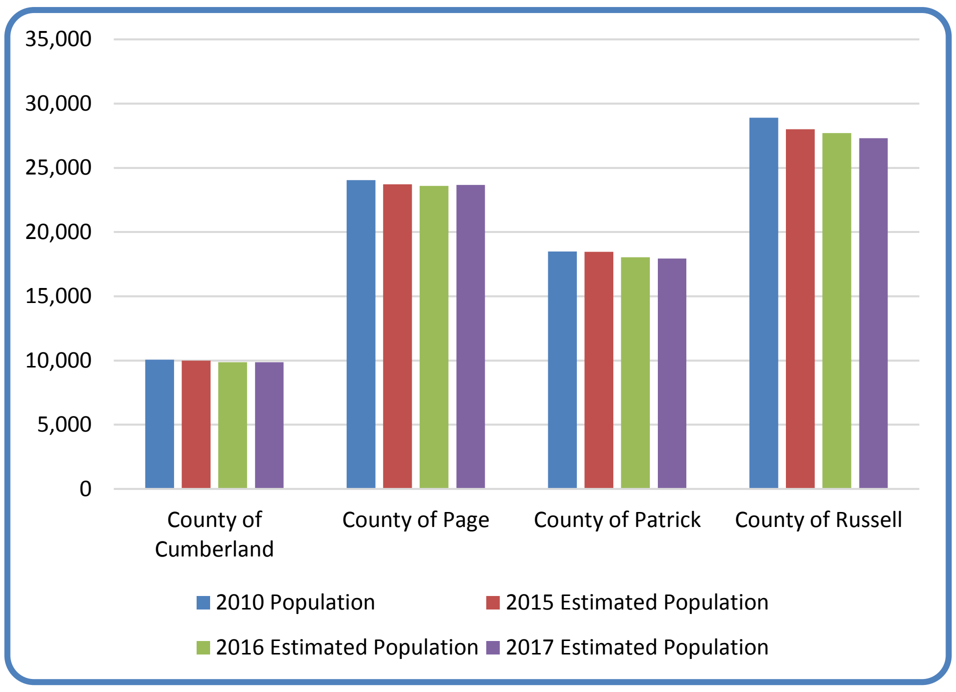
* Ratio five was not calculated for the Towns of Berryville, Broadway, Colonial Beach, Farmville, and South Hill due to their real estate and personal property valuation data not being readily available for our analysis.

The following information provides the primary factors the Office evaluated as part of our demographic and qualitative analysis for the 14 localities identified for further follow up review. The factors include evaluation of: growth or decline in population; trends in local unemployment rate and comparison to national and Virginia averages; trends in median household income and comparison to national and Virginia averages; trends in poverty rate and comparison to national and Virginia averages; growth or decline in assessed value of the locality's tax base for the total of real estate, tangible personal property, and public service corporations; trends in fiscal stress rank score and designation calculated by the Commission on Local Government; and trends in the analyses for the percent of actual local expenditures over the Required Local Effort and Required Local Match and the Composite Index of Local Ability to Pay calculated by the Virginia Department of Education.

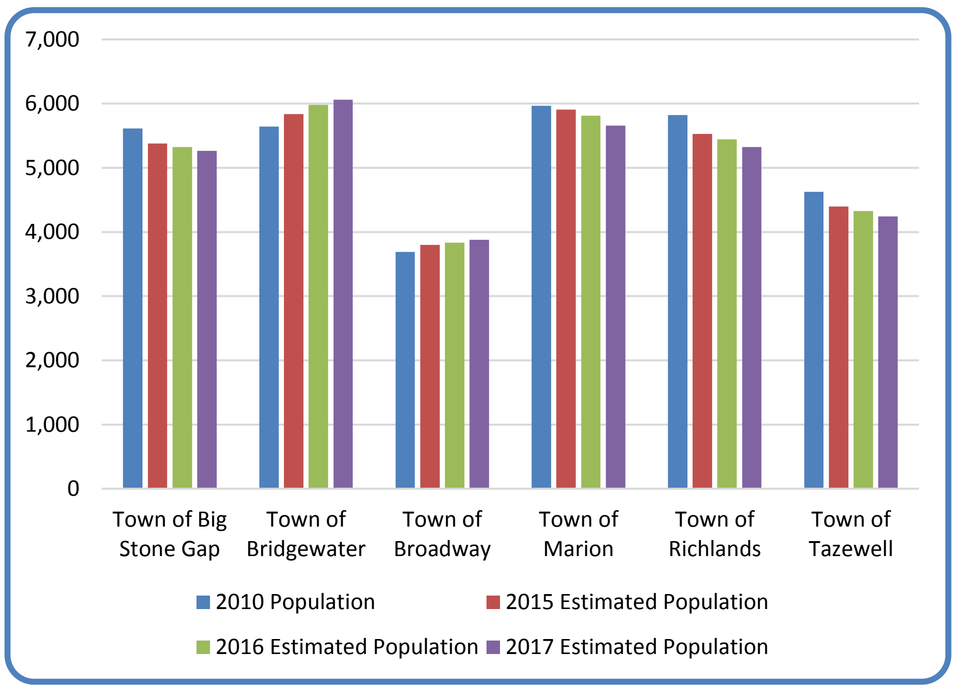
Cities Identified for Follow-Up Review in 2018
2010 U.S. Census Population
Compared to Population Estimates



Counties Identified for Follow-Up Review in 2018
2010 U.S. Census Population
Compared to Population Estimates



Towns Identified for Follow-Up Review in 2018
2010 U.S. Census Population
Compared to Population Estimates

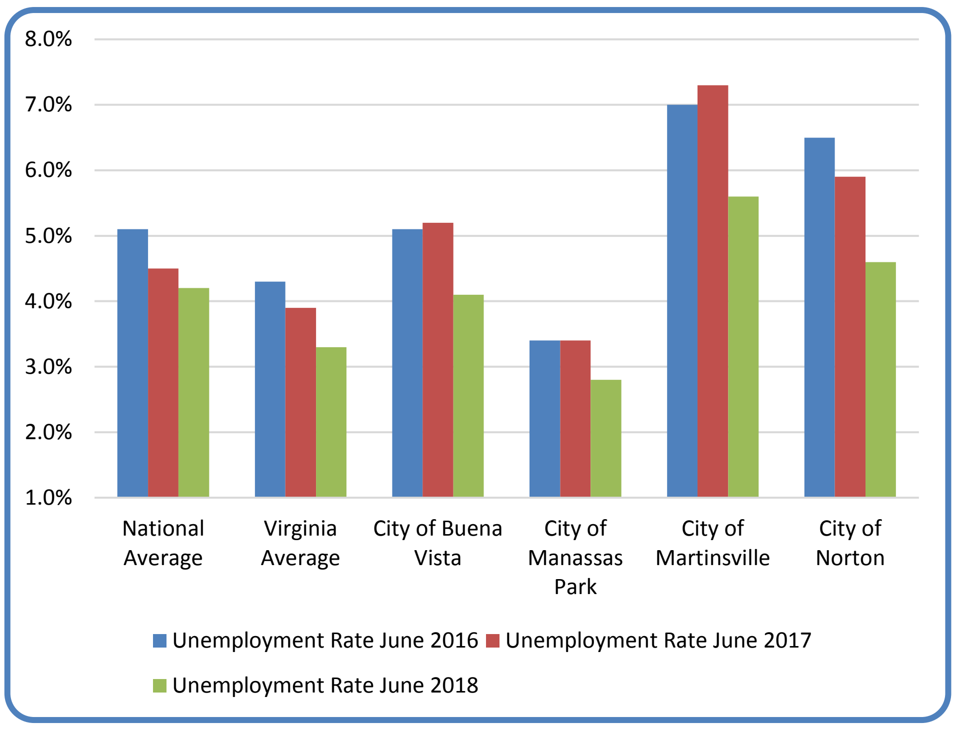


Localities Identified for Follow-Up Review in 2018
2010 U.S. Census Population
Compared to Population Estimates

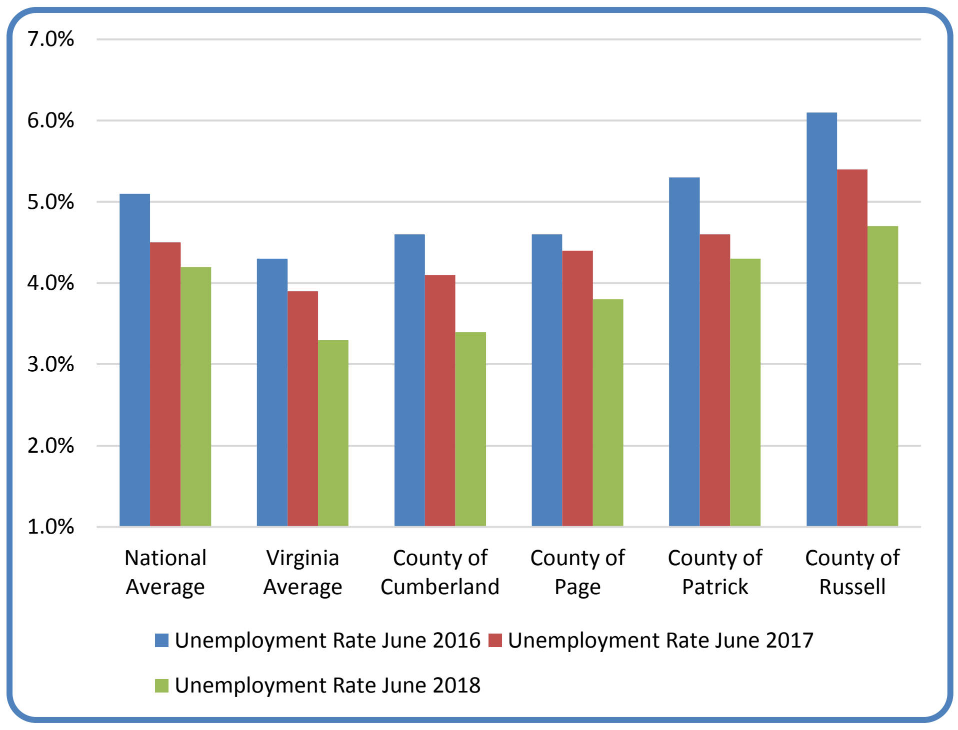
	2010 Census Population	2015 Estimated Population	2016 Estimated Population	2017 Estimated Population
City of Buena Vista	6,650	6,817	6,502	6,424
City of Manassas Park	14,273	15,700	15,802	16,142
City of Martinsville	13,821	13,474	13,544	13,382
City of Norton	3,958	3,946	3,857	3,882
County of Cumberland	10,052	9,989	9,857	9,861
County of Page	24,042	23,719	23,586	23,665
County of Patrick	18,490	18,450	18,039	17,930
County of Russell	28,897	28,008	27,697	27,309
Town of Big Stone Gap	5,614	5,378	5,325	5,263
Town of Bridgewater	5,644	5,839	5,983	6,062
Town of Broadway	3,691	3,797	3,836	3,880
Town of Marion	5,968	5,907	5,812	5,659
Town of Richlands	5,823	5,526	5,441	5,325
Town of Tazewell	4,627	4,398	4,329	4,240

Sources: U.S. Census Bureau, https://www.census.gov/programs-surveys/decennial-census.html, and University of Virginia Weldon Cooper Center, Demographics Research Group (2018). Virginia Population Estimates. https://demographics.coopercenter.org/virginia-population-estimates

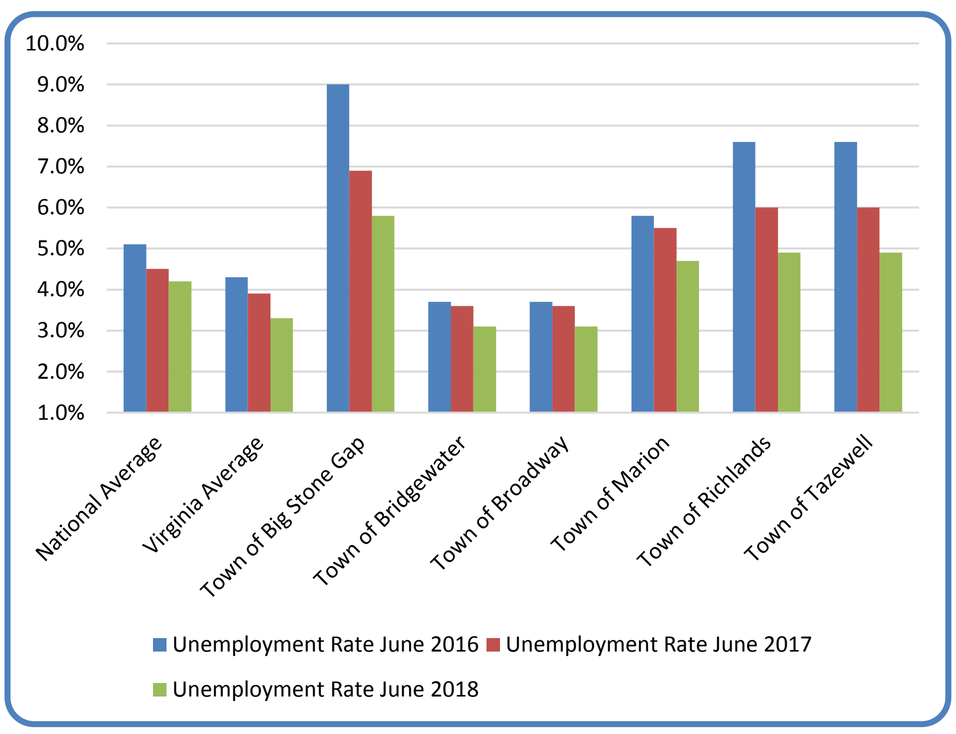
Cities Identified for Follow-Up Review in 2018
Local Unemployment Rates
Compared to National and Virginia Averages



Counties Identified for Follow-Up Review in 2018
Local Unemployment Rates
Compared to National and Virginia Averages



Towns Identified for Follow-Up Review in 2018
Local Unemployment Rates
Compared to National and Virginia Averages



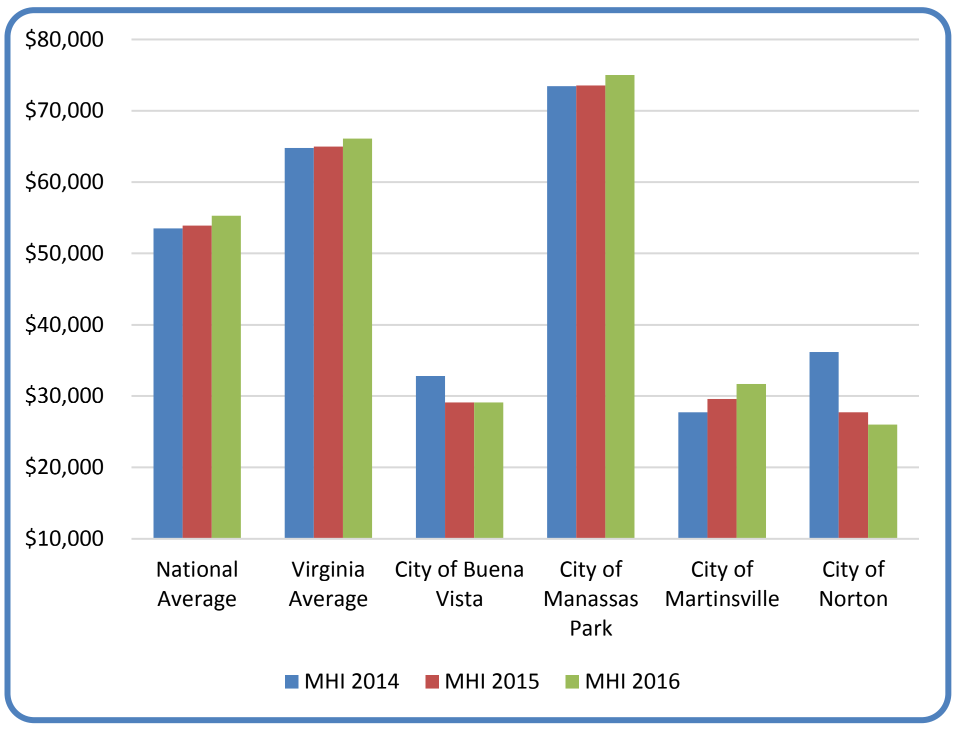
Localities Identified for Follow-Up Review in 2018
Local Unemployment Rates
Compared to National and Virginia Averages

	Unemployment Rate June 2016	Unemployment Rate June 2017	Unemployment Rate June 2018
Virginia Average	4.3%	3.9%	3.3%
National Average	5.1%	4.5%	4.2%
City of Buena Vista	5.1%	5.2%	4.1%
City of Manassas Park	3.4%	3.4%	2.8%
City of Martinsville	7.0%	7.3%	5.6%
City of Norton	6.5%	5.9%	4.6%
County of Cumberland	4.6%	4.1%	3.4%
County of Page	4.6%	4.4%	3.8%
County of Patrick	5.3%	4.6%	4.3%
County of Russell	6.1%	5.4%	4.7%
Town of Big Stone Gap*	9.0%	6.9%	5.8%
Town of Bridgewater*	3.7%	3.6%	3.1%
Town of Broadway*	3.7%	3.6%	3.1%
Town of Marion*	5.8%	5.5%	4.7%
Town of Richlands*	7.6%	6.0%	4.9%
Town of Tazewell*	7.6%	6.0%	4.9%

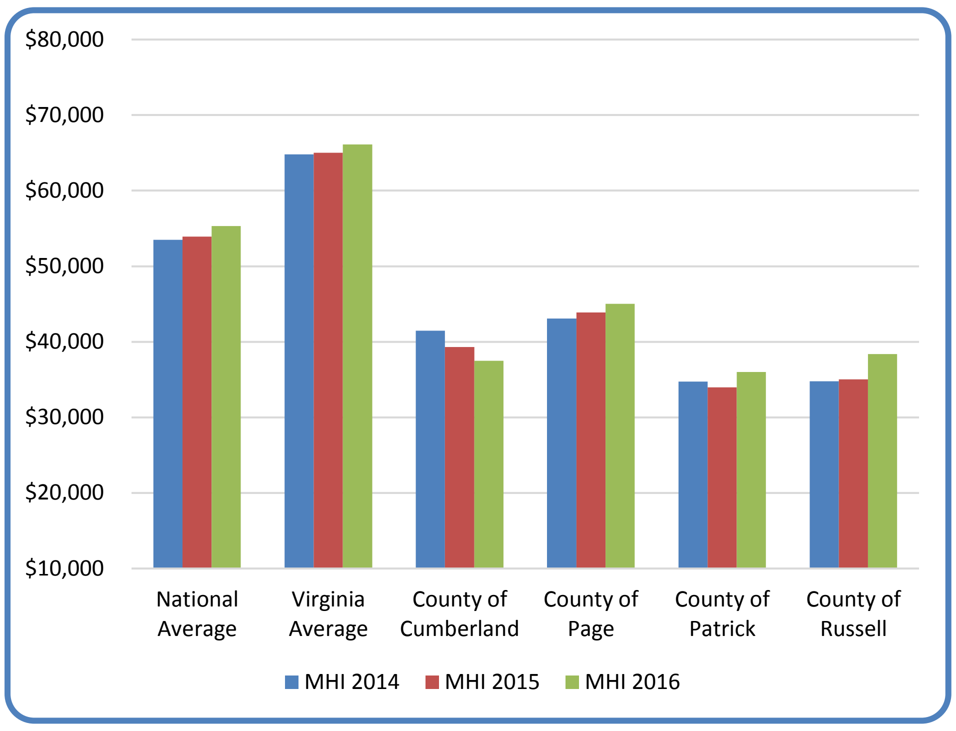
* Unemployment rate data is not available for towns under a 25,000-population threshold. The data shown for the applicable towns are the unemployment rates for the Virginia County where the town resides. Unemployment rate data shown for the Town of Big Stone Gap is specific to the town, as it is designated by the U.S. Bureau of Labor Statistics as a "micropolitan statistical area."

Sources: Virginia Employment Commission Labor Market Information, https://virginiawlmi.com, and U.S. Bureau of Labor Statistics, https://www.bls.gov/data/

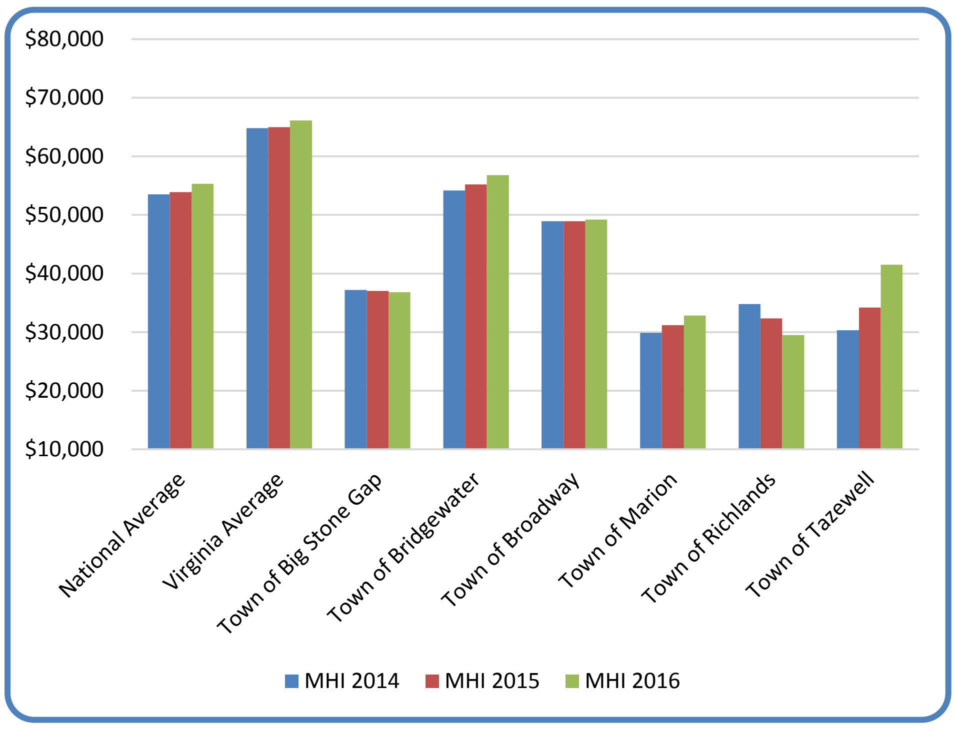
Cities Identified for Follow-Up Review in 2018
Local Median Household Income (MHI)
Compared to National and Virginia Averages



Counties Identified for Follow-Up Review in 2018
Local Median Household Income (MHI)
Compared to National and Virginia Averages



Towns Identified for Follow-Up Review in 2018
Local Median Household Income (MHI)
Compared to National and Virginia Averages

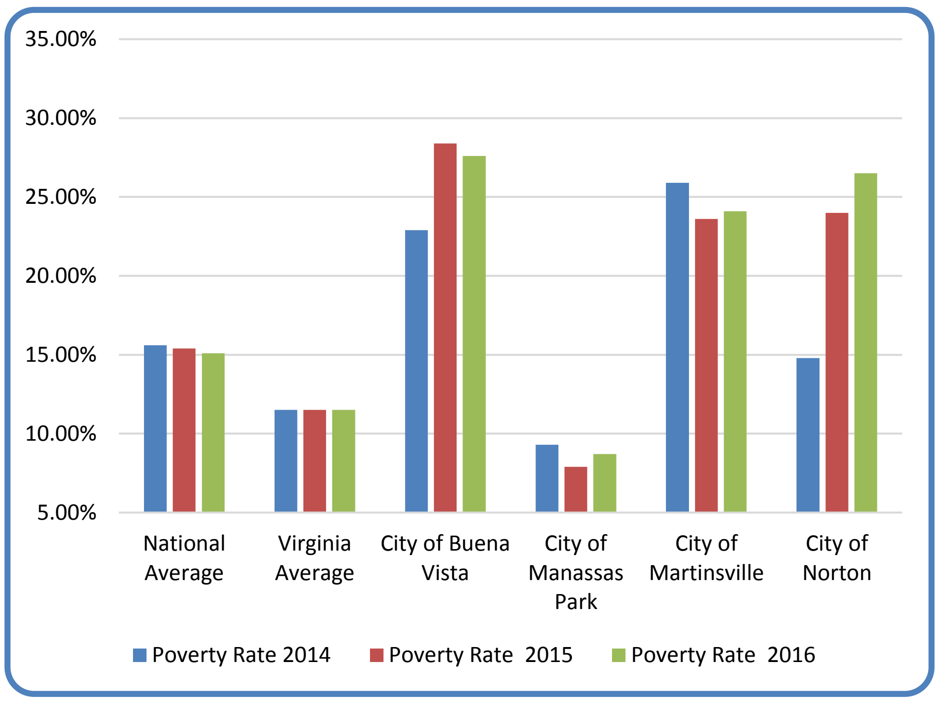


Localities Identified for Follow-Up Review in 2018
Local Median Household Income (MHI)
Compared to Virginia and National Averages

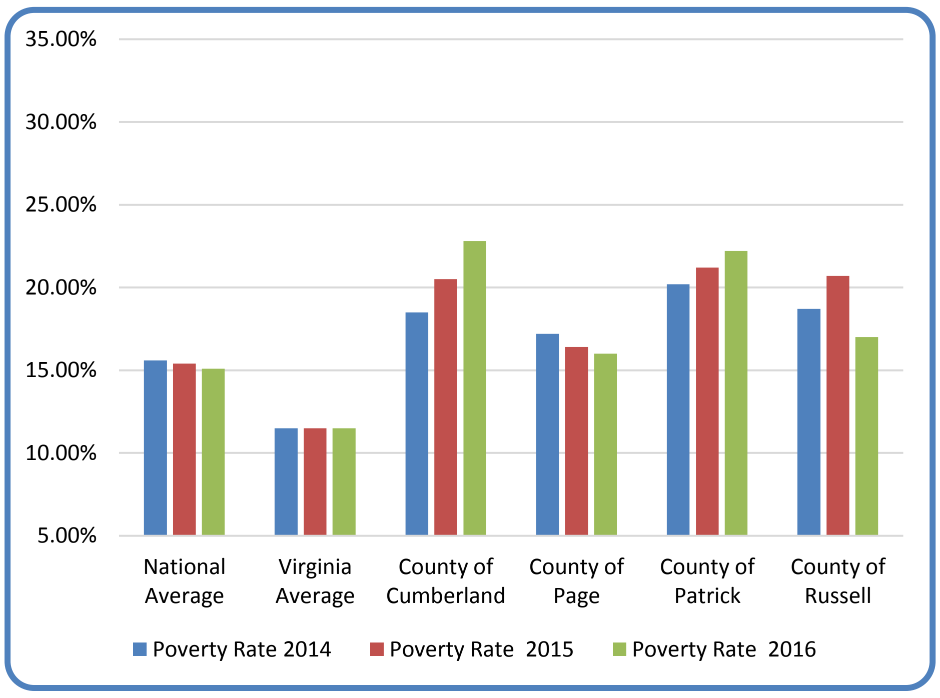
	MHI 2014	MHI 2015	MHI 2016
National Average	$53,500	$53,900	$55,300
Virginia Average	64,800	65,000	66,100
National Average	53,500	53,900	55,300
City of Buena Vista	32,789	29,097	29,109
City of Manassas Park	73,460	73,528	75,027
City of Martinsville	27,746	29,587	31,719
City of Norton	36,148	27,731	26,000
County of Cumberland	41,484	39,301	37,489
County of Page	43,063	43,895	45,030
County of Patrick	34,753	33,982	35,999
County of Russell	34,768	35,045	38,370
Town of Big Stone Gap	37,165	37,036	36,811
Town of Bridgewater	54,188	55,205	56,764
Town of Broadway	48,912	48,926	49,226
Town of Marion	29,900	31,210	32,829
Town of Richlands	34,781	32,321	29,487
Town of Tazewell	30,340	34,191	41,496

Sources: US Census Bureau, American Community Survey 5-Year Estimates, https://www.census.gov/programs-surveys/acs, and DataUSA, https://datausa.io/

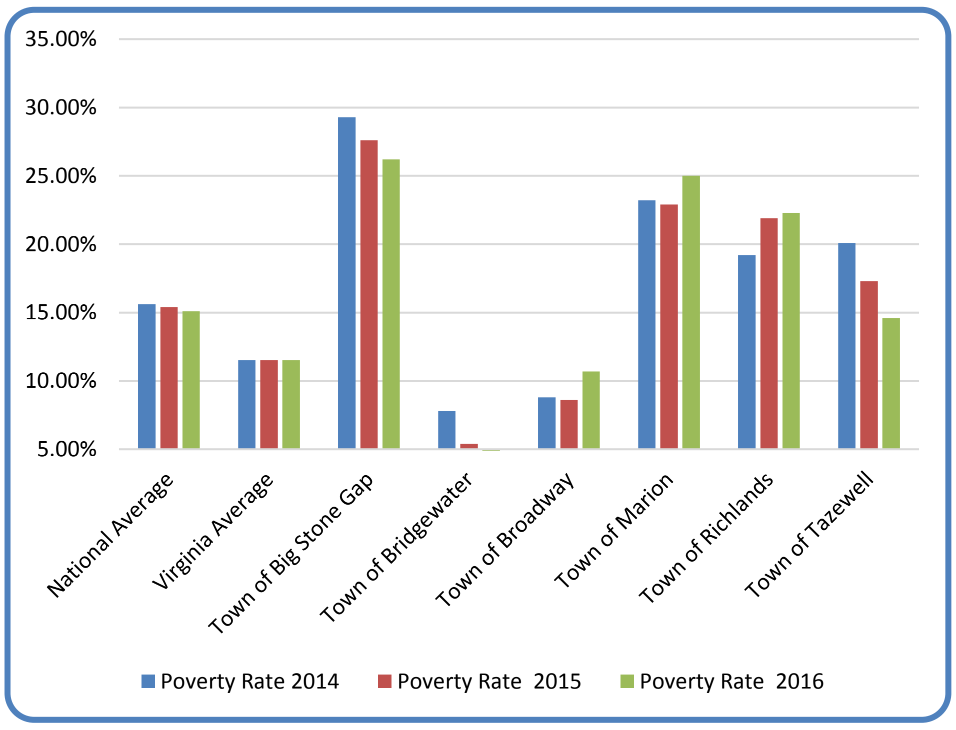
Cities Identified for Follow-Up Review in 2018
Local Poverty Rate
Compared to Virginia and National Averages



Counties Identified for Follow-Up Review in 2018
Local Poverty Rate
Compared to Virginia and National Averages



Towns Identified for Follow-Up Review in 2018
Local Poverty Rate
Compared to Virginia and National Averages

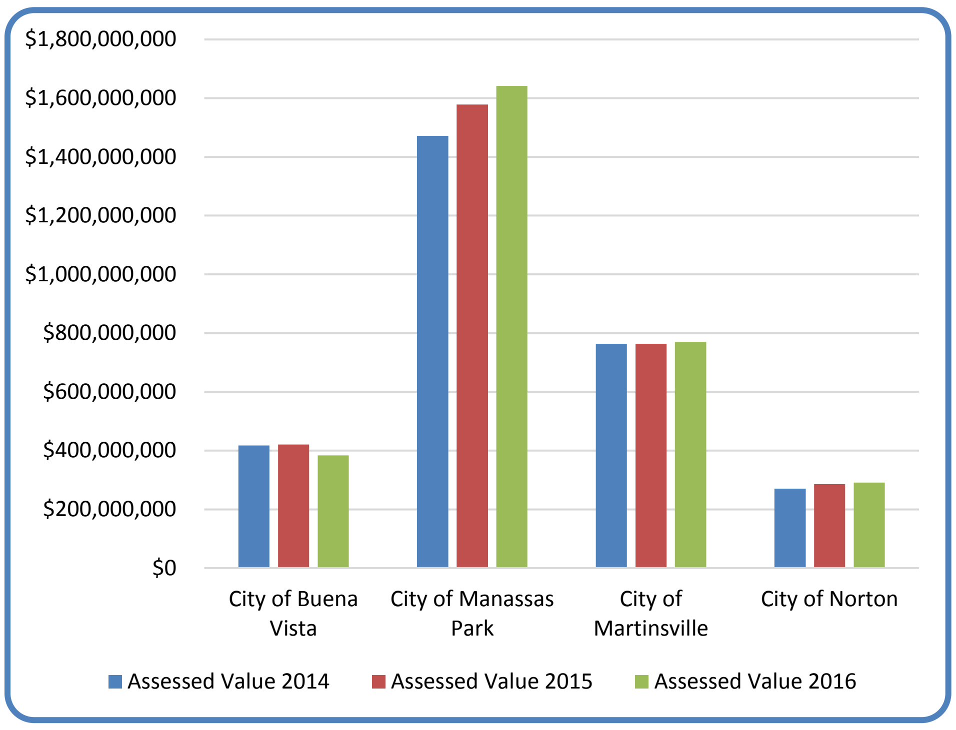


Localities Identified for Follow-Up Review in 2018
Local Poverty Rate
Compared to Virginia and National Averages

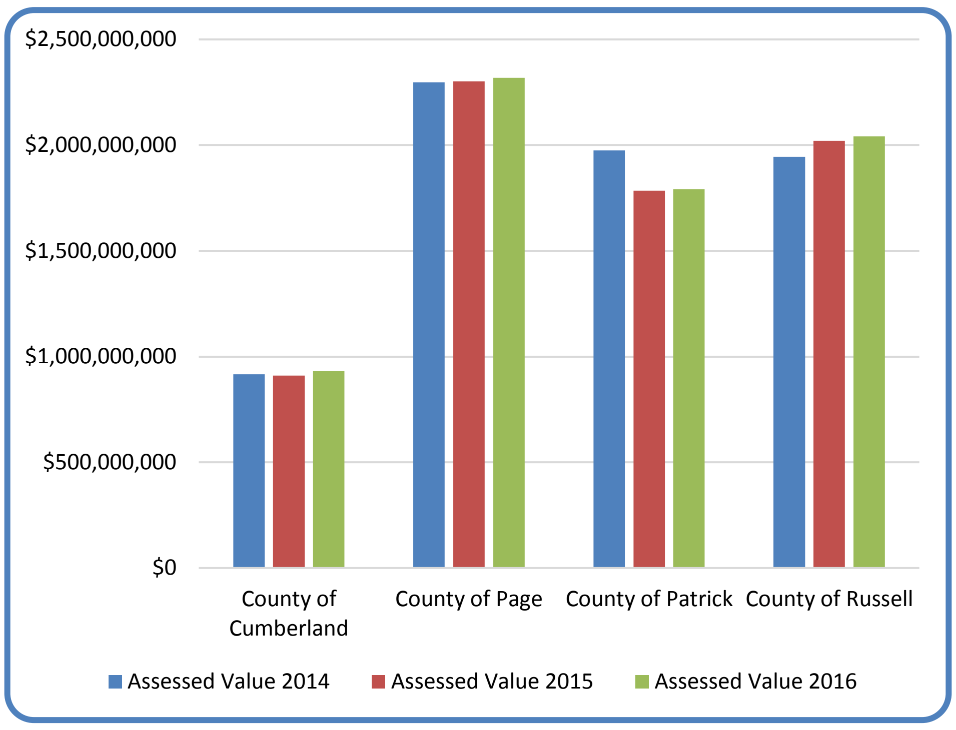
	Poverty Rate 2014	Poverty Rate 2015	Poverty Rate 2016
National Average	15.6%	15.4%	15.1%
Virginia Average	11.5%	11.5%	11.5%
City of Buena Vista	22.9%	28.4%	27.6%
City of Manassas Park	9.3%	7.9%	8.7%
City of Martinsville	25.9%	23.6%	24.1%
City of Norton	14.8%	24.0%	26.5%
County of Cumberland	18.5%	20.5%	22.8%
County of Page	17.2%	16.4%	16.0%
County of Patrick	20.2%	21.2%	22.2%
County of Russell	18.7%	20.7%	17.0%
Town of Big Stone Gap	29.3%	27.6%	26.2%
Town of Bridgewater	7.8%	5.4%	4.9%
Town of Broadway	8.8%	8.6%	10.7%
Town of Marion	23.2%	22.9%	25.0%
Town of Richlands	19.2%	21.9%	22.3%
Town of Tazewell	20.1%	17.3%	14.6%

Sources: US Census Bureau, American Community Survey 5-Year Estimates, https://www.census.gov/programs-surveys/acs, and DataUSA, https://datausa.io/

Cities Identified for Follow-Up Review in 2018
Assessed Values of Total Taxable Real Estate,
Tangible Personal Property, and Public Service Corporations
Tax Years 2014 - 2016



Counties Identified for Follow-Up Review in 2018
Assessed Values of Total Taxable Real Estate,
Tangible Personal Property, and Public Service Corporations
Tax Years 2014 - 2016



Localities Identified for Follow-Up Review in 2018
Assessed Values of Total Taxable Real Estate,
Tangible Personal Property, and Public Service Corporations*
Tax Years 2014 - 2016

	Assessed Value 2014	Assessed Value 2015	Assessed Value 2016
City of Buena Vista	$ 417,166,939	$ 420,196,643	$ 383,794,175
City of Manassas Park	1,471,249,689	1,578,782,365	1,641,265,190
City of Martinsville	763,343,390	763,564,526	770,749,781
City of Norton	269,865,054	286,109,512	291,430,840
County of Cumberland	915,758,935	910,073,434	933,506,488
County of Page	2,297,484,883	2,301,101,428	2,317,802,695
County of Patrick	1,975,009,104	1,784,105,736	1,791,215,292
County of Russell	1,945,209,213	2,019,878,463	2,041,144,970

* Data is not available for towns in the Department of Taxation's annual reports.

Source: Virginia Department of Taxation Annual Reports for Fiscal Years 2017, 2016, and 2015, Table 6.2 and Table 6.4, https://tax.virginia.gov/annual-reports

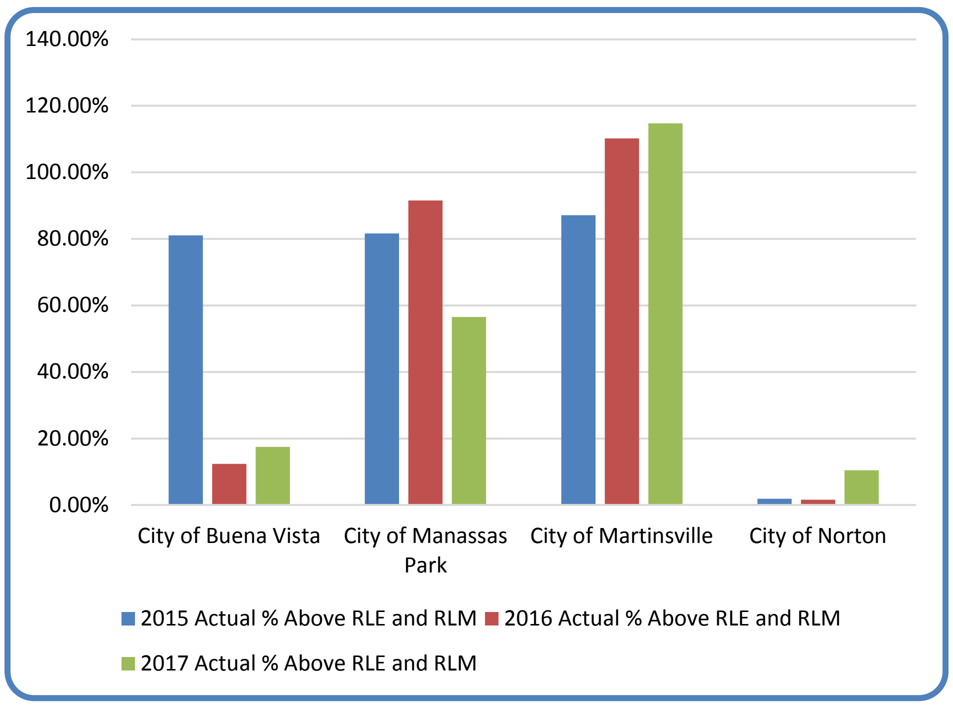
Localities Identified for Follow-Up Review in 2018
Commission on Local Government
Fiscal Stress Rank and Class Designations*
Fiscal Years 2014 - 2016

	2014 Composite Fiscal Stress Rank	2014 Composite Fiscal Stress Class	2015 Composite Fiscal Stress Rank	2015 Composite Fiscal Stress Class	2016 Composite Fiscal Stress Rank	2016 Composite Fiscal Stress Class
City of Buena Vista	2	High	5	High	7	High
City of Manassas Park	53	Above Average	60	Above Average	61	Above Average
City of Martinsville	4	High	4	High	5	High
City of Norton	15	High	15	High	12	High
County of Cumberland	40	Above Average	30	Above Average	40	Above Average
County of Page	62	Above Average	59	Above Average	62	Above Average
County of Patrick	51	Above Average	57	Above Average	56	Above Average
County of Russell	38	Above Average	42	Above Average	43	Above Average

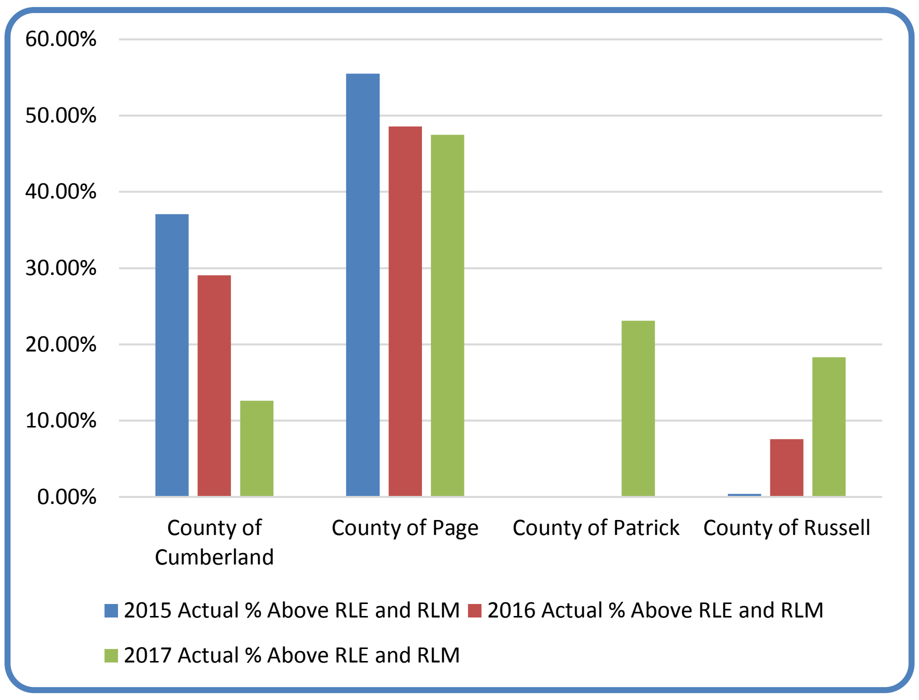
* Fiscal stress designations are not calculated for towns in the Commission on Local Government's annual reports.

Source: Virginia's Commission on Local Government Fiscal Stress Reports for Fiscal Years 2016, 2015, and 2014, https://www.dhcd.virginia.gov/fiscal-stress

Cities Identified for Follow-Up Review in 2018
Virginia Department of Education
Percent of Fiscal Year Actual Local Expenditures for Operations
Above Required Local Effort (RLE) and Required Local Match (RLM)
Fiscal Years 2015 - 2017



Counties Identified for Follow-Up Review in 2018
Virginia Department of Education
Percent of Fiscal Year Actual Local Expenditures for Operations
Above Required Local Effort (RLE) and Required Local Match (RLM)
Fiscal Years 2015 - 2017



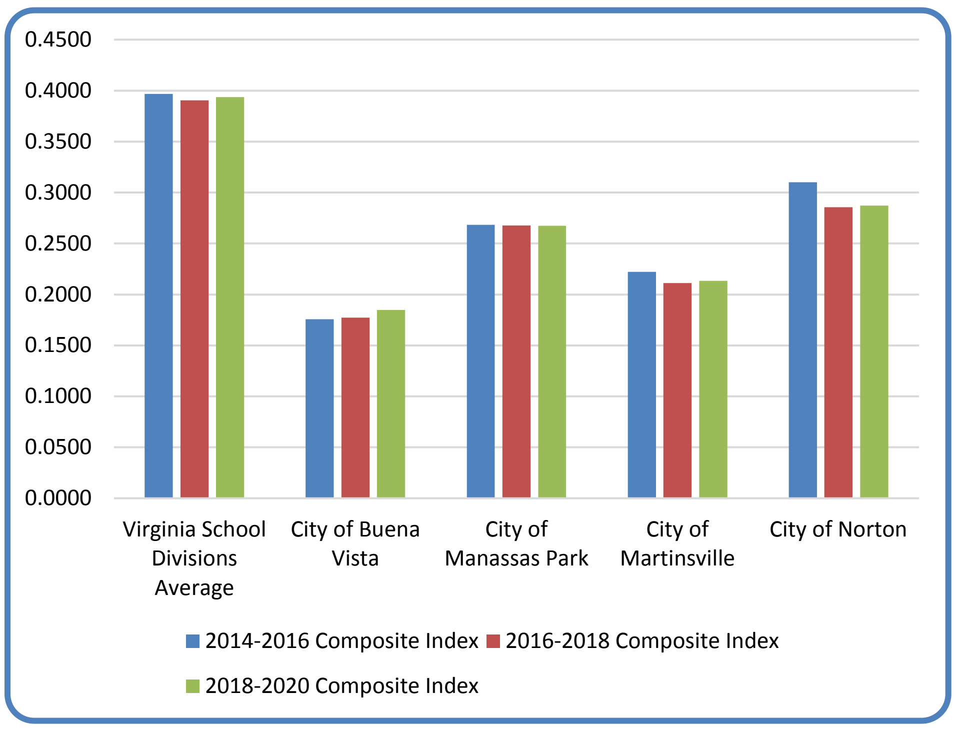
Localities Identified for Follow-Up Review in 2018
Virginia Department of Education
Percent of Fiscal Year Actual Local Expenditures for Operations
Above Required Local Effort (RLE) and Required Local Match (RLM)*
Fiscal Years 2015 - 2017

	2015 Actual % Above RLE and RLM	2016 Actual % Above RLE and RLM	2017 Actual % Above RLE and RLM
City of Buena Vista	81.03%	12.39%	17.41%
City of Manassas Park	81.68%	91.60%	56.53%
City of Martinsville	87.16%	110.26%	114.72%
City of Norton	1.89%	1.56%	10.38%
County of Cumberland	37.09%	29.08%	12.60%
County of Page	55.49%	48.57%	47.47%
County of Patrick	0.04%	0.06%	23.10%
County of Russell	0.41%	7.58%	18.31%

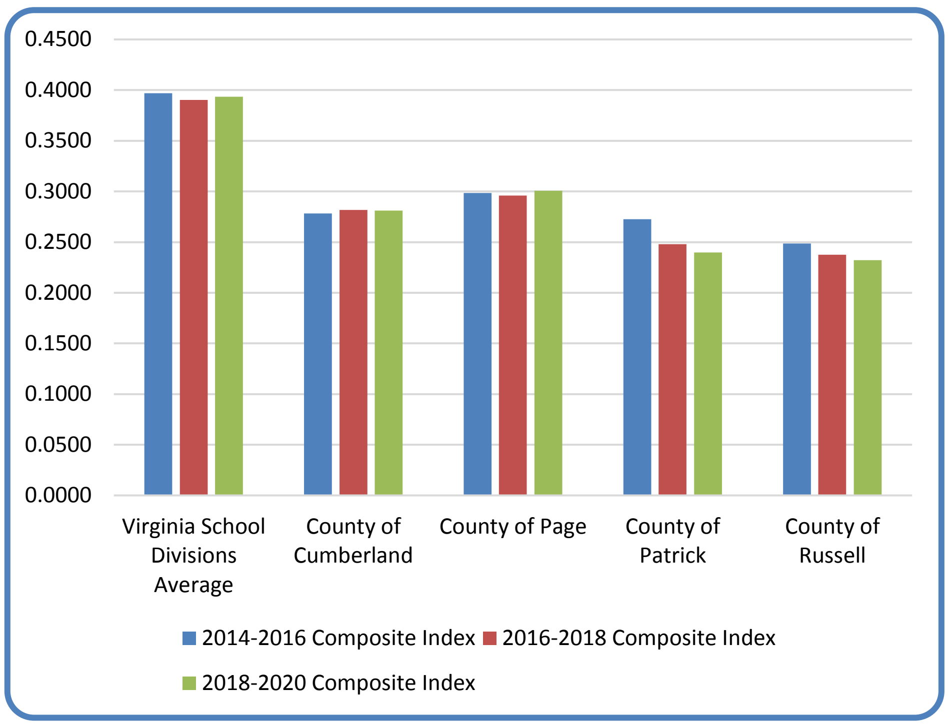
* Calculations are not applicable to towns identified in the 2018 follow up process since they do not have a separate school system.

Source: Virginia Department of Education "Actual Fiscal Year 20XX Required Local Effort and Required Local Match; Certification of Budgeted Fiscal Year 20XX Required Local Effort and Required Local Match" reports for years 2017-2018; 2016-2017; and 2015-2016, http://www.doe.virginia.gov/school_finance/budget/index.shtml

Cities Identified for Follow-Up Review in 2018
Virginia Department of Education
Composite Index of Locality Ability to Pay
Biennium Years 2014 - 2020



Counties Identified for Follow-Up Review in 2018
Virginia Department of Education
Composite Index of Locality Ability to Pay
Biennium Years 2014 - 2020



Localities Identified for Follow-Up Review in 2018
Virginia Department of Education
Composite Index of Locality Ability to Pay*
Biennium Years 2014 - 2020

	2014-2016 Composite Index	2016-2018 Composite Index	2018-2020 Composite Index
City of Buena Vista	0.1756	0.1773	0.1849
City of Manassas Park	0.2683	0.2676	0.2675
City of Martinsville	0.2222	0.2111	0.2135
City of Norton	0.3102	0.2857	0.2870
County of Cumberland	0.2781	0.2817	0.2810
County of Page	0.2985	0.2960	0.3007
County of Patrick	0.2726	0.2479	0.2396
County of Russell	0.2486	0.2375	0.2322
Virginia School Divisions Average	0.3968	0.3903	0.3936

* Calculations are not applicable to towns identified in the Office's 2018 analysis since they do not have a separate school system.

Source: Virginia Department of Education Composite Index of Local Ability to Pay, for biennium years 2018-2020; 2016-2018; and 2014-2016, http://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/index.shtml