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SENATE BILL NO. 645

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Local Government

on _____)

(Patron Prior to Substitute--Senator Aird)

A BILL to amend and reenact § 15.2-2903 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 15.2-2512.1, relating to local fiscal distress; state intervention.

Be it enacted by the General Assembly of Virginia:

1. That § 15.2-2903 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding a section numbered 15.2-2512.1as follows:

§ 15.2-2512.1. Local fiscal distress; determination by Auditor of Public Accounts; state intervention.

A. For purposes of this section:

"Auditor" means the Auditor of Public Accounts.

"Emergency fiscal manager" means an official appointed by the Commission on Local Government to implement a remediation plan approved by the Commission under subsection H to restore fiscal health for a locality in the Commonwealth. The "emergency fiscal manager" shall have broad powers to rectify the financial emergency and to assure the fiscal accountability of the locality and the locality's capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare.

"Fiscal distress" means a situation whereby the provision and sustainability of public services, or the ability to appropriately fund financial liabilities, is threatened by various administrative and financial shortcomings, including cash flow issues, inability to pay expenses, revenue shortfalls, deficit spending, structurally imbalanced budgets, billing and revenue collection inadequacies and discrepancies, debt overload, failure to meet obligations to authorities, school divisions, or political subdivisions of the Commonwealth, lack of trained and qualified staff to process administrative and financial transactions, or

27 the inability to timely produce an audited financial report. "Fiscal distress" may be caused by factors
28 internal to the locality or external to the locality, and in various degrees such conditions may or may not
29 be controllable by management or the local governing body or its constitutional officers.

30 B. The Auditor shall use leading indicators based on financial data and relevant nonfinancial
31 factors to develop criteria for a preliminary determination that a locality may be in fiscal distress. Such
32 criteria shall be based upon information regularly collected by the Commonwealth or otherwise regularly
33 made public by the locality and the locality's annual audited financial reporting required to be submitted
34 to the Auditor. Information provided by the Virginia Retirement System, the Virginia Resources
35 Authority, the Virginia Public Building Authority, and other state and regional authorities concerning late
36 or missed payments shall be shared with the Auditor.

37 C. Based upon the criteria established by the Auditor, the Auditor shall establish a prioritized early
38 warning system. Under the prioritized early warning system, the Auditor shall establish a regular process
39 whereby it reviews audited financial data and other relevant factors and qualitative information on at least
40 an annual basis to make a preliminary determination that a locality may meet the criteria for fiscal distress.
41 As part of the early warning system, the Auditor shall use leading financial indicators based on key data
42 from the locality's audited financial reports to evaluate information related to a locality's financial position,
43 financial reserves, debt, and operating revenues and expenditures, along with other relevant factors as
44 applicable. The Auditor shall further evaluate localities that are identified as needing additional evaluation
45 based on their initial financial indicators on the basis of additional leading indicators that may include
46 retirement liabilities, revenue growth, economic and property market value data, reports prepared by the
47 Commission on Local Government on revenue fiscal stress, and other relevant qualitative information.

48 If a locality has not submitted its audited annual financial report, pursuant to §§ 15.2-2510 and
49 15.2-2511, within 18 months of the required December 15 deadline or provided a plan to do so, the Auditor
50 shall notify the Governor, the Secretary of Finance, and the Chairmen of the House Committees on
51 Appropriations and Counties, Cities and Towns and the Senate Committees on Finance and
52 Appropriations and Local Government that the Auditor is unable to review the locality's financial data as
53 part of the early warning system or evaluate its financial condition due to the locality's delay with

54 submitting its audited annual financial report. A locality's inability to timely produce its required audited
55 financial report within 18 months of the required deadline as specified in this subsection or to provide a
56 plan to do so shall automatically effectuate the provisions pursuant to subsection D whereby the Auditor
57 shall make a preliminary determination that the locality may meet the criteria for fiscal distress.

58 D. For a locality where the Auditor has made a preliminary determination of fiscal distress based
59 upon the early warning system criteria, the Auditor shall notify the local governing body of its preliminary
60 determination that it may meet the criteria for fiscal distress. In coordination with the local governing
61 body or chief executive officer, the Auditor may conduct a review and request documents and data from
62 the locality and the locality's published budget information. Such review shall consider factors including
63 budget processes, debt, borrowing, expenses and payables, revenues and receivables, and other areas,
64 including staffing and the identification of external variables contributing to a locality's financial position.
65 Any local governing body that receives requests for information from the Auditor pursuant to such
66 preliminary determination based on the above-described threshold levels shall acknowledge receipt of
67 such a request and shall ensure that a response is provided within the timeframes specified by the Auditor.
68 If the locality does not acknowledge the Auditor's notification of a preliminary determination or does not
69 provide a response to the Auditor's requests within reasonable timeframes so specified, the Auditor shall
70 notify the Governor, the Secretary of Finance, and the Chairmen of the House Committees on
71 Appropriations and Counties, Cities and Towns and the Senate Committees on Finance and
72 Appropriations and Local Government that the locality is not responsive. After such review, if the local
73 governing body or chief executive officer requests assistance or the Auditor is of the opinion that state
74 assistance, oversight, or targeted intervention is needed, either to further assess, help stabilize, or
75 remediate the situation, the Auditor shall notify the Governor and the Chairmen of the House Committees
76 on Appropriations and Counties, Cities and Towns and the Senate Committees on Finance and
77 Appropriations and Local Government and the governing body of the locality in writing, outlining specific
78 issues or actions that need to be addressed by state assistance, oversight, or intervention.

79 E. 1. Once the Governor has received a notification from the Auditor indicating fiscal distress in a
80 specific locality, the Governor shall consult with the Chairmen of the House Committee on Appropriations

81 and the Senate Committee on Finance and Appropriations about a plan for state assistance, oversight, or
82 intervention prior to any expenditure of funds from the cash reserve. Any plan approved by the Governor
83 for state assistance, oversight, or intervention shall, at a minimum, specify the purpose of such state
84 assistance, oversight, or intervention efforts, the estimated duration of such efforts, and the anticipated
85 resources, dollar amounts, and personnel directed toward such efforts. The staffing necessary to carry out
86 the assistance, oversight, or intervention plan may be assembled from either public agencies or private
87 entities or both and, notwithstanding any other provisions of law, the Governor may use an expedited
88 method of procurement to secure such staffing when, in his judgment, the need for state assistance,
89 oversight, or intervention is of an emergency nature such that action must be taken in a timely manner to
90 avoid or address unacceptable financial risks to the Commonwealth.

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

96 3. From such unexpended balances identified by the Director of the Department of Planning and
97 Budget, the State Treasurer may reappropriate up to \$750,000 from amounts that would otherwise revert
98 to the balance of the general fund and transfer such amounts as necessary to establish a component of fund
99 balance, which may be used for the purpose of providing state assistance, oversight, and intervention
100 actions for localities deemed to be fiscally distressed and in need of state assistance, oversight, or
101 intervention to address such distress. Any such reappropriation approved by the State Treasurer shall be
102 separately identified in the commitments specified on the balance sheet and financial statements of the
103 State Comptroller for the close of each fiscal year, to the extent that such reserve is not used or added to
104 by future appropriation actions.

105 4. Prior to any expenditure of the reappropriated reserve, the Governor and the Chairmen of the
106 House Committees on Appropriations and Counties, Cities and Towns and the Senate Committees on
107 Finance and Appropriations and Local Government shall receive a notification from the Auditor that a

108 specific locality is in need of state assistance, oversight, or intervention because of a worsening financial
109 situation. The Auditor may issue such a notification upon receipt of an audited financial statement or other
110 information that indicates the existence of fiscal distress. However, no such notification shall be made
111 until appropriate follow up and correspondence ascertains that, in the opinion of the Auditor, such fiscal
112 distress exists. Such notification may also be issued by the Auditor if written concerns raised about fiscal
113 distress are not adequately addressed by the locality in question. The notification issued by the Auditor
114 indicating fiscal distress in a specific locality pursuant to subsection D shall satisfy the notification
115 requirement of this subdivision.

116 F. The governing body and the elected constitutional officers of a locality subject to a plan of state
117 assistance, oversight, or intervention approved by the Governor shall assist all state-appointed staff
118 conducting such efforts regardless of whether such staff are from public agencies or private entities. The
119 state-appointed staff shall provide periodic reports in writing to the Governor and the Chairmen of the
120 House Committees on Appropriations and Counties, Cities and Towns and the Senate Committees on
121 Finance and Appropriations and Local Government outlining the scope of issues discovered and any
122 recommendations made to address such issues, and the progress that is made on such recommendations
123 or other state assistance, oversight, or intervention efforts. These periodic reports shall specifically address
124 the degree of cooperation the state-appointed team is receiving from locally elected officials, including
125 constitutional officers, city, county, or town managers, and other local personnel in regard to their
126 intervention work.

127 G. The Commission on Local Government shall act in an oversight capacity for the purpose of
128 determining whether a locality has taken appropriate action to address the issues specified in subsection
129 D as requested by the intervention staff and whether the locality appears to be on track to resolve its fiscal
130 distress. Technical assistance, based on the Auditor's existing oversight and support provided for local
131 governments, shall be provided to the Commission on Local Government by the Auditor, and all agencies
132 of the Commonwealth shall provide assistance to the Commission, upon request. The Commission on
133 Local Government shall report its findings and conclusions to the Governor and the Chairmen of the

134 House Committees on Appropriations and Counties, Cities and Towns and the Senate Committees on
135 Finance and Appropriations and Local Government.

136 H. If the Commission on Local Government's report to the Governor concludes that a locality is
137 either unwilling or unable to comply with the conditions necessary to address its fiscal distress, the
138 Commission shall appoint an emergency fiscal manager and implement a remediation plan to restore
139 sustainable fiscal health to the locality. Following such appointment and during the duration of state
140 remediation, the governing body and the chief executive officer of the locality shall not exercise any of
141 the powers of those offices directly or indirectly relating to the locality's finances except as provided in
142 this subsection and such governing body and chief executive officer shall be subject to any conditions
143 required by the emergency fiscal manager. The emergency fiscal manager shall (i) implement an approved
144 fiscal recovery plan; (ii) approve all professional services, suppliers, service provider contracts, and
145 contractual labor agreements; (iii) approve all city employee payrolls; (iv) approve all long-term debt
146 service and loan payments; (v) complete internal control and forensic audit assessments, as needed; and
147 (vi) approve the annual operating and capital budget. The authority granted under this subsection may
148 apply to any locality facing fiscal distress whether such fiscal conditions originated before or after the
149 enactment of this authority. The emergency fiscal manager shall submit a remediation plan to resolve the
150 locality's fiscal distress to the Commission on Local Government, which shall approve, reject, or revise
151 the plan after timely notice of any proposed actions to be taken has been provided to the public and an
152 opportunity for public input has been provided and such input has been considered by the Commission on
153 Local Government. Such plan shall specify the purpose of remediation efforts, including the roles and
154 responsibilities of the local governing body and the chief executive officer, directly or indirectly, relating
155 to the locality's finances and the benchmarks that will allow a locality to exit the state remediation plan
156 upon meeting such benchmarks. Following approval of the remediation plan by the Commission on Local
157 Government, the emergency fiscal manager shall report regularly to the Commission on Local
158 Government, the Governor, and the Chairmen of the House Committees on Appropriations and Counties,
159 Cities and Towns and the Senate Committees on Finance and Appropriations and Local Government
160 regarding progress in implementation of the remediation plan. The Commission on Local Government

161 shall determine when the locality has met the benchmarks approved in the remediation plan and shall so
 162 notify the Governor and the Chairmen of the House Committees on Appropriations and Counties, Cities
 163 and Towns and the Senate Committees on Finance and Appropriations and Local Government.

164 I. The Department of General Services shall develop a master contract of qualified private sector
 165 turnaround specialists with expertise in local government intervention that the Governor can use to procure
 166 intervention services in an expeditious manner when he determines that state intervention is warranted in
 167 situations of local fiscal distress.

168 **§ 15.2-2903. General powers and duties of Commission.**

169 The Commission shall have the following general powers and duties:

- 170 1. To make regulations, including rules of procedure for the conducting of hearings;
- 171 2. To keep a record of its proceedings and to be responsible for the custody and preservation of its
- 172 papers and documents;
- 173 3. To serve as a mediator between localities;
- 174 4. To investigate, analyze, and make findings of fact, as directed by law, as to the probable effect
- 175 on the people residing in any area of the Commonwealth of any proposed action in that area:
- 176 a. To annex territory,
- 177 b. To have an area declared immune from annexation,
- 178 c. To establish a town or independent city,
- 179 d. To settle or adjust boundaries between localities,
- 180 e. To make a transition from city status to town status,
- 181 f. To make a transition from a county to a city,
- 182 g. To consolidate two or more localities, at least one of which is a county, into a city, or
- 183 h. To enter into economic growth-sharing agreements among localities;
- 184 5. To conduct investigations, analyses and determinations, in the sole discretion of the
- 185 Commission, for the guidance of localities in the conduct of their affairs upon the request of such localities;
- 186 6. To receive from all agencies, as defined in § 2.2-128, assessments of all mandates imposed on
- 187 localities administered by such agencies. The assessments shall be conducted on a schedule to be set by

188 the Commission, with the approval of the Governor and the Secretary of Commerce and Trade, provided
189 that the assessments shall not be required to be performed more than once every four years. The purpose
190 of the assessments shall be to determine which mandates, if any, may be altered or eliminated. If an
191 assessment reveals that such mandates may be altered or eliminated without interruption of local service
192 delivery and without undue threat to the health, safety and welfare of the residents of the Commonwealth,
193 the Commission shall so advise the Governor and the General Assembly;

194 7. To prepare and annually update a catalog of state and federal mandates imposed on localities
195 including, where available, a summary of the fiscal impact on localities of all new mandates. All
196 departments, agencies of government, and localities are directed to make available such information and
197 assistance as the Commission may request in maintaining the catalog;

198 8. [Expired];

199 9. To act in an oversight capacity and coordinate with the Auditor of Public Accounts for the
200 purpose of determining whether a locality in fiscal distress has taken appropriate action as provided in §
201 15.2-2512.1; and

202 10. To perform such other duties as may be imposed upon it, from time to time, by law.

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